(UBS)

Mike Ryan's Thanksgiving Cheat Sheet

26 November 2024, 8:41 pm CET, written by UBS Editorial Team US Editorial Team

With the merciless assault of political attack ads having finally given way to an unrelenting stream of Hallmark Christmas movies, it's clear that the holidays are now upon us. It's therefore time for my annual "Thanksgiving Cheat Sheet" as I prepare for the conversations I will face over the extended holiday weekend with family and friends.

This year, my wife, our youngest daughter, son-in-law, two hoodlum grandsons (ages one and two), and I will make the trek out to San Diego to spend Thanksgiving with my older daughter and her family. I will therefore be especially thankful when the plane finally touches down and I'm liberated from six hours of watching Paw Patrol videos and refereeing the toddler version of UFC!

This year's discussions are apt to be a bit more animated than usual given the eclectic mix of backgrounds at our gathering, coupled with markets at near record levels, an increasingly troubled geopolitical backdrop and the dawn of a second Trump Administration.

Since my family still operates under the assumption that as a former CIO, I can seamlessly shift discussion topics from macroeconomics, to public policy, geopolitics, or the market outlook, I have once again put together a set of notes to prepare myself for these conversational broadsides.

Since so much has already been said and written about what a second Trump presidency might mean for markets, there is not much new ground to cover or fresh insight to offer. It's also important to keep in mind that political outcomes do not solely determine market performance. So working under the assumption that my family (as well as yours) is just as sick about hearing postmortems of the election as I am, I will instead focus my attention on some of those "other questions" that are still of import to most investors. My hope is that you find these reflections somewhat helpful as you brace for your own holiday gatherings.

With equity markets now at all-time highs is it already too late to invest?
Keep in mind that new market highs are not the sort of seminal events that some perceive them to be. Since equity markets are progressive in character, record highs are relatively common occurrences. In fact, stocks tend to reach new highs about 25% of the time on average. What matters more are the catalysts behind this recent market appreciation. The surprising durability of the expansion, recent moves by the Fed, and results of the 2024 election have all been contributing factors. However, the single most important determinant of recent equity market gains has been expectations related to generative AI and machine learning. Some have drawn parallels to both the telecom and internet bubbles to argue that markets have breached a speculative excess. However, the prospects for AI deployment are much broader that the telecom buildout and the impact from monetization more immediate than the internet network. So while markets are hardly cheap at current levels, current prices are a fair reflection of both the current macro realities and future commercial opportunities.

How would you evaluate the Fed and the job that Jay Powell is doing?
First of all, we need to appreciate that central banking is an inherently difficult job. A Fed chairperson is forced to make decisions that profoundly affect both the world economy and global financial system, armed with incomplete and often dated information and against an increasingly polarized political environment. Under Powell's leadership, the Fed got off to an admittedly shaky start by failing to recognize that the nature of the post-COVID inflation surge was structural rather than cyclical. However, the Fed has since done a commendable job of managing its dual mandate of full employment and price stability. But Powell may now be facing his greatest challenge, as his pragmatic approach toward policymaking increasingly comes into conflict with President Trump's political preferences. The first real test will come during the first quarter as the Fed attempts to calibrate monetary policy to account for the potential shock from tariffs. This will test not only Powell's skills as a monetary policymaker, but also his leadership abilities as he seeks to preserve the Fed's cherished independence.

How do you view the outlook for bitcoin and other cryptocurrencies?
Crypto has been one of the better performing asset classes this year, with bitcoin having recently flirted with the $100k level and increasing by more than 130% for the year. Not surprisingly, I have been asked about how I now view crypto and what role it should play within investment portfolios. First, it is clear to me that crypto as an asset class is here to stay. As the use cases develop, investment vehicles proliferate and liquidity improves, demand will only increase. Nevertheless, there are a number of challenges with crypto as a core portfolio holding. Since it provides no contractually guaranteed interest payments and represents no claim on any future cash flows it possesses no intrinsic value. It is therefore worth only what others perceive it to be worth. While some argue that gold also has no intrinsic value by those same valuation standards, there is at least ample empirical evidence demonstrating how it has behaved across different market cycles. The history of precious metals price performance stretches back across millennia, while crypto's tracks back just 25 years. It may well be that crypto represents an effective hedge against inflation or currency debasement, but I have no evidence to back that assertion. Since it cannot be valued objectively, and its returns cannot be modeled historically, crypto's performance profile is, by definition, speculative in nature. It should therefore be considered in the same manner as any other highly volatile, speculative investment—no better, no worse.

What impact will international conflicts have on markets?
It is important to recognize that we have not just seen the emergence of new global conflicts, but that we are witnessing the advent of an entirely new geopolitical era. The period stretching from 1989 through 2015 will arguably go down as the most peaceful, stable, prosperous and democratic period in world history as western values were increasingly translated into global norms. But it has also been one of the briefest. What has now emerged in its wake is an era of increased geopolitical tensions with rivals—both old and new—actively looking to supplant the United States as the global hegemon. While this more fractious geopolitical environment presents a whole new set of challenges for global leaders, it also represents an emerging source of risk for investors. Unfortunately, it is impossible to predict where the next potential conflict will emerge or forecast how it might affect markets. Investors must therefore take a more proactive approach toward managing geopolitical risk within portfolios. This entails making sure that portfolios include appropriate exposure to high quality fixed income holdings that will provide both protection from geopolitical shocks and diversification from market drawdowns.

Between the lulls in the conversation and timeouts during the football games, I will gratefully devote my full my attention to playing Polly Pockets, Legos, and Monster Trucks with my grandkids. And for that, I am immensely thankful.

Mike Ryan

Vice Chair, Global Wealth Management