In US equities, CIO keep their Attractive view on financials, which should benefit from lower funding costs, cooling regulatory pressures, and a pickup in capital market activity. (UBS)

Asset Allocation: Confidence running hot

16 December 2024, 06:11 am CET, written by UBS Editorial Team US Editorial Team

With the US election now in the rearview, markets are turning to 2025 and looking for signs of continued economic strength. Based on the latest consumer confidence surveys, which touched a multi-decade high, the outlook is bright for further equity upside.

While we expect stocks to continue to climb next year, there will likely be bouts of volatility as markets digest the incoming administration's policy priorities and what they mean for growth, rates, and inflation. Overall, the US economy should still be supported by rising real wages, lower interest rates, and lower inflation.

Given our economic outlook, we believe risk assets, and equities in particular, will be supported in the months ahead. We maintain our Attractive outlook for global equities and US equities in particular. Our December 2025 target of 6,600 implies about 10% upside through next year and reflects our belief that there is **more to go in equities**. In the US, we see the largest growth drivers tied to innovations in artificial intelligence (AI). Outside the US, there are attractive opportunities in emerging markets— specifically in Taiwan and India—as well as attractive valuations among European mid- and small-cap names.

In US equities, we keep our Attractive view on financials, which should benefit from lower funding costs, cooling regulatory pressures, and a pickup in capital market activity. The communication services sector is Attractive due to its solid digital advertising trends and investor enthusiasm around AI, while consumer discretionary should benefit from rate cuts. We also like utilities, as they are defensive and should do well in the event of weaker activity.

Additionally, we maintain our positive outlook on US technology, even as the sector has grown significantly over the past year. Specifically, we are recommending investors **seize the AI opportunity** as we expect AI to be a key driver of equity market returns over the coming years. Given such, it is important that investors hold sufficient long-term exposure to the theme. We currently see the best opportunities in the enabling layer of the value chain, which is benefitting from significant investments. We also like vertically integrated megacaps, which are well positioned across the value chain.

The confluence of rising electricity demand due to growing use of AI, electric vehicles and industrial electrification means there are attractive opportunities to **invest in power and resources**. We see opportunities across the electricification value chain, from rising data center usage from AI, to technological innovations in grid modernization, and also rising demand for transition metals like copper and aluminum.

With the Fed having made its first cut and central banks around the world undertaking rate-cutting cycles, we recommend investors **position for lower rates**. As cash and money market funds begin offering lower returns as rates fall, investors need to manage their liquidity more actively. We particularly like high-quality bonds that still offer relatively attractive yields and can perform well in the risk scenario of growth slowing rapidly. Specifically, we see good value in investment grade corporate bonds, Agency MBS, municipals, and sustainable bonds.

Looking beyond public markets, we continue to advise investors to **diversify with alternatives** as private managers that can provide debt or equity capital at different company lifecycle stages will have a key role to play. With most firms in the US now privately held, accessing private markets is essential to improve diversification and enhance risk-adjusted returns.

For more, see the full report, **Yield & Income, 5 December 2024.**

The document and the information contained herein is intended for UBS internal use only and solely for the UBS employee to whom it was provided. It may in no circumstances be distributed outside of UBS. Information contained in this document has not been tailored to the specific needs, investment objectives, personal and financial circumstances of a client or any other recipient outside of UBS. This document shall not be construed to include any legal or tax advice, investment research, sales prospectus, an offer or a solicitation of an offer to enter in any investment activity. Neither UBS nor its directors, employees or agents accept any liability for any loss or damage arising out of the use of all or any part of this document. For further information, please contact the document owner.

Important information
As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at www.ubs.com/workingwithus.
© UBS 2024. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.
There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.