



CIO believes the recent rise in yields largely reflects better economic performance, which is supportive for earnings growth. (UBS)

Attention shifting from macroeconomic data to micro trends in the coming weeks

17 January 2025, 2:17 pm CET, written by UBS Editorial Team US Editorial Team

With this week's start to the fourth quarter earnings season, investors are likely to shift some attention from macroeconomic data to micro trends in the coming weeks.

The S&P 500 index is just 2.3% below its all-time high in December, after making gains of close to 25% for two consecutive years.

We anticipate solid results overall for October to December 2024, with S&P 500 earnings likely up 7-9% year over year, supported by resilient economic growth. Big tech companies are likely to post another quarter of strong earnings growth of over 25% y/y amid the continued build-out of AI infrastructure and growing signs of AI adoption.

But as market sentiment remains fragile ahead of Donald Trump's inauguration, we offer several perspectives for investors as they navigate this results season.

US dollar and tariff risks are potential headwinds. Despite the generally favorable backdrop, the stronger US dollar could crimp first quarter guidance for US multinational companies. We estimate this could cut first-quarter earnings growth by about 1.5 percentage points. Potential tariffs from the incoming Trump administration could also be a source of uncertainty. Strong results in certain industries could reflect pre-buying ahead of potential tariffs, while others may delay business plans until there is further clarity. However, we believe that part of the strong dollar risks have already been priced in and that the tariff impact is unlikely to be strong enough to derail healthy earnings growth.

Recent rise in Treasury yields has more to do with a solid economy. Historically, when rates rise rapidly, it can weigh on equity markets. But we believe the recent rise in yields largely reflects better economic performance, which is supportive for earnings growth. In our view, stocks should digest the higher yields and ultimately move higher. We would be more concerned if higher yields reflected an acceleration in inflation, a possible pivot to Fed rate hikes, or significant concerns about government debt. So far, that does not seem to be the case.

High valuations should not stand in the way of further stock gains. US equity market valuations are important, and on an absolute basis, the S&P 500's forward price-to-earnings ratio of 21.5 times is high by historical standards. This may dampen the outlook for longer-term returns. But when thinking about returns over this year, investors should keep a few things in mind. First, valuations are generally a function of the macro environment. When inflation expectations and unemployment are low, as they are now, valuations tend to be higher than average. Second, profit growth is more important for stocks over the next 12 months, and profits should be a key tailwind in 2025.

We continue to view US equities as Attractive, forecasting that 9% earnings growth this year will drive the S&P 500 to 6,600 by the end of the year. Large-caps should outperform mid- and small-caps given their greater AI exposure, better earnings trends, and less dependence on Fed rate cuts. Sector-wise, we like information technology, financials, utilities, communication services, and consumer discretionary.

Main contributors: Solita Marcelli, Mark Haeefe, David Lefkowitz, Daisy Tseng, Rolf Ganter, Jon Gordon, Christopher Swann

[Original report: US fourth-quarter earnings should stay solid despite noise, 17 January 2025.](#)

Disclaimer

This document is prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland), its subsidiaries or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. In the USA, UBS Financial Services Inc. is a subsidiary of UBS AG and a member of FINRA/SIPC. Additional Disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.

This document and the information contained herein are provided solely for your information and UBS marketing purposes. Nothing in this document constitutes investment research, investment advice, a sales prospectus, or an offer or solicitation to engage in any investment activities. This document is not a recommendation to buy or sell any security, investment instrument, or product, and does not recommend any specific investment program or service.

Information contained in this document has not been tailored to the specific investment objectives, personal and financial circumstances, or particular needs of any individual client. Certain investments referred to in this document may not be suitable or appropriate for all investors. In addition, certain services and products referred to in the document may be subject to legal restrictions and/or license or permission requirements and cannot therefore be offered worldwide on an unrestricted basis. No offer of any product will be made in any jurisdiction in which the offer, solicitation, or sale is not permitted, or to any person to whom it is unlawful to make such offer, solicitation, or sale.

Although all information and opinions expressed in this document were obtained in good faith from sources believed to be reliable, no representation or warranty, express or implied, is made as to the document's accuracy, sufficiency, completeness or reliability. All information and opinions expressed in this document are subject to change without notice and may differ from opinions expressed by other business areas or divisions of UBS Group. UBS is under no obligation to update or keep current the information contained herein. **The views and opinions expressed in this material by third parties are not those of UBS.** Accordingly, UBS does not accept any liability over the content shared by third parties or any claims, losses or damages arising from the use or reliance of all or any part thereof.

All pictures or images ("images") herein are for illustrative, informative or documentary purposes only and may depict objects or elements which are protected by third party copyright, trademarks and other intellectual property rights. Unless expressly stated, no relationship, association, sponsorship or endorsement is suggested or implied between UBS and these third parties.

Any charts and scenarios contained in the document are for illustrative purposes only. Some charts and/or performance figures may not be based on complete 12-month periods which may reduce their comparability and significance. Historical performance is no guarantee for, and is not an indication of future performance.

Nothing in this document constitutes legal or tax advice. UBS and its employees do not provide legal or tax advice. This document may not be redistributed or reproduced in whole or in part without the prior written permission of UBS. To the extent permitted by the law, neither UBS, nor any of its directors, officers, employees or agents accepts or assumes any liability, responsibility or

duty of care for any consequences, including any loss or damage, of you or anyone else acting, or refraining to act, in reliance on the information contained in this document or for any decision based on it.

Additional Disclaimer relevant to Credit Suisse Wealth Management: Except as otherwise specified herein and/or depending on the local entity from which you are receiving this document, this document is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website <https://www.credit-suisse.com>. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.

Please visit <https://www.ubs.com/global/en/wealth-management/insights/chief-investment-office/marketing-material-disclaimer.html> to read the full legal disclaimer applicable to this document.

© UBS 2025. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.