The Choy Group Quarterly

Second Quarter | 2024

Navigating An Everchanging Landscape

Market, Economic, & Financial Planning Overview

UBS

UBS The Choy Group Quarterly

Quarter 2 2024

Overview

The Choy Group Quarterly Newsletter | Issue II

We are thrilled to present the second issue of UBS The Choy Group Quarterly. This publication aims to provide our clients with valuable insights and best practices, enriching their understanding of current market conditions and strategies for navigating them.

Throughout this journey, we will offer a comprehensive overview of the markets, delve into relevant events and their economic implications, and provide guidance on maneuvering through an ever-changing economic landscape. Topics will include updates on market conditions, the impacts of an election year, the generational transition of wealth, and key investment opportunities.

This publication will draw insights from UBS-based research, members of The Choy Group, and other reputable sources, all of which will be duly cited. Additionally, we will share life updates from each group member, highlighting their voices and experiences to foster deeper relationships and strengthen our community.

To ensure continuous improvement, we welcome your input and encourage you to suggest topics of interest or areas you would like us to explore. Our commitment is to drive the industry forward, continuously adapting and evolving alongside it.

Enjoy the second issue of The Choy Group Quarterly, and as always, we look forward to hearing your feedback.

Best regards,

Peter Y. Choy, AIF® , CRPC™, CRPS™
Senior Vice President- Wealth Management

Group Update

What's New?

Peter Y. Choy, AIF® , CRPC™, CRPS™
Senior Vice President- Wealth Management

Pete has been enjoying his summer with a trip to Rosemary Beach, FL with family and looking forward to a quick visit to Nashville. Mentoring and philanthropic endeavors have kept him busy for the first half and he is very much looking forward to a great second half of the year!

Ryan Cox
Wealth Strategist Associate

Ryan recently celebrated his 32nd birthday and is enjoying a quiet summer. He is looking forward to a family reunion in Fountain Hills over the fourth of July and getting to meet his new nephew, Boston.

Lori Brannigan
Senior Client Associate

The summer months are a welcome time for Lori. Catching up on hobby's in the house, early morning walks and late afternoon's by the pool. Late July is the time for her family to travel to the north country near Big Lake for fishing, driving forest roads and best of all for Lori, relaxing under the pines.

Weston Zierer
Intern

Weston is currently finishing up his senior year at ASU while pursuing his Series 66. He is looking forward to hiking into the Grand Canyon, to swim in the beautiful blue waters at Havasupai Falls.

Ella Choy
Intern

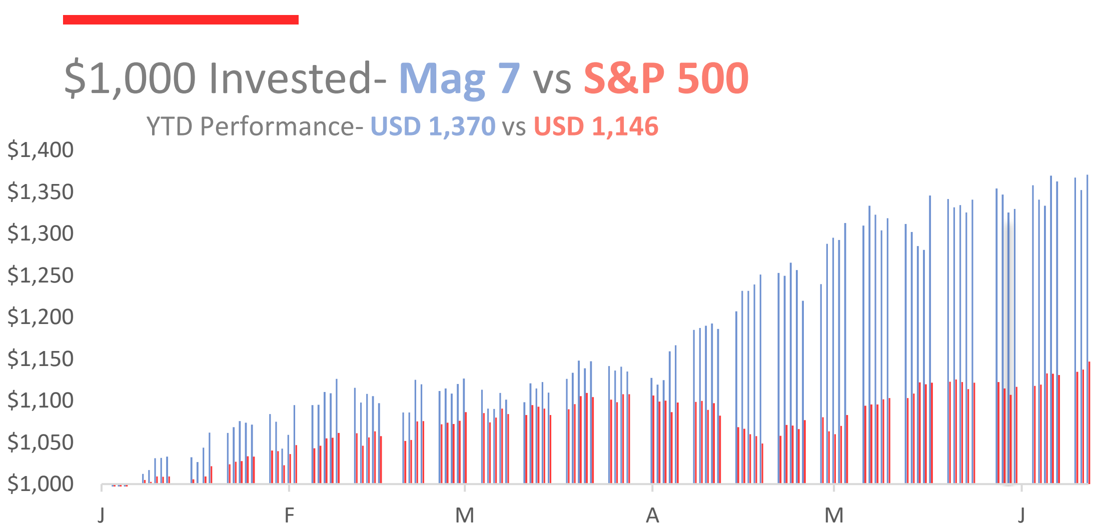
Ella is enjoying her time at home from college with her friends and family. She is looking forward to applying what she has learned throughout her course work at Vanderbilt into the financial realm. Ella recently spent time in Rosemary Beach with her family and will be visiting Nashville to explore Franklin.

