UBS House View

Monthly Letter | 20 June 2024 | Chief Investment Office GWM, Investment Research

Prepare for the US election

The US election is likely to trigger volatility, and we think investors should manage risks accordingly; for example, through structured investments.

Position for lower interest rates

The global rate-cutting cycle is likely to gather momentum in the second half. To prepare, we recommend moving excess cash into quality fixed income markets.

Seize the AI opportunity

AI looks set to remain a key driver of equity market returns. We see opportunities in the enabling layer of the AI value chain and in vertically integrated megacaps.

Asset allocation

Fixed income remains our preferred asset class. In equities, we favor tech and quality growth. We move gold and the Swiss franc to most preferred.

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Decision time

As we look ahead to the second half of 2024, it's decision time—for the Federal Reserve, for the US electorate, and for investors.

Several key events look set to determine the investment landscape. The US will elect its next president, artificial intelligence (AI) should continue to advance rapidly, and we anticipate the Fed will start cutting interest rates.

The real focus for investors will be on how these events shape expectations for 2025: whether rate cuts will signal even lower policy rates, if AI investments will justify their hype, and how the next US administration's policies might impact the economy and markets.

We believe that maintaining a long-term core allocation to equities, bonds, and alternatives should help investors navigate this uncertainty. However, we also see opportunities to take decisive action today to ensure portfolios are well-positioned for the months ahead.

We recommend preparing for lower rates by moving excess cash into quality fixed income markets, strategically investing in AI and other quality growth sectors, and considering tactical opportunities—including in US equity sectors and gold—to hedge potential US election risks.

In our asset allocation, we keep a positive view on fixed income. We expect bond yields to fall as the market shifts focus from the timing of the first Fed rate cut to considering how far rates might fall. We expect positive returns for diversified fixed income strategies. In equities, we retain a preference for technology, where earnings growth remains rapid thanks to high rates of AI investment. In currencies, we move the Swiss franc to most preferred, given that we expect only limited further policy easing from the Swiss National Bank. We also move gold to most preferred.

UBS

The second half of 2024 is poised to be a period of transition and volatility. Investors must remain vigilant and adaptable, leveraging both strategic and tactical approaches to navigate the evolving landscape. Economics, politics, central banks, and technology have created a dynamic environment—one that presents opportunities as well as risks.

Preparing for the US election

Investors should prepare for market volatility around the US election.

The upcoming US presidential election looks set to increase market volatility. We can already identify a distinct "kink" in the VIX futures curve around November, indicating expectations of higher US equity volatility around the election day.

Recent polls give the Republican former President Donald Trump a narrow lead over Democratic President Joe Biden, at 40.8% versus 40.2% based on FiveThirtyEight's national polls tracker as of 18 June. Theoretically, that leaves a significant portion of voters who remain undecided and will likely determine the election. However, at this stage in the cycle, national polls may be less useful than polls in the most competitive states.

We assign a 45% probability to a "red sweep" scenario of a Trump victory and Republican control of the Senate and House of Representatives; a 40% probability to a Biden victory with a divided Congress (Republican-controlled Senate, Democratic-controlled House); a 10% probability to a "blue sweep" (Biden victory and Democratic control of the Senate and House); and a 5% probability to a Trump victory with a divided Congress. For more on the economic and market implications of these scenarios, please refer to the election scenario table at the end of this report.

But the key takeaway at this stage is that the outcome remains uncertain, and no single outcome can be considered as "likely."

What does it mean for investors?

We believe portfolio construction is best treated as an apolitical exercise.

It's important to remember the principle that investors should vote at the ballot box and not with their portfolio. In particular, we think investors should ensure that political fears don't lead them to defer investment decisions that would otherwise support their long-term financial goals. Investors should also be aware of how political sympathies can impair objective judgements.

Academic research supports the belief that political affiliation has a direct impact on one's level of optimism regarding the future direction of the economy[1]. Investors who share an affiliation with the party in office are more likely to believe that financial assets are undervalued and respond by increasing their allocation to equities[2]. Conversely, investors disappointed with the outcome of an election often adopt a risk-off strategy. This partisan bias can have a meaningful impact on returns.

