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UBS Equity Compass: Position for long equity exposure

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Global equity markets are at a unique juncture. Fueled by fiscal and monetary stimulus, the post-pandemic economic recovery was extraordinary for its strength and swiftness. But the true impact of that support is difficult to quantify.

The globally coordinated hiking cycle that followed the pandemic rebound, which slowed but did not choke economic growth, has transitioned into a globally coordinated cutting cycle. However, government deficits and geopolitical tensions are at the highest levels since the Cuban Missile Crisis. At the same time, we are in the midst of one of the most profound innovations in human history: artificial intelligence (AI). Unlike any technology before it, AI can self-improve, accelerating its rate of change.

In the race for economic and technological supremacy, China does not want to be left behind. At the September 2024 extraordinary Politburo meeting, President Xi Jinping announced the largest stimulus package in recent history to stem China's property market crisis and support its ailing economy. He also urged officials to take bold actions to revive the economy with innovation, offering exoneration if it ends in failure. These steps are reminiscent of Jiang Zemin's statement that "without reform there is no way out for China" when re-structuring the country's state-owned enterprises in the 1990s. While the road ahead will have its challenges, and many structural issues—such as its shrinking population—will not be easily resolved, we do believe that China has the pragmatic resolve to turn its economy around. Once the US election ends, investors will likely turn their attention to both the size of China's fiscal stimulus and the tariff landscape.

What does this mean for equity markets going forward? The combination of lower rates, a bold and strategic stimulus package for the second-largest global economy, and the fastest and possibly most influential innovation in human history suggests a benign backdrop for equities, even though it will likely take until 2025 for rate cuts to translate into stronger economic growth. Hence, driven as well by our positive outlook for the US, we have decided to upgrade equities to Attractive. We also favor markets that benefit from the AI infrastructure boom, including Taiwan.

On the *macro* side, additional rate cuts amid a soft economic landing should lead to further equity upside. Since former Federal Reserve Chair Paul Volcker shifted the central bank's strategy in 1982 to targeting interest rates, a 50-basis-point cut when US equity markets were close to all-time highs has led to double-digit upside for US equities over the next 12 months. Looking further out, we see *structural* support from the eventual rise of artificial super intelligence, which should drive further capex investments into AI data center and electrification infrastructure. From a *bottom-up* perspective, we see upside to earnings for the global tech, global utilities, and US financial sectors.

While the three angles in our global equity framework read bullish for equities into the year-end and beyond, a trifecta of risks—the US election, the Middle East conflict, and impending US semi export restrictions on China—will likely result in elevated volatility. We recommend using the coming weeks and likely market weakness to position for long equity exposure into the year-end.

Main contributor: Ulrike Hoffmann-Burchardi, CIO Global Equities

Explore the full report - **UBS Equity Compass: Charting new horizons**, published 17 October 2024.

Important information