Current Market Conditions

“AI Bubble” vs. “Tech Bubble”

Risks Associated with All-Time Highs

Following Nvidia's 1Q24 earnings report, financials were strong across the board, with upside surprises in both revenues and guidance. Since then NVDA shares have only climbed, accumulating [1]173.78% YTD return as of June, 14, a strong reflection of market sentiment around generative AI. Amidst investor-profit sharing, geopolitical tensions, and lingering concerns over sustained interest rates, a UBS report projects robust growth across global tech sectors by at least 20% in 2024, with the AI demand poised for a remarkable 72% surge, and the overall S&P 500 on track to beat initial expectations of 4-6%, reaching 5,500 by year-end, according to UBS CIO. While navigating the current market landscape marked by record highs and moderating growth, investors grapple with the dilemma of selling or remaining on the sidelines. However, historical precedent advises against market timing, advocating for sustained investment and risk mitigation strategies. . As underscored by a Bank of America Analysis, the discrepancy between full investment and missing the top 10 days of market returns per decade since 1930 within the S&P 500 equated to a 17,715% and 28% cumulative return, respectively. Given these insights, the UBS CIO advocates for maintaining investment positions while embracing prudent diversification strategies. These diversification strategies entail spreading investments across 1) diverse asset classes, regions, and sectors, 2) balancing equity exposure and high bond yields, and 3) exploring alternative assets. By embracing proper diversification and retaining exposure to the tech sector, investors can fortify their portfolios against prevailing market risks. This approach capitalizes on tech company's current adoption of AI’s growth potential and their positioning as growth stocks, which have proven resilient in the later stages of business cycles, as per UBS.



Source: Yahoo Finance, as of June 2024

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[1] “NVIDIA Corporation (NVDA) Stock Summary,” Yahoo Finance. NasdaqGS, June 2024, https://finance.yahoo.com/quote/NVDA/

AI Bubble Debate: Accurate Valuations vs. Inflated Valuations

The evolution of technological revolutions has perennially shaped market dynamics, often oscillating between periods of exuberance and cautious optimism. In contemporary discourse, the comparisons drawn between the "AI Boom" and the historical "Tech Bubble" provide a lens through which to analyze the current state of equity markets and technological advancement. On one hand, proponents argue that the current surge in large-cap tech stocks, catalyzed by AI adoption, mirrors historical instances of market concentration, potentially signaling risks of overvaluation. Conversely, advocates of AI elude its transformative capabilities across diverse industries, presenting a more sustainable trajectory distinct from the speculative excesses of past technological booms.

The rise of AI technologies, epitomized by NVIDIA's pioneering role in GPU-driven AI applications, underscores a fundamental shift in the technological landscape akin to the internet's impact in previous decades. As empirical data supports the potential economic benefits of AI adoption, with forecasts suggesting substantial contributions to labor productivity and global GDP growth, many believe the current AI landscape is differentiated from past speculative bubbles, emphasizing AI's role as a catalyst for sustainable economic growth and productivity enhancement.

However, amid the optimism surrounding AI's transformative potential, cautionary notes about market concentration and valuation risks emerge. Historical precedents of market consolidation and speculative excesses caution against complacency, urging investors to maintain diversified portfolios and adopt a long-term perspective. As the AI boom unfolds, navigating these dual narratives—of unprecedented technological promise and market dynamics—becomes crucial in understanding its lasting impact on global economies and equity markets.

Therefore, we will explore these dual perspectives, examining the parallels and distinctions between the AI boom and past technological bubbles. By analyzing empirical data, market trends, and historical context, we aim to provide a comprehensive understanding of the current AI landscape and its implications for future economic and market dynamics.