[1] Maarten Meeuwis and Jonathan Parker et al., "Belief Disagreement and Portfolio Choice," National Bureau of Economic Research, Working Paper 2510, September 2019; Yosef Bonaparte and Alok Kumar et al., "Political Climate, Optimism, and Investment Decisions," University of Miami, February 26, 2012; Marian Moszoro, "The Party Politics of Stock Market Investing," George Mason University, March 25, 2019; and Harrison Hong and Leonard Kostovetsky, "Red and Blue Investing," Princeton University, March 2010.

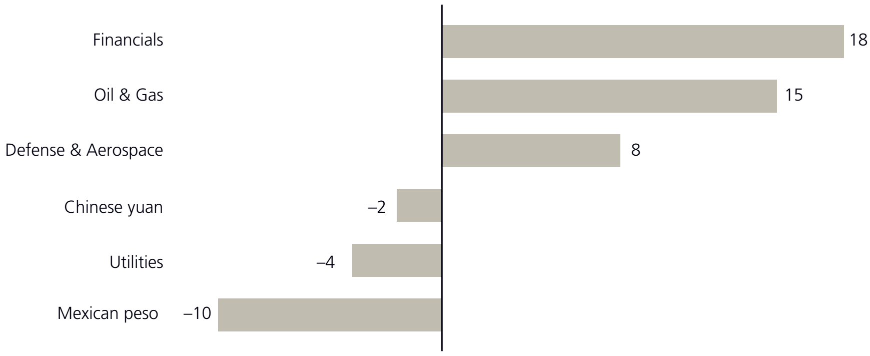
[2] Bonaparte, Kumar et al., "Political Climate, Optimism, and Investment Decisions."

However, while we believe portfolio construction is best treated as an apolitical exercise, the election will impact markets and government policy. The 2016 election, when Donald Trump was elected, led to divergent outcomes, and while the assets affected may differ this time around, we expect volatility. We therefore think it is prudent for investors to consider the potential risks to their wealth and manage those risks accordingly.

Figure 1

The 2016 presidential election led to divergent outcomes

One-month performance of select assets after the 2016 US presidential election, in %



Source: Bloomberg, UBS, as of June 2024

A "red sweep" scenario could lead to more tariffs and lighter regulation.

Equity sectors
In equities, we think investors should manage their exposures to the US consumer discretionary and renewables sectors, both of which could suffer if a "red sweep" scenario materializes. The consumer discretionary sector, which already faces challenges such as sluggish spending on goods, could see further pressure if trade tariffs are imposed after the election. Meanwhile, the renewables sector has performed strongly recently amid optimism about AI demand. But there is a risk that a "red sweep" leads to lower government support. In contrast, we think that the US financial sector is currently not pricing potentially lower regulation that could materialize under a "red sweep" scenario.

Defensive structured investments
We have identified a series of stocks across sectors that would likely be affected by a Trump or a Biden victory. To help manage the potential volatility associated with the outcome, investors can employ capital preservation or yield-generating strategies for single stocks or cyclical sectors like energy, industrials, and financials.

In currencies, we also think investors should consider hedging their Chinese yuan exposure, going long USDHKD with 1-year and 2-year forwards (as the peg remains intact), and managing their Mexican peso exposure.

Gold remains an attractive diversifier and hedge within portfolios.

