CIO believes longer-term investors are better advised to take advantage of potential tech volatility in the near term to build up sufficient AI exposure. (UBS)

CIO continues to view crypto assets as a speculative trade

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Bitcoin surged to all-time highs as traders positioned for President-elect Donald Trump's enthusiasm for digital assets, with the crypto jumping over 33% since 4 November. The rally has been fueled by Trump's campaign pledges that include creating a strategic Bitcoin stockpile and the prospects of a new Congress with pro-crypto lawmakers.

CIO continues to view crypto assets as a speculative trade rather than a strategic investment in portfolios. We are skeptical that crypto assets can make significant inroads in meaningful and disruptive real-world use cases, and they can significantly raise a portfolio's volatility.

Using Bitcoin as an example, the crypto's performance has a positive 0.31 correlation to global equities with a 78.8% annualized volatility. This means it has tended to move in the same direction as the stock market, but with significantly higher swings in value. Since 2014, there have been three major drawdowns surpassing 70% in Bitcoin, from which it has taken an average of three years to recover.

Instead, we continue to hold a positive view on global and US equities and believe that the macro backdrop is favorable for this year's equity rally to gain further ground.

Solid US economic growth should support healthy corporate earnings. Retail sales data due Friday will provide another glimpse into the health of the US economy, but recent data have shown that growth is on a solid footing. We believe robust economic growth is conducive for healthy corporate profits, and we continue to expect S&P 500 earnings growth of 11% this year and 8% in 2025.

The Federal Reserve remains on an easing path. While markets have moved to price a slower pace of easing, Fed Chair Jerome Powell noted that policymakers continue to look to bring policy closer to neutral. We see a further 100 basis points of rate reductions in 2025. Historically, Fed rate cuts in non-recessionary periods have been favorable for equities.

The growth story of artificial intelligence (AI) should offer impetus to the equity bull market. While US tech export controls and potential tariffs during Trump's second term are likely to cause volatility in the tech sector, we believe the positive fundamentals of the AI growth story should continue to drive equity performance.

We therefore believe longer-term investors are better advised to take advantage of potential tech volatility in the near term to build up sufficient AI exposure. In addition to tech, we like the utilities and financials sectors. Globally, we also favor Asia ex-Japan equities, and see value in Eurozone small and mid-caps.

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Original report - **Equities look better supported despite the crypto rally, 12 November 2024.**