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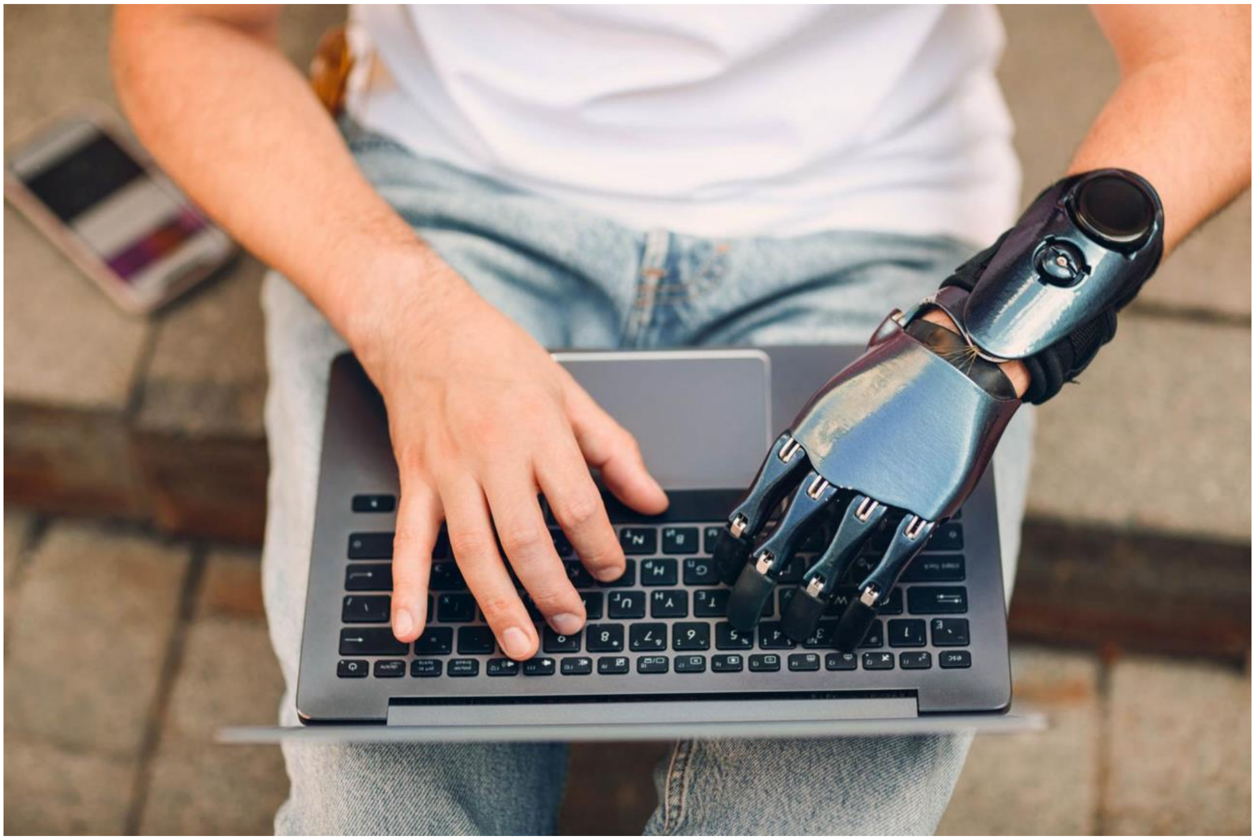

Why Valuations are Accurate:

The U.S. equity market is nearing its highest concentration in the top 10 stocks over the past century equating to more than one-third of the S&P 500 index. A reflection of the large-cap tech equity performance the past 3 quarters, largely as a by-product of the adoption of AI technology. However, a broader lens reveals a more pronounced concentration in emerging markets, with a solitary stock, Taiwan Semiconductor Manufacturing Co (TSMC), accounting for 70% of the growth in an index encompassing 20+ countries—a narrative that echoes historical instances of market consolidation. Delving into the annals of U.S. market history unveils instances of even steeper concentration, dating back to the mid-1960s when market dominance exceeded contemporary levels. This trend persisted until the mid-1970s, mirroring global occurrences where top-tier companies commanded substantial shares of respective markets, as per fs investments. Recent data from CNBC paints a vivid picture, indicating concentration levels of 42%, 57%, 50%, 57%, and 45% in key economies such as China, Germany, the UK, France, and Canada, respectively, as of February 23. Overall, high market concentrations are not uncharted territory, and large-cap growth stocks performance will be slowed eventually.

