(UBS)

How to bolster portfolios as red sweep reshapes markets

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The Republican Party held onto their narrow majority in the US House of Representatives, giving President-elect Donald Trump and his party unified control of the elected branches of the US government.

According to the Associated Press, Republicans have now secured 218 of the 435 House seats, with five seats still to be called at the time of writing. Trump's cabinet has also come into view over the past week, with Marco Rubio named as the next Secretary of State, Mike Waltz enlisted as his National Security Advisor, and Pete Hegseth tapped as Defense Secretary, among others.

Trump campaigned on a platform of extending personal income tax cuts, lower corporate taxes, deregulation, trade tariffs, immigration controls, and reassessing America's role in global affairs. The red sweep should give him greater scope to pursue this policy agenda. However, a narrow congressional majority could constrain some policy measures, especially with the US deficit as a share of GDP now twice as large as it was at the start of Trump's first term. Promises made on the campaign trail may not be implemented immediately, with final legislation likely to be a pared-down version of the original proposals.

Still, Trump's policies will likely have wide-ranging implications, and market volatility could increase as these changes take shape. While uncertainty could persist, we believe investors can bolster their portfolios by positioning for several enduring trends that may be less sensitive to US politics:

Interest rates will likely continue to fall and cash returns decline
With current interest rates still well into restrictive territory and the US labor market continuing to soften, we believe the Federal Reserve remains on an easing path. Chair Jerome Powell on Thursday said the strength of the US economy means

the central bank is in no hurry to lower rates, but he also noted the goal of bringing policy rates to "the plausible range of neutral levels."

Cash returns should reduce as global central banks cut rates further in the year ahead, and we believe investors with elevated cash balances should consider investment grade bonds, diversified fixed income, and equity income strategies to enhance portfolio income.

The secular trend of artificial intelligence should continue to drive growth

Supported by big tech's commitment to AI investments, we believe we are just at the start of a major investment boom amid technological advances that may fundamentally affect all economic sectors.
We estimate that AI value creation could amount to USD 1.16tr by 2027 and recommend investors have sufficient exposure to quality AI names in the semiconductor and big tech segments.

Gold's function as a portfolio hedge should continue to prove useful

Gold prices have fallen around 8% since the end of October as US Treasury yields and the dollar extended gains following Trump's win. The sell-off looks excessive to us, and we believe the fundamentals remain supportive for gold. We maintain our December 2025 target at USD 2,900/oz.

We continue to believe that a well-diversified portfolio is the most effective way to manage near-term risks while growing long-term wealth. Alternative investments should also be considered for investors able to tolerate inherent risks such as illiquidity and leverage.

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