CIO maintains a year-end S&P 500 price target of 5,200, which is about 5% from current levels. (UBS)

# Is the risk / reward for stocks finally starting to get more appealing?

23 April 2024, 2:35 pm CEST, written by UBS Editorial Team

**The Chief Investment Office believes the higher-for-even-longer revision to the Fed funds rate, combined with the resulting impact on the 10-year yield, has been the biggest factor in the April market pullback. But the economic data in recent weeks does not change their overall macro outlook.**

CIO still forecasts trend-level growth for the rest of the year, gradual but bumpy disinflation by year-end, and a Fed that's likely to start cutting rates by September. This combination of macro conditions is supportive for risk assets. In short, CIO expects April to be an air pocket in the ongoing soft-landing outcome, and we will continue to monitor risks from the evolving geopolitical landscape in the Middle East.

Overall, after this ~5% pullback, CIO believes the risk / reward for stocks is finally starting to get more appealing. They maintain a year-end S&P 500 price target of 5,200, which is about 5% from current levels.

Within equities, CIO continues to favor the tech sector, which should benefit from a bottoming of PC and smartphone end-markets as well as continued strong AI spending. CIO balances this position with a most-preferred view on healthcare, their favorite defensive sector due to faster earnings growth expectations relative to other defensives, and with industrials, which should benefit from an improvement in manufacturing business sentiment, as well as a bottoming in cyclical areas like transports. They also still like small caps, which have scope to rebound once rates do eventually trend lower and as earnings growth broadens.

On the fixed income side, the recent rise in volatility and interest rates has been a small drag on fixed income spread product. The tightening in financial conditions will be welcomed by the Fed, and CIO views any spread widening as opportunistic versus a cause for concern. CIO maintains a preference for high-quality sectors given the attractive yields and high investor demand, and like investment grade corporates, Agency MBS, CMBS, 5-year TIPS, and high-quality municipal bonds. According to CIO, data dependence will define the Fed's near-term policy considerations, but the data will not define the eventual trend of interest rates, which we believe will be lower.

Main contributors: Solita Marcelli, Jason Draho, Leslie Falconio, David Lefkowitz

For much more, see this week's US Regional View - **Market pullback: Why and what's next?**, 22 April, 2024.