In accordance with insignificance presented by these inflated valuations from concentrated markets, there is evidence to support the legitimacy of valuations. The emergence of AI technology presents a paradigm akin to previous transformative innovations, albeit with the smart phone. Projections from the UBS CIO reveal staggering growth forecasts, with AI demand poised to surge at a 72% annual clip—a pace that would dwarf the expansion witnessed in the smartphone industry. This trajectory suggests a forthcoming normalization of these valuations, with P/E ratios of 20x aligning more sensibly by 2027.

Anticipated releases of AI chip products, particularly within gaming and other applications, stand poised to fortify margins amidst burgeoning demand—an analogy compared by UBS CIO drawn to Apple's strategic pricing maneuvers in 2017. Microsoft's subscription model for its Copilot generative AI applications exemplifies the monetization potential inherent in AI integration, with estimations pointing towards exponential revenue growth. With a UBS report estimating Microsoft achieving a 30% revenue growth if it's USD 30 monthly subscription fee for Copilot generative AI applications is adopted by 50% of its current users pioneering a forecasted AI industry growth rate of 152% annually or a multiple of 100 times over the 5-year period between 2022-2027.

However, amidst the exuberance surrounding AI's earning potential, a sober acknowledgment of the risks is warranted. Optimistic projections must be tempered with the acknowledgment of potential pitfalls, reminding investors of the timeless virtues of diversification, long-term perspective, and emotional resilience– proven to be more critical today, than ever before.

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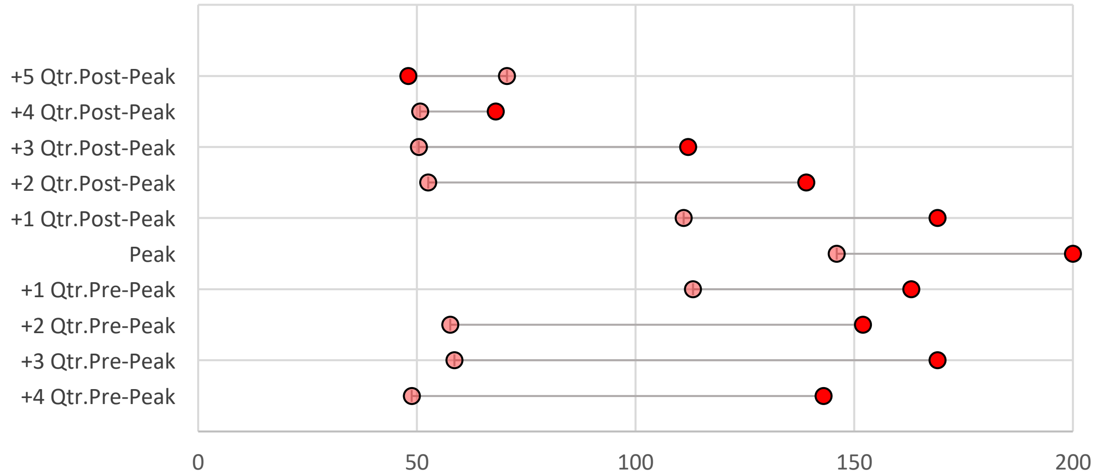
Tech Bubble vs AI Boom

