



With economic growth likely to be slower in 2024, CIO recommends seeking exposure to quality stocks. (UBS)

Historically, record highs have been no barrier to further stock market gains

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The S&P 500 rose to an all-time high in January, helped by resilient US economic data and the rally in AI-related stocks.

Markets are likely to be choppy amid shifting expectations for central bank policy easing. But we think lower interest rates, positive (albeit slowing) economic growth, and growing corporate earnings should support modest further upside for equities in 2024. We see quality stocks as a core holding for investors, as they tend to outperform in periods of slowing growth.

The S&P 500 reached a record high in January.

- The S&P 500 closed at an all-time high of 4,894 on 25 January.
- Growth data has generally been resilient. Core US consumer price inflation slowed to 3.9% in December from 4% in November.
- Enthusiasm for artificial intelligence-related stocks also fueled the rally.

But economic growth looks set to slow in 2024, and a lot of good news is priced into equity markets.

- Our base case scenario is for a soft landing, in which growth decelerates to just below trend and inflation falls toward central bank targets by the second half of the year.
- Futures markets are pricing in more Federal Reserve rate cuts in 2024 than the 100 basis points we expect.
- We expect S&P 500 earnings per share growth of 8% in 2024.

So, we are neutral on equities overall and see quality stocks as a core holding for investors.

- Uncertainty about the trajectory of growth and interest rates is likely to keep markets choppy, though we expect modest further upside for equity indexes in 2024.
- We like quality stocks, including the US IT sector, which should be resilient in an environment of slower economic growth.
- We see tactical opportunities in emerging market equities, US small-caps, and small- and mid-cap stocks in Europe, which we would expect to be particular beneficiaries in an upside economic scenario while also faring well in our base case.

Did you know?

- Historically, record highs have been no 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.
- Companies with “quality” attributes typically have strong returns on invested capital, resilient operating margins, and relatively low debt on their balance sheets.
- With around 50% of US small-cap debt floating rate (versus 10% for large caps), the segment is highly sensitive to interest rates, and so would be a particular beneficiary of faster Fed rate cuts.

Investment view

We are neutral on global equities. We like quality stocks, which should be resilient in a slower growth environment. We also see tactical opportunities in areas that would likely outperform in an upside economic scenario, while also faring well in our base case (e.g., emerging markets, US small-caps, and small- and mid-caps in Europe). Our December 2024 target for the S&P 500 is 5,000 in our base case.

See the full report, [Can equities rally further from all-time highs?](#), 29 January, 2024.

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