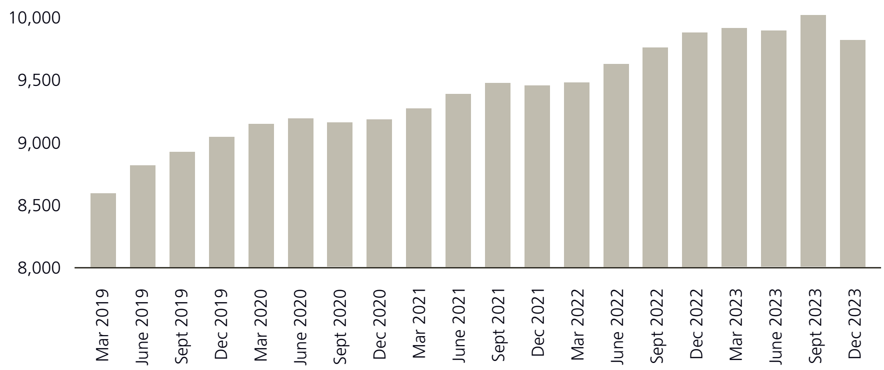
Gold

We also believe the case for gold as an attractive diversifier remains strong, particularly with European and US elections approaching. Concerns about geopolitical polarization, inflation, the US fiscal deficit, and Fed independence are all supportive for gold prices. As such, we forecast gold to rise to USD 2,600/oz by the end of this year and USD 2,700/oz by mid-2025 as falling interest rates boost investment demand. We also expect continued purchases by central banks—particularly in emerging markets—that appear to be actively diversifying their reserve holdings.

Figure 2

Emerging market central banks have stepped up gold purchases in recent years

Gold reserves across emerging and developing economies, in tonnes



Source: World Gold Council, International Monetary Fund, World Bank, UBS, as of June 2024

Central banks are increasing their purchases of gold.

On average, the gold allocation of developing countries' reserves is about half the level seen in developed market central banks, according to data collected by the World Gold Council from the International Monetary Fund's International Financial Statistics division. Moreover, the World Gold Council's latest Central Bank Gold Reserves survey found that 29% of central banks intend to increase their gold reserves over the next 12 months, the highest level since the survey began in 2018. As an example, the Polish central bank has communicated that it plans to increase its gold allocation from 13% currently to 20% by the end of 2025.

Elections in Europe

France

Following a poor performance by his party in the recent European elections, French President Emmanuel Macron has called for snap legislative elections. The potential for Marine Le Pen's Rassemblement National (RN) party to win on a platform of higher public spending has unsettled financial markets. Since the snap election call, the yield spread between French and German 10-year bonds widened by the most in a week, by 29 basis points to 77bps, and the CAC 40 equity index fell 6%.

The latest polls suggest significant losses for President Macron's centrist party and gains for the RN but no clear majority is expected, creating the potential for political instability.

While there are a variety of potential political scenarios, it is likely that regardless of the outcome, France's fiscal situation will remain challenging and constrain any future government's fiscal headroom. We see the following investment implications:

Fixed income: In the near term, political news will likely continue to drive French government bond yields, especially in medium to longer tenors. France's long-term credit outlook is deteriorating, with potential rating cuts expected. We prefer less volatile French corporate bonds over government bonds, and see opportunities in select investment grade bonds from multinational companies that are less exposed to national politics and offer attractive yields.

Equities: The CAC 40's recent underperformance suggests some political risks are priced in, but further uncertainty could continue to affect risk appetite. Financials, utilities, and infrastructure stocks are most vulnerable to policy changes. We recommend using structured strategies to manage risks and exploring opportunities in undervalued regions like the UK.

FX: Political uncertainty has been weighing on the euro, and we think EURUSD could test 1.05 if uncertainty persists. That said, we do not think that France's relationship with the EU will dramatically change after the election: President Macron would retain constitutional powers over Europe, foreign policy, and defense, and in any case, the RN stated it no longer wants to leave the EU or the Eurozone.

UK

The UK will hold a general election on 4 July. The most likely outcome based on current polls appears to be a left-of-center majority Labour government. An alternate, though less likely, scenario is a Labour-led coalition.

We expect UK financial markets to remain relatively stable regardless of the election outcome, given the minor economic policy differences between the major parties. UK equities, particularly the FTSE 100, generate significant international revenues, shielding corporate performance from domestic political changes. The FTSE 100's forward price-to-earnings valuation of 11.3x is below its long-run average of 12.8x. We expect earnings growth to rebound to 4% this year and 7% in 2025, and maintain a most preferred view on UK equities.

For bonds, anticipated monetary easing from the Bank of England starting in August should lead to falling yields, supporting bond prices. The British pound might see a reduced risk premium if a stable government emerges. Historically, the pound has appreciated by an average of 2.3% in the three months following the last five elections.

The global rate-cutting cycle is likely to gather momentum in the second half.