Despite comparisons drawn between the ".com Bubble" and the current "AI Boom," AI represents a more reliable technological advancement with transformative potential spanning multiple industries. This distinction sets it apart from the speculative excesses of the late 1990s and early 2000s. Following OpenAI's launch of ChatGPT, which became the fastest-growing consumer application in history, reaching an estimated 100 million monthly active users by January 2023—just two months post-launch, as highlighted in a UBS study. Furthermore, according to a [2]US Census Bureau Business Trends and Outlook report, AI adoption among companies has shown growth of 0.9–1.7% in the first quarter alone, with projections suggesting it could increase by 6.6–12% over the next six months. The prominence of these companies is underscored by their significant contributions to the AI landscape. The top beneficiaries, known as the "Mag 7" (NVDA, AAPL, META, TSLA, AMZN, GOOGL, & MSFT), have collectively achieved a 32.54% year-to-date performance as of June 12. These companies boast robust balance sheets and the largest market capitalizations, providing them with substantial resilience. In contrast, the "Tech Bubble" featured a mix of renowned and secure companies alongside riskier, lesser-known entities, highlighting the speculative nature of that era compared to the more grounded growth seen in AI today.

The comparable market positions of NVIDIA (NVDA) and Cisco offer valuable insights into distinguishing the current "AI Boom" from the past "Tech Bubble." NVIDIA has established itself at the forefront of AI infrastructure, particularly through its graphics processing units (GPUs), which are pivotal for AI, machine learning, and data processing tasks. In contrast, Cisco dominated the infrastructure sector during the internet boom, supporting the expansion of internet and corporate networking capabilities. During the Tech bubble, Cisco's valuation soared to exceptionally high P/E ratios, peaking around 200x by March 2000 as investors anticipated continued exponential growth in networking demand. In contrast, NVIDIA's valuation during the AI boom has been notable, initially peaking around 146.03 and currently standing at approximately 70.61 as of July 24. Although considered relatively expensive, many justify NVIDIA's high valuation due to the groundbreaking potential of AI technology. This comparison underscores how NVIDIA's focus on fundamental technological advancements in AI and GPUs differentiates it from the speculative excesses of the Tech bubble era, highlighting a more grounded growth trajectory driven by tangible applications and transformative innovations in AI.

[2] Kathryn Bonney et al,. "Tracking Firm Use of AI in Real Time: A Snapshot from the Business Trends and Outlook Survey," United States Census Bureau. March 2024, https://www.census.gov/library/working-papers/2024/adrm/CES-WP-24-16.html#:~:text=We%20provide%20new%2C%20real-time,6.6%25%20by%20early%20Fall%202024.

