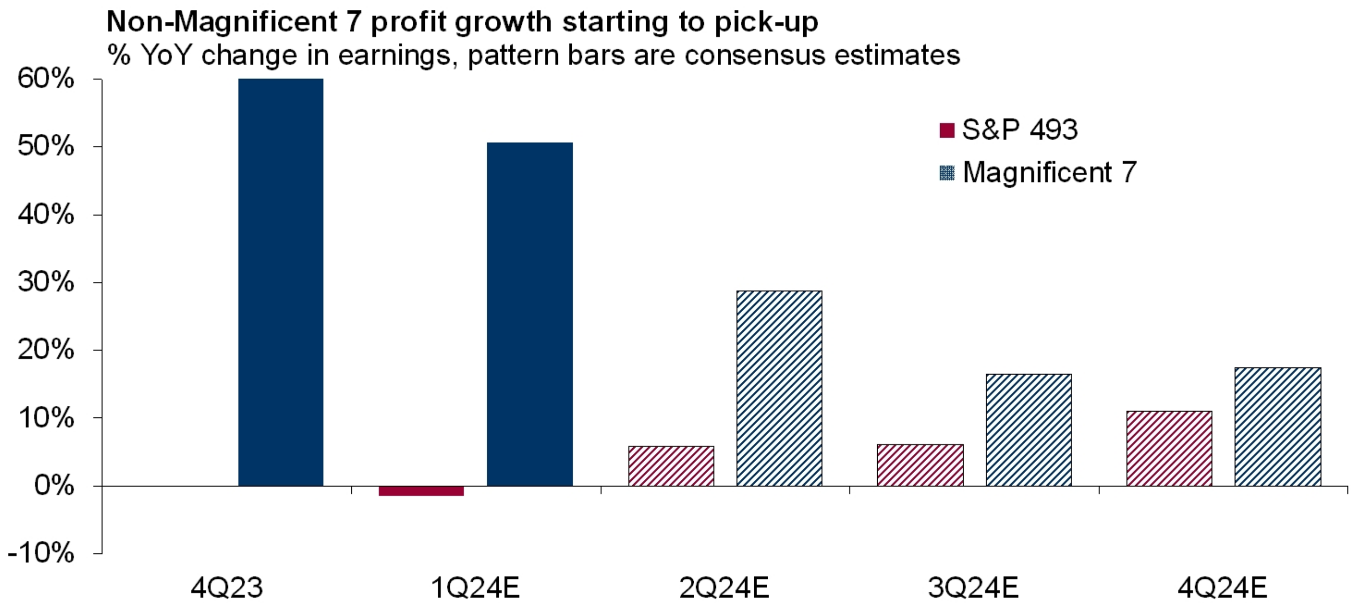

Incoming data and guidance from firms suggest that earnings growth should start to become more uniform throughout the market in the coming quarters. (UBS)

Is the broadening rally just starting?

06 June 2024, 3:40 pm CEST, written by UBS Editorial Team

As the soft-landing scenario unfolds, we believe risk appetite is likely to improve for equities beyond the Magnificent-7. This potentially will be fueled by a more constructive earnings growth outlook across sectors.

The S&P 500 posted a 26% total return in 2023, yet the performance was largely concentrated in a select few companies. Our analyses suggest that about 60% of last year's gains were due to the incredible performance of the Magnificent-7, for which total returns were a massive 107%.

At this point, elevated valuations from mega-cap companies, coupled with an improving earnings growth picture from ex. Mag-7 firms, suggests to CIO that the equity rally is likely to broaden in 2024. In fact, this is already somewhat noticeable.

As a reference, of the 11 main equity sectors in the S&P 500, 10 are up year to date, with eight of them at least 6.5% higher, narrowing the gap behind the overall market rally of 12%. This provides evidence that the S&P 500's performance is becoming more balanced.

We believe this broadening market rally is likely to continue to unfold, and may even become more pronounced as the Fed looks to cut rates later this year. Hence, as risk appetite spreads across equities in the coming months, we see numerous opportunities, including in small-cap US companies, European best-in-class companies, Chinese equities within emerging markets, and long-term disruption beneficiaries.

Please see our message in focus: [Opportunities in a broadening rally]

Main contributor: Alberto Rojas, Investment Communications Writer — CIO Americas