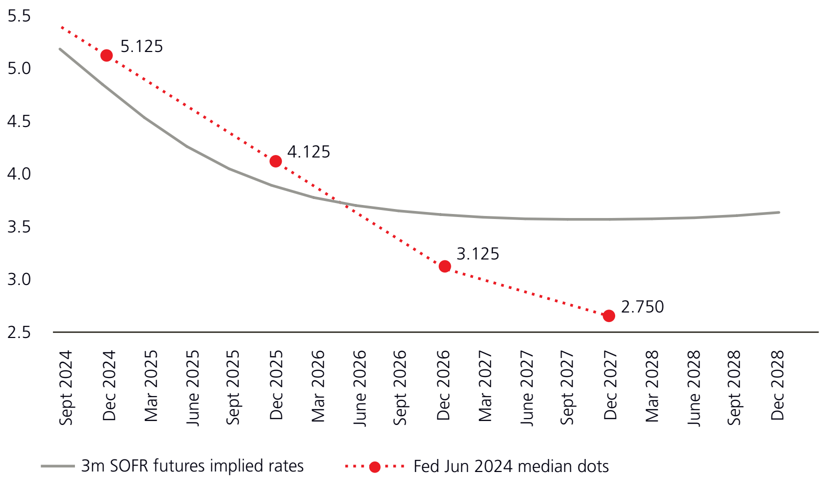
Preparing for rate cuts

The global trend of rate cuts has begun. In March, the Swiss National Bank became the first major central bank to lower rates and cut again in June. Sweden's Riksbank, the Bank of Canada, and the European Central Bank have also reduced rates. And we expect the Bank of England to join this trend with a rate cut in August. For the Federal Reserve, our base case is for two 25-basis-point cuts this year. May jobs data was unexpectedly strong, but other releases—including on inflation, consumer confidence, job vacancies, manufacturing sentiment, credit card spending, and various housing data—all point to a moderation in economic activity. We think this weakening in data will be sufficient to justify a first Fed rate cut in September.

Figure 3

Markets are pricing much higher long-term rates than the Fed

3-month SOFR futures implied rates vs. Fed median dot plot projection, %



Source: Bloomberg, UBS, as of June 2024

However, while investors are heavily focused on the timing of that first Fed rate cut, we think the markets are underestimating the likely number of cuts over the cycle. Market pricing suggests that rates will be cut to a level of around 4% before leveling off (based on the average of three-, five-, and 10-year forward Secured Overnight Financing Rate contracts). But in their latest projections, Fed officials put their estimate of the longer-run fed funds rate at a much lower level: 2.8%.

We think the market may be placing too much emphasis on the high-inflation, high-rate environment of the last two and a half years. The recent weakening in a variety of economic indicators shows that current interest rate levels are weighing on the economy. This means interest rates need to fall over the long term for the Fed to fulfill its dual mandate of price stability and full employment.

At this stage, it is not clear whether there will be a full return to pre-pandemic norms, when growth, inflation, and rates were all much lower. But as the Fed begins to reduce rates, and as economic growth and inflation continue to slow in the second half, we think that markets will start to focus more on the end point of the rate-cutting cycle and anticipate a lower level of long-term interest rates.

What does that mean for investors?

With rates likely to fall, we recommend that investors lock in attractive yields.

First, with central banks cutting rates, current returns on cash will not be available for much longer. So investors holding cash or money market funds (or those with expiring fixed-term deposits) need to consider other options for their liquidity. Bond ladder strategies can help investors lock in attractive yields over the next few years. Investors can also consider structured investment strategies with capital preservation features, which allow for a degree of safety alongside the potential for market gains.

Second, we see high-quality corporate and government bonds as an attractive destination for investors deploying cash. We project 10-year US Treasury yields to decline to 3.85% by the end of the year and 3.5% by March 2025. We prefer medium-duration bonds with a maturity up to 10 years, as we think concerns about the high US debt burden and loose fiscal policy may pose a risk for longer-duration bonds.

Finally, we also think lower interest rates and benign growth should be supportive for diversified fixed income strategies. Complementing a core holding in quality bonds with a satellite in higher-yielding parts of the fixed income market (for example, emerging market bonds) can improve overall portfolio yields. Selectivity and diversification are important, given relatively tight spreads and potential idiosyncratic risks.

