With cash interest rates likely to fall more quickly than we had previously expected, it remains important in CIO view for investors to deploy excess cash into medium-duration quality fixed income. (UBS)

Quality remains a key theme.

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Throughout 2024, we have reiterated the theme of "quality" in both bonds and equities. With recession fears rising, quality remains a key theme.

In fixed income, we would expect quality bonds to deliver positive total returns in our base case, and they could rally even further if recessionary fears continue to mount. With cash interest rates likely to fall more quickly than we had previously expected, it remains important in our view for investors to deploy excess cash into medium-duration quality fixed income.

In equities, quality is an investment style that has historically outperformed as a whole and with the highest relative returns during recessions. Since 1992, quality stocks have delivered 9% annualized outperformance over global indices during recessions (MSCI ACWI quality index versus MSCI ACWI). Companies with strong balance sheets and a track record of earnings growth, as well as those that are exposed to structural growth drivers, should be relatively well positioned if cyclical fears mount.

Elsewhere, we continue to like gold and the Swiss franc. The cost of direct hedging on equity markets has risen in recent days. As such, diversification with quality bonds, gold, and the Swiss franc is an important way for investors to insulate portfolios against further equity market volatility. Switzerland looks closer to the end of its policy easing cycle than most other central banks, and we would expect gold to benefit from central bank reserve diversification, investors seeking relative "safe havens," and anticipation of faster interest rate cuts.

Main contributors: Solita Marcelli, Mark Haefele, Brian Rose, Christopher Swann, David Lefkowitz, Daisy Tseng, Vincent Heaney

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