CIO believes holding a balanced portfolio across equities, fixed income, and alternatives is the best way to preserve and grow wealth. (UBS)

Investor sentiment likely to be tested in the coming days

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US equities started the week at fresh record highs, with the S&P 500 and the Nasdaq rising amid increased market confidence of a Federal Reserve rate cut in the coming months.

However, investor sentiment is likely to be tested in the coming days, with Fed Chair Jerome Powell scheduled to deliver his semi-annual monetary policy testimony before Congress today and tomorrow, ahead of the release of inflation prints for June later this week. The second quarter earnings season is also kicking off, while political uncertainties on both sides of the Atlantic could trigger further volatility.

While Powell is likely to stick to a familiar message, even minor shifts could have an outsized impact on sentiment. Markets are now fully pricing in two interest rate cuts by the US central bank this year, after the June labor report added to evidence that the US economy is heading for a soft landing. While Powell is likely to reiterate the need for additional data for the Fed to start lowering rates, investors will be scrutinizing the consumer price index (CPI) to confirm that the disinflation trend has been reestablished. The consensus is for the monthly core measure to rise by 0.2% for the second consecutive month, and we expect shelter inflation to slow down.

A less than perfect earnings season could lead to corrections in the short term. We continue to see a positive backdrop for US equities amid a still-healthy growth environment, the Fed's potential pivot to rate cuts, and ongoing investment in artificial intelligence (AI). While we think the upcoming earnings season has the potential to support the current equity rally and even broaden it, an outcome that falls short of investors' high hopes could lead to a return in volatility. We believe the key focus for the tech sector will be on AI monetization and the sustainability of strong capital spending trends in 2025 and beyond.

Political outlook in France and the US remain uncertain. US President Joe Biden vowed to push on with his re-election bid despite calls for him to step aside after his flawed debate performance last month. We remain mindful that there are still some four months between now and the Election Day in November, but it is worth noting that Biden's national poll numbers have since slipped. In France, the surprise surge of the left-wing New Popular Front (NFP) alliance in the second-round legislative elections over the weekend resulted in a hung parliament, and we expect market volatility to continue amid heightened political uncertainty.

So as investors adapt to fast-changing market conditions, we believe holding a balanced portfolio across equities, fixed income, and alternatives is the best way to preserve and grow wealth. We also think gold can act as an effective hedge against fears of geopolitical polarization, inflation, or excessive deficits.

Main contributors: Solita Marcelli, Mark Haefele, Daisy Tseng, Jon Gordon

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