Seizing the AI opportunity

AI growth has continued to drive equity market gains.

Growing confidence in AI's potential has been a key driver of equity market gains. Six stocks—NVIDIA, Microsoft, Amazon, Apple, Meta, and Alphabet—have been responsible for 64% of the global equity market's total return since the launch of ChatGPT (in November 2022). In June, NVIDIA became the largest listed company in the world. Forty percent of S&P 500 companies mentioned "AI" in their first-quarter earnings calls, according to FactSet data.

To understand whether AI will live up to the hype, we think it makes sense to segment the value chain into three layers: the enabling layer (semiconductors, cloud, data centers, and power supply), the intelligence layer (large language models), and the application layer (AI services for specific use cases like copilots and coding assistants).

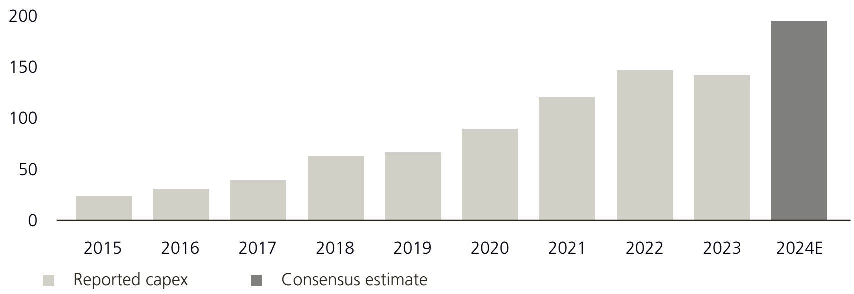
Currently, substantial investments are being made in the enabling layer. The combined capital expenditure for Microsoft, Alphabet, Meta, and Amazon is expected by market estimates to reach USD 200 billion this year—a 35% increase over 2023. However, monetization in the application layer has been limited so far. The potential is vast. But to justify the level of investment, at some point, AI use cases in the application layer will need to scale significantly, including in areas such as advertising, customer service, personal and coding assistants, R&D, and cybersecurity.

Looking ahead, we expect continued robust capital investment in AI to continue to drive strong earnings growth for companies in the enabling layer. However, we will need to closely watch risks including fears of capacity gluts if innovations change competitive dynamics, advancements stall, or if application monetization does not take off.

Figure 4

Tech capex has surged—with investments flowing into the AI "enabling layer"

Aggregate reported capex for Microsoft, Alphabet, Amazon and Meta for calendar years 2015-2023, FactSet consensus estimate for 2024, in USDbn



Source: FactSet, UBS, as of June 2024

What does that mean for investors?

The pace of growth of the AI industry means that many investors remain under-allocated.

First, investors should make sure they're sufficiently invested in AI. Many investors have built at least some exposure over recent months. Yet the sheer pace of growth in the industry means that many investors are still under-allocated overall. Given the size of some of the largest AI companies, investors may consider weightings more akin to those of certain country equity markets than to those of other companies.

Second, tilt toward the enabling layer. While there is a risk that fears about overcapacity could trigger volatility, we think the segment currently offers the best mix of attractive and visible earnings growth profiles, strong competitive positioning, and a reinvestment runway. We favor the semiconductor companies that are driving the investment in AI infrastructure at the data center and at the edge. Capital preservation strategies can offer a way of managing potential downside risks.

Third, megacaps are core to the AI story. The AI rush so far has been highly beneficial for the largest tech firms. But we believe that is a feature of the new AI investment landscape, and not a bug. We expect the AI market to be dominated by an oligopoly of vertically integrated "foundries" and monolithic players along the value chain. So, alongside semiconductors, we also like the oligopolies that are positioned across the tech stack covering chips, cloud computing, and generative AI models and applications.

Finally, remember it's not only about the US. China's tech monoliths are still trading at similar valuations as they were prior to the launch of ChatGPT. Yet they are also investing heavily in artificial intelligence, and ultimately, we expect China to develop an AI ecosystem that is distinct from much of the rest of the world. This could lead to significant monetization opportunities.

Investment ideas

We see several ways investors can navigate key second-half developments.

