Daily: Stocks should stay supported despite a potential pickup in volatility

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From the studio

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Thought of the day

The VIX index of implied US equity volatility fell to its lowest level this year on Friday, with few major market catalysts expected before late August following the release of US retail sales data. Ahead of NVIDIA's earnings and Federal Reserve Chair Kevin Warsh's Jackson Hole speech, the path of least resistance for risk assets is likely higher.

Market calm rarely lasts forever and risks remain, including persistent geopolitical uncertainty. Israel struck Lebanon over the weekend, with Prime Minister Benjamin Netanyahu saying the strikes were in retaliation for an earlier Hezbollah attack. The path toward reopening the Strait of Hormuz remains unclear, while attacks between Russia and Ukraine have intensified again.

But the foundations supporting markets remain intact, in our view. Growth is holding up, earnings expectations are improving, and monetary policy may prove less restrictive than markets currently assume.

The US economy continues to show resilience. While July's retail sales fell for the first time in nine months and marked the biggest drop since May last year, overall US economic activity remains solid despite the sharp rise in oil prices. Credit card data in recent weeks have not shown much of a slowdown in spending, while the spending growth of lower-income households is catching up with that of higher-income consumers. Other recent data also point to resilience, with expanding factory activity suggesting an improving cyclical backdrop.

Corporate earnings have delivered the biggest positive surprise. Earnings growth expectations have risen sharply since the start of the year, reflecting stronger-than-anticipated profitability across corporate America. While earnings growth is unlikely to maintain its current pace indefinitely, revisions remain positive and corporate fundamentals are generally supportive. AI investment remains robust amid encouraging monetization, while strong earnings growth across sectors suggests a broadening of equity market participation.

The policy backdrop may become more supportive. Markets continue to price in more than one Fed hike over the next year. But the recent slew of US economic data has weakened the near-term case for rate hikes—payrolls fell, inflation moderated, and retail sales dropped. Our expectation is that incoming data should show continued disinflation, allowing the Fed to stay on hold and market pricing to move in that direction. A clearer indication of an extended pause this year would likely provide another tailwind for risk assets.

So, while volatility may pick up in the weeks and months ahead, we maintain a constructive outlook for risk assets into year-end. We continue to favor broadly diversified equity exposure across sectors and regions.

Source: https://www.ubs.com/global/en/wealthmanagement/insights/chief-investment-office/house-view/daily/2026/latest-17082026.html