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News Release

UBS Year Ahead 2024: A new world

UBS's Chief Investment Office sees us entering "a new world" in 2024. With uncertainties set to persist in both the economic and geopolitical spheres, investors should focus on quality, get in balance, and stay disciplined yet agile. Looking at the decade ahead, there are opportunities to capture growth in leaders from disruption, including generative AI, and in private markets.

Zurich, 16 November 2023 – In the *Year Ahead 2024*, UBS Global Wealth Management's (GWM) award winning[1] Chief Investment Office (CIO) outlines what investors should expect as they enter, what it set out to be, "a new world". According to the report, this new world – defined by economic uncertainty and geopolitical instability, but also profound technological change – leads to three key conclusions for the year ahead.

First, the strength of the US economy in 2023 is likely to give way to slower, though still positive, growth in 2024, while European growth should remain subdued, and China enters a "new normal" of lower, but potentially higher quality growth. Second, central banks are expected to start their rate-cutting cycles next year. And finally, politics will have an outsized role in 2024, with the upcoming US elections, and ongoing geopolitical tensions and wars.

With that in mind, the report's core recommendations for the year ahead include:

- **Manage liquidity.** With interest rates expected to fall in 2024, investors should consider limiting overall cash balances and take opportunities to optimize yields, using fixed term deposits, bond ladders, and structured solutions.
- **Buy quality.** Quality bonds should deliver both yield and capital appreciation, while stocks with stable balance sheets and sustainable profit margins are likely best positioned to generate earnings despite weaker economic growth.
- **Trade the range in currencies and commodities.** With the USD expected to remain well supported around current levels, and oil prices to trade in a USD 90–100/bbl band, yield generation strategies, or strategies that enable investors to systematically buy currencies below current levels offer opportunity.
- **Hedge market risks.** Geopolitical uncertainty means investors need to prepare for volatility ahead. In addition to diversification, investors can further insulate portfolios against specific risks through capital preservation strategies, using alternatives, or with positions in oil and gold.
- **Diversify with alternative credit.** The backdrop of lower interest rates and elevated price and spread volatility caused by high global debt balances is supportive for various credit strategies including credit arbitrage and distressed debt.

[1] Winner "Best Chief Investment Office in Private Banking" – PWM l The Banker Global Private Banking Awards 2023

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Mark Haefele, Chief Investment Officer at UBS GWM, says: "We see 2024 mark the beginning of a new world. And while it can be easy to feel a sense of trepidation when faced with new challenges, years of adversity reinforce three things in terms of investing – the value of global diversification, the virtue of patience, and, most important, the resilience of humankind."

Scenarios for the year ahead

Base case: Soft-ish landing

Probability: 60%

S&P 500: 4,700 I US 10-year: 3.5% I EURUSD: 1.12

Both equities and bonds should deliver positive returns in 2024. Slowing US economic growth, falling inflation, and lower interest rate expectations should mean lower yields, supporting bonds and equity valuations, while the absence of a severe US recession should be sufficient to enable companies to continue to grow earnings.

Upside scenario: Liftoff

Probability: 20%

S&P 500: 5,100 I US 10-year: 5% I EURUSD: 1.18

The expectation is for equities to deliver positive and bonds flat returns. Strong economic growth buoys corporate earnings growth, investor sentiment, and ultimately equity prices. By contrast, resilient growth and persistently above-target inflation keep bond yields elevated or push them even higher, leading to flat bond returns.

Downside scenario: Hard landing

Probability: 15%

S&P 500: 3,500 I US 10-year: 2.75% I EURUSD: 1.00

Equities will likely deliver negative returns and bonds positive returns. A sharp slowdown in growth – possibly resulting from the cumulative effect of interest rate hikes enacted so far – results in a moderate or severe recession. Grim investor sentiment and sharply lower earnings expectations feed into equity price declines. Bonds fare well as interest rate expectations plummet and investors seek safe havens.

Alternative downside scenario: Bond vigilante

Probability: 5%

S&P 500: 3,800 I US 10-year: 6% I EURUSD: 1.22

Both equities and bonds are expected to fare poorly. Bond yields continue to rise, potentially due to fears about excess budget deficits, higher energy prices, or a drawn-out period of above-target inflation. Higher bond yields also weigh on equities as higher interest rates pull down estimated fair valuations and as some investors reallocate away from stocks and toward bonds.

The "Five Ds" to watch in the decade ahead

The economic aftermath of the pandemic has been wide-ranging and often unexpected. The unusual economic mix of consistently high inflation and interest rate levels not seen in more than 15 years, yet defiantly low unemployment and robust growth, begs the question of whether the "new world" also brings with it a new macroeconomic regime. The answer to that question will be defined by developments in the "Five Ds": deglobalization, demographics, digitalization, decarbonization, and debt.

According to the report, investment opportunities to capture value and growth in the decade ahead include:

- **Picking leaders from disruption.** Some of the highest returns in equity markets over the decade ahead are expected to come among those companies that can harness new technologies to grow markets, dislodge incumbents, or slash costs. Successfully identifying these "leaders from disruption" is critical to boosting long-term portfolio potential.

- **Capturing growth with private markets.** Private market managers should be well positioned to provide capital, through equity and debt investments, to support key growth areas including the transition to net-zero; healthcare and infrastructure; as well as AI and digitalization. The asset class therefore offers attractive opportunities for investors to gain differentiated exposure to long-term opportunities in exchange for lower liquidity.

Scenarios for the decade ahead

Roaring 20s

Moderate inflation and high growth

Drivers could include high rates of investment linked to digitalization (AI), decarbonization, and defense. In this scenario, the expectation is for strong earnings growth and good performance from equites, but more muted initial performance from bonds as investors price interest rates staying higher for longer.

Brave new world

Low inflation and high growth

Potential drivers of this scenario include a prominent role for AI or a swing back toward globalization. This scenario would likely be favorable for both equities and bonds. The expectation is for good earnings growth to support equities, and lower interest rate expectations to support bonds.

Secular stagnation redux

Low inflation and low growth

Potential drivers include aging populations or the promise of AI and renewable energy not meeting expectations. This scenario would likely be initially positive for bonds as financial repression is used to manage rising debt burdens. Equity multiples could be supported by central bank stimulus, but companies could also struggle to deliver earnings growth.

Stagflation

High inflation and low growth

Drivers of this trend could include deglobalization, geopolitical tensions, and climate change. In this scenario, both bonds and equities are expected to perform poorly (at least in real terms) as higher rate expectations and challenges to real earnings growth weigh on performance. Nominal returns for equities could still be positive.

Link
https://www.ubs.com/global/en/wealth-management/insights/chief-investment-office/a-new-world.html

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