As we move into the second half of 2024, it is decision time for investors, and the choices made now will be crucial in navigating the evolving landscape of AI advancements, interest rate changes, and the US election.

We recommend a balanced approach, diversified across fixed income, equities, and alternatives, to position for long-term financial goals while navigating near-term uncertainties.

By staying informed and adaptable, investors can navigate the second half of 2024 with confidence and position their portfolios for success in the months ahead.

Fixed income remains our preferred asset class.

Bonds. With economic growth and inflation slowing, and central banks starting to cut interest rates, we see significant opportunities in fixed income, which remains our preferred asset class. We think investors should invest cash and money market holdings into high-quality corporate and government bonds, where we expect to see price appreciation as markets start to price a deeper rate-cutting cycle. We prefer medium-duration bonds with a maturity up to 10 years, as concerns about the high US debt burden and loose fiscal policy may pose a risk for longer-duration bonds. In our base case, we see the 10-year US Treasury yield falling to 3.85% by the end of this year, from around 4.2% at the time of writing.

We also expect broadly diversified fixed income strategies to perform well in the months ahead. Investors can consider complementing core holdings in quality bonds with selective exposure to higher-yielding areas of the asset class (such as emerging market bonds).

In equities, we focus on technology and quality growth.

Equities. Solid economic and earnings growth, the prospect of lower interest rates, and rising investment in AI should create a supportive backdrop for equities. We forecast 11% earnings growth for the S&P 500 this year, and in our base case, we see the index at around 5,500 by December.

We continue to favor tech stocks. AI is likely to be a key driver of equity returns over the coming years, and we think it is important that investors hold sufficient long-term exposure to the technology. For now, we see the best opportunities in the enabling layer of the AI value chain—which is benefiting from significant investment in AI capabilities—and in vertically integrated megacaps in both the US and China, which are well positioned across the value chain.

Beyond tech, the idea of seeking quality growth should apply to investors' equity holdings more broadly, in our view. Recent earnings growth has been largely driven by firms with competitive advantages and exposure to structural growth drivers that have enabled them to grow and reinvest earnings consistently over time. We think that trend will continue, and recommend that investors tilt toward quality growth to benefit. We see a variety of opportunities, including in global quality wealth compounders, "Europe's Magnificent 7," select benchmark heavyweights in Asia, firms providing products and services supporting the global energy transition, and those alleviating ocean pollution and water scarcity.

As rates fall, we recommend positioning for this in rate-linked equities, such as Eurozone small- and mid-caps, Eurozone consumer sectors, select US housing names, and the UK market.

In currencies, we move the Swiss franc to most preferred.

Currencies. Although the US dollar may remain well bid in the near term, we expect it to weaken over the medium term as US interest rates are cut and concerns increase about the US fiscal deficit. As a result, our recommendation that investors sell into dollar rallies remains intact. We move the Swiss franc to most preferred from neutral. The SNB has already cut rates twice in this cycle, and we think it is likely to ease policy only gradually from here. Additionally, the franc is renowned for its safe-haven qualities, offering stability amid political uncertainty in Europe, the US, and elsewhere.

We move the Australian dollar to neutral from most preferred amid a weaker outlook for Australian economic growth. The Reserve Bank of Australia's recent comments on labor and growth were more subdued, but likewise it vows to be "vigilant to upside surprises to inflation." So, we see the AUD as more range bound for now.

Gold should benefit from robust central bank purchases and improving investment demand.

Commodities. We expect low-teens percentage total returns for broad commodity indexes over the next 12 months and see opportunities in a range of individual commodities. We move gold to most preferred from neutral. Robust central bank purchases and improving investment demand should push gold prices up to USD 2,600/oz by the end of this year and USD 2,700/oz by mid-2025 (from USD 2,330/oz today). In the build-up to the US election, we think gold could be an effective hedge against mounting concerns about geopolitical polarization, the US deficit, or higher inflation. We also see silver prices rising to USD 36/oz by the end of the year, with industrial demand likely to benefit from higher use in renewables and electronics.

