In our view, despite the weaker payroll data, recession risks remain low. (UBS)

Market volatility FAQ

06 August 2024, 11:05 pm CEST, written by UBS Editorial Team

We've compiled some of the most common questions we've been hearing from advisors and clients on the current market volatility.

Q. Has CIO's positioning or recommendations changed in response to recent market volatility?
A. No, CIO's overall view is unchanged. We have reiterated the theme of "quality" in both bonds and equities throughout 2024, and with recession fears rising, quality remains a key theme. In fixed income, we would expect quality bonds to deliver positive total returns in our base case, and they could rally even further if recessionary fears continue to mount. With cash interest rates likely to fall more quickly than we had previously expected, it remains important in our view for investors to deploy excess cash into medium-duration quality fixed income. In equities, quality is an investment style that has historically outperformed as a whole, but with the highest relative returns during recessions. Companies with strong balance sheets and a track record of earnings growth, as well as those that are exposed to structural growth drivers, should be relatively well positioned if cyclical fears mount. Elsewhere, we continue to like gold. The cost of direct hedging on equity markets has risen in recent days. As such, diversification with quality bonds and gold is an important way for investors to insulate portfolios against further equity market volatility.

Q. Has CIO adjusted their year-end S&P 500 target?
A. No, despite expected near-term volatility, we maintain our year-end price target of 5900 for the S&P 500, given the supportive backdrop that includes: 1) healthy earnings growth, 2) improving inflation, 3) Fed rate cuts, and 4) AI investment. While market moves in recent days have been dramatic, it is important to keep them in the context of recent exceptional performance for global equities.

Q. Are we facing a recession or bear market?
A. No. In our view, recession risks remain low and we believe the US economy is still heading for a soft landing. However, in our bear case scenario (which now assumes a hard landing), we've lowered our S&P 500 price target from 4,800 to 4,200.

Q. Could volatility be increased by the political situation in the U.S.?

A. The U.S. election could be a further source of volatility, it is a secondary factor to economic data and Fed rate cuts and AI earnings, but other factors beyond the election, including monetary policy, earnings, and economic growth, remain larger near-term market drivers. We therefore do not advise making strategic allocation changes based on the vote alone, but still consider it prudent to tactically manage election risks.

Read more in the report **CIO Alert: Market scenarios from here**, 5 August 2024.