P/E Ratio Comparison- NVDA vs CISCO



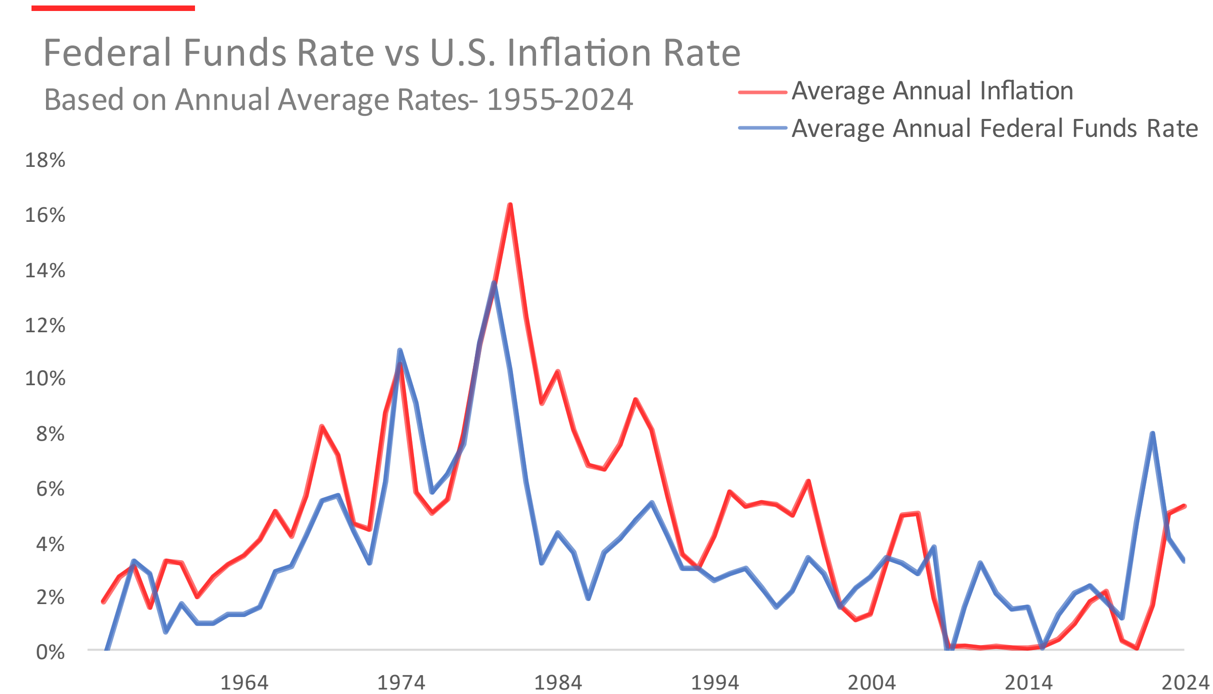
Source: Morningstar, as of March 2024

While the impact of AI on economic growth is not absolute, sentiment around the technologies' improvement to overall work productivity is on the rise. As per a Goldman Sachs report, widespread adoption of generative AI has the potential to lift annual US labor productivity growth by nearly 1½ percentage points over a decade. This surge in productivity could also significantly enhance global labor productivity, potentially boosting annual global GDP by up to 7%. McKinsey's latest research supports these findings, indicating that generative AI could contribute between $2.6 trillion and $4.4 trillion annually across 63 distinct use cases, addressing specific business challenges and delivering measurable outcomes. With leading global corporations increasingly integrating AI and growing public confidence in its capabilities, there is justification for current high valuations. This distinguishes the current "AI Boom" from the past "Tech Bubble," underscoring AI's transformative potential and its substantial impact on economic growth and productivity enhancement.

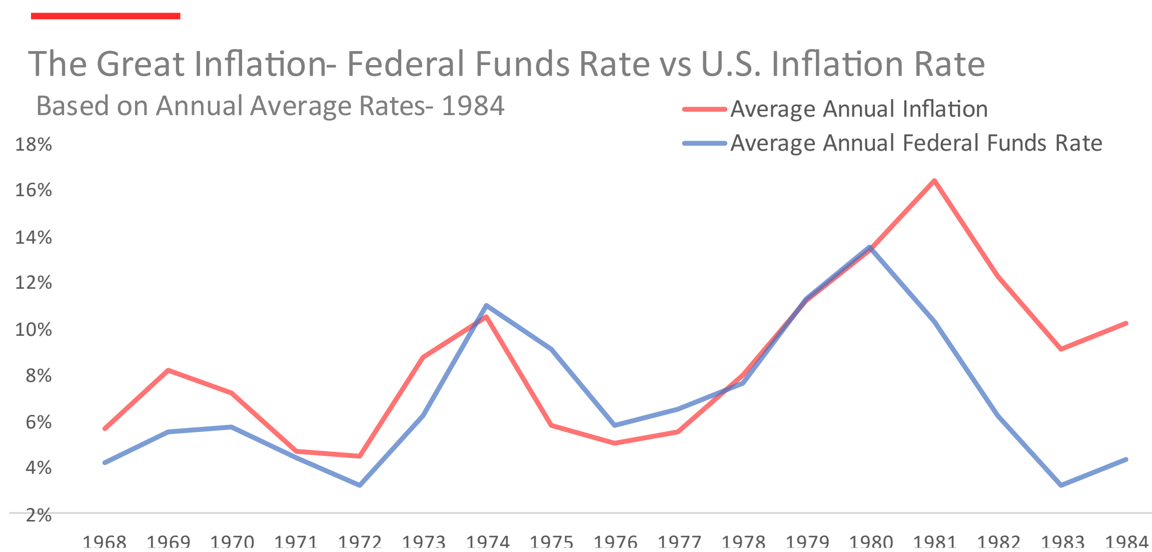
Interest Rate Environment: Will the Fed Pause or Cut Rates?

The recent decline of nearly 5% in the