Solid demand and efforts by OPEC+ to balance the market should support Brent crude oil prices reaching around USD 87/bbl by year-end (from USD 85/bbl at the time of writing). Risk-tolerant investors can consider selling Brent's downside price risks. For copper, we expect the market to remain in deficit and forecast the metal to reach USD 11,500/mt by the end of the year (from USD 9,786/mt today).

We recommend including alternative assets in a well-diversified portfolio.

Alternatives. Including alternative assets in a well-diversified portfolio can help investors navigate a shifting interest rate, technological, and political backdrop. During periods of changing interest rate expectations, equity-bond correlations can rise periodically—hedge funds with low correlations to traditional assets could help reduce portfolio volatility. Private equity, meanwhile, offers investors the opportunity to invest in growing companies, including those exposed to AI, that are not (yet) listed on public markets. Investors should note that alternatives come with a unique set of risks, including around illiquidity and a lack of transparency.

Mark Haefele
Chief Investment Officer
Global Wealth Management

Messages in Focus

Position for lower rates	With economic growth and inflation slowing, and central banks starting to cut interest rates, we see significant opportunities in the fixed income market. We think investors should invest cash and money market holdings into high-quality corporate and government bonds, where we expect to see price appreciation as markets start to anticipate a deeper rate-cutting cycle. We also expect broadly diversified fixed income strategies to perform well in the months ahead.
Opportunities in currencies and commodities	We see a variety of opportunities to enhance and diversify portfolio returns via the currency and commodity spaces. First, although the US dollar could remain well-bid in the near term, we expect it to weaken in the second half as US interest rates are cut and fears rise about the US fiscal deficit. As a result, we recommend selling dollar rallies. Second, with the Swiss National Bank unlikely to cut rates much further from here, we expect the Swiss franc to appreciate. Finally, we see opportunities in a broad range of commodities, including oil, copper, gold, and silver.
Seize the AI opportunity	The market potential of AI is vast, and we expect AI to be a key driver of equity market returns over the coming years. We think it is important that investors hold sufficient long-term exposure to AI. For now, we see the best opportunities in the enabling layer of the AI value chain—which is benefiting from significant investment in AI capabilities—and in vertically integrated megacaps, which are well positioned across the value chain. We also think investors should look beyond the US for ways to capture AI growth, including in China's tech monoliths.
Seek quality growth	We think the idea of seeking quality growth should apply broadly to investors' equity holdings. Recent earnings growth has been largely driven by firms with competitive advantages and exposure to structural drivers that have enabled them to grow and reinvest earnings consistently over time. We think that trend will continue, and investors should tilt toward quality growth to benefit.
Prepare for the US election	The US election is likely to trigger volatility, and we think investors should manage risks accordingly. In equities, the US consumer discretionary and renewables sectors would be at risk in a "red sweep" scenario. We would see more potential upside in financials in that scenario. Investors should consider strategies to help hedge risks in sensitive stocks and sectors. We also think that gold can act as an effective hedge against fears of geopolitical polarization, inflation, or excessive deficits.
Diversify with alternatives	Including alternative assets in a well-diversified portfolio can help investors navigate a shifting interest rate, technological, and political backdrop. During periods of changing interest rate expectations, equity-bond correlations can rise periodically, and hedge funds with low correlations to traditional assets could help reduce portfolio volatility. Private equity, meanwhile, offers investors the opportunity to invest in growing companies, including those exposed to AI, that are not (yet) listed on public markets.

