CIO believes investors should position for further equity gains. (UBS)

Current fundamentals outweigh political turmoil

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The collapse of the French government after a no-confidence vote is the latest political headline that complicates the market outlook. With Michel Barnier ousted by the parliament, French president Emmanuel Macron is now looking for a new prime minister to resolve the government budget for 2025. This came after South Korea's president briefly imposed martial law earlier this week, while the breakdown of Germany's three-party coalition last month paves the way for a change in political leadership early next year.

However, the current favorable macroeconomic backdrop continues to support market sentiment, and we expect global equities and US stocks to move higher in the year ahead.

The underlying strength of the US economy and further interest rate cuts should provide additional momentum. The Federal Reserve's latest Beige Book reported slight economic growth across most regions in the US, with stable consumer spending and modest price increases. Labor market conditions also appeared steady, with low layoffs and subdued hiring activity. Separately, Federal Reserve Chair Jerome Powell on Wednesday described the US economy as being in "very good shape," noting that downside risks in the labor market are fading while growth has been stronger than expected. As markets await fresh labor and inflation data before the next Federal Open Market Committee (FOMC) meeting on 17-18 December, we continue to expect the Fed to cut rates by 25 basis points later this month, then to slow to a once-per-quarter pace next year.

Rate cuts across the Atlantic should also benefit equities. Economic conditions in the Eurozone remain challenging, but the European Central Bank is expected to cut rates for the fourth time this year at its policy meeting next week amid slower inflation. With the ECB likely to continue easing at each meeting through June 2025, we see a supportive monetary policy backdrop for European stocks, which have reasonable valuations.

Artificial intelligence will continue to drive growth in the coming years. The earnings results and revenue guidance of Salesforce and Marvell this week were the latest indications of strong AI demand that is likely to help sustain the equity bull market, in our view. With big tech's ongoing commitment to AI spending, and improving AI adoption and monetization trends, we forecast earnings growth of 22% for the global tech sector in 2024 and 18% in 2025.

So, without taking any single-name views, we believe investors should position for further equity gains. Within the US, we like technology, utilities, and financials. We also favor Eurozone small- and mid-caps and Swiss high-quality dividend stocks, and see value in maintaining a diversified exposure to Asia ex-Japan.

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