



CIO sees a supportive backdrop for equities amid resilient economic and earnings growth, falling inflation, and rising AI investment. (UBS)

# Supportive backdrop for equities amid resilient economic and earnings growth

22 July 2024, 4:35 pm CEST, written by UBS Editorial Team

**The S&P 500 rallied to a new all-time high in mid-July, but has come under pressure amid concerns about potential US trade policy toward chipmakers.**

While various economic and geopolitical risks remain, we believe solid economic and earnings growth, the prospect of lower interest rates, and rising investment in AI create a supportive backdrop for equities. We favor quality growth stocks, including the US IT sector.

## **US equities have pulled back from all-time highs.**

- The S&P 500 fell 2% in the week ending 19 July.
- Tech stocks—which have led the rally this year—came under pressure amid concerns about potential US trade restrictions on chipmakers.
- However, the S&P 500 is still up 15% year to date and remains close to its record high.

## **But we believe the fundamental backdrop remains constructive.**

- US economic and earnings growth is solid, and inflation continues to cool.
- The Federal Reserve is on track to cut interest rates this year, likely starting in September.
- Rising investment in AI should also create a supportive environment for equities, in our view.

**We continue to favor tech stocks, but also see opportunities for investors looking to diversify.**

- We think it is important that investors hold sufficient long- term exposure to AI. We also favor quality growth stocks more broadly, including “Europe’s Magnificent 7” and select benchmark heavyweights in Asia.
- At a country level, we like UK equities, supported by our expectation of an earnings rebound this year.
- Capital preservation strategies can help investors manage potential volatility (e.g., around the US election).

**Did you know?**

- The S&P 500 set its 38th record closing high of the year on 16 July.
- Historically, record highs have not been a barrier to further stock market gains. Over the past 60 years, in the one-, two-, and three-year periods following a new all-time high, S&P 500 returns have averaged 12%, 23%, and 39%, respectively. This is hardly different from the 12%, 25%, and 38% average returns for all other periods over the same time frames.
- Structured strategies can help investors position for further upside while defending against downside, or earn income while awaiting a potentially better entry point.

**Investment view**

We see a supportive backdrop for equities amid resilient economic and earnings growth, falling inflation, and rising AI investment. We think investors should ensure they build sufficient exposure to AI, and also seek quality growth opportunities beyond tech. Structured strategies with capital preservation features can help investors build more defensive equity exposure. In our base case, we see the S&P 500 at around 5,900 by December 2024.

Main contributors: Vincent Heaney, Alison Parums, Daisy Tseng

Original report - [What's next for equities?, 22 July 2024.](#)

**Important information**

As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at [www.ubs.com/workingwithus](http://www.ubs.com/workingwithus).

© UBS 2024. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.

There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.