US election scenarios

	Blue Sweep	Biden / GOP Senate / Dem House	Red Sweep	Trump / GOP Senate / Dem House
Macro impact	Overall economic impact likely to be smaller than in Biden's first term. Taxes on higher-income households would rise. Modest negative for economic growth. Disinflationary impact, leading to somewhat larger Fed rate cuts.	Smaller impact than the blue sweep scenario. Taxes on higher-income households could rise, but by less than in a blue sweep scenario. No corporate tax hikes, but more stringent regulatory oversight. Relatively neutral for growth, inflation, and Fed policy.	Overall economic impact should be positive, given likely lower taxes. But inflationary pressure could increase on fiscal expansion and impact of higher tariffs, resulting in fewer Fed rate cuts. Increased trade tensions and higher fiscal deficit likely.	Overall economic impact should be positive but less than in a red sweep scenario. Tariffs still add to inflationary pressure, making it more difficult for the Fed to cut rates aggressively. Increased trade tensions and higher fiscal deficit likely.
Rates and USD impact	Yields decline led by the front end. The yield curve normalizes and returns to an upward slope given lower inflation and growth and larger Fed cuts. Slightly negative for USD.	Neutral impact on Fed policy means that the USD and yields are likely to be range-bound. Move in yields will be due to the lagged impact of Fed policy during 2022–23.	Expectations of a red sweep could push yields higher at the back end of the yield curve on concerns over loose fiscal policy and a rising debt burden. USD may rise initially, but more limited fiscal headroom and an already overvalued dollar likely to temper this impact. Higher deficits also a longer-term USD negative.	Yields and USD initially rise modestly on reduced rate cut expectations. But Fed still able to deliver cuts while higher deficits and trade tensions could later undermine the dollar.
US equity market impact	Slightly negative impact on equity market due to possible increase in corporate tax rates and potential for greater regulatory oversight.	Neutral to slightly positive for stocks. Similar to the status quo, so likely minimal impact on equity market.	Modest positive equity market impact on less regulation, potential for more M&A, and possibly lower corporate tax rates. But higher tariffs and inflationary pressures would be offsetting headwinds.	Neutral: Mixed equity market impact. Less regulation and the potential for more M&A would be supportive, but higher tariffs and inflationary pressures would be headwinds.

Source: UBS, as of 20 June 2024

Global forecasts

Economy

Real GDP y/y, in %

	2023	2024E	2025E
US	2.5	2.3	1.4
Canada	1.1	0.9	1.4
Japan	1.9	0.2	1.0
Eurozone	0.5	0.6	1.2
UK	0.1	0.7	1.5
Switzerland	0.8	1.3	1.5
Australia	2.0	1.2	2.1
China	5.2	4.9	4.6
India	8.2	7.0	7.0
EM	4.6	4.4	4.4
World	3.3	3.1	3.1

Inflation (average CPI), y/y, in %

	2023	2024E	2025E
US	4.1	3.1	2.5
Canada	3.9	2.5	2.1
Japan	3.3	2.4	1.9
Eurozone	5.5	2.4	2.1
UK	7.4	2.5	2.0
Switzerland	2.1	1.2	1.0
Australia	5.6	3.3	3.3
China	0.2	0.4	1.4
India	5.4	4.5	4.5
EM	7.5	8.2	5.1
World	6.2	5.8	3.9

Source: Bloomberg, UBS, as of 20 June 2024. Latest forecasts available in the *Global forecasts* publication, published weekly.

Asset classes

	Spot	Dec-24
Equities		
S&P 500	5,487	5,500
Eurostoxx 50	4,885	5,200
FTSE 100	8,205	9,000
SMI	12,060	12,600
MSCI Asia ex-Japan	705	740
MSCI China	60	69
Topix	2,729	2,900
MSCI EM	1095	1,150
MSCI AC World	976	1,000
Currencies		
EURUSD	1.07	1.09
GBPUSD	1.27	1.30
USDCHF	0.88	0.85
USDCAD	1.37	1.38
AUDUSD	0.67	0.68
EURCHF	0.95	0.93
NZDUSD	0.61	0.60
USDJPY	158	150
USDCNY	7.26	7.25

	Spot	Dec-24
2-year yields, in %		
USD 2y Treas.	4.71	3.75
EUR 2y Bund	2.81	2.00
GBP 2y Gilts	4.17	3.50
CHF 2y Eidg.	0.91	0.70
JPY 2y JGB	0.28	0.40
10-year yields, in %		
USD 10y Treas.	4.22	3.85
EUR 10y Bund.	2.40	2.25
GBP 10y Gilts	4.07	3.50
CHF 10y Eidg.	0.67	0.70
JPY 10y JGB	0.92	1.10
Commodities		
Brent crude, USD/bbl	85	87
Gold, USD/oz	2,330	2,600

Source: Bloomberg, UBS, as of 20 June 2024. Latest forecasts available in the *Global forecasts* publication, published weekly.

Disclaimer / Risk Information

Non-Traditional Assets

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