CIO believes the Fed remains on track to reduce rates further as it looks to sustain growth amid falling inflation. (UBS)

Corporate earnings are solid amid a resilient US economy

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Investor risk sentiment has come under pressure this week amid rising Treasury yields. The S&P 500 fell for a third consecutive day on Wednesday, the longest losing streak since the start of September. The yield on the benchmark 10-year US Treasury has climbed 14 basis points over the past three sessions, bringing the rise this month to 46 basis points.

The combination of higher yields, expectations for a more modest pace of Federal Reserve interest rate cuts, geopolitical concerns, and US election uncertainty has kept markets on edge. The MOVE index for bond market volatility rose to the highest level this year, while the VIX index of implied US stock volatility remains above 2024 lows and close to its long-run average of around 20.

We have signaled that investors should expect market volatility in the lead-up to the US presidential election, and the S&P 500 was sitting at a record high before the declines in recent days. As 5 November inches closer, market sentiment is likely to stay vulnerable.

But we maintain a positive outlook on US equities, and expect the S&P 500 to reach 6,600 by the end of next year.

Corporate earnings are solid amid a resilient US economy. The third quarter results so far have suggested continued solid earnings momentum, with guidance for the fourth quarter slightly better than normal seasonal patterns. We continue to expect corporate profits to grow 5-7% in the third quarter, contributing to the 11% earnings growth we expect for full year 2024 as the US economy proves to be resilient amid higher-than-expected income growth and household spending.

The Fed remains committed to bringing policy closer to a neutral level. While recent economic data has been stronger than expected, the Fed's Beige Book released this week showed that economic activity was flat in most parts of the US since early September, with mixed consumer spending trends. We believe the Fed remains on track to reduce rates further as it looks to sustain growth amid falling inflation. With the fed funds rate still well above the US central bank's estimate of neutral, we expect another 150 basis points of rate cuts by the end of next year.

So we see room for US stocks to move higher. We hold an Attractive view on the IT sector, as well as the utilities, financials, consumer discretionary, and communication services sectors.

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Original report: **US equities could move higher despite weaker sentiment, 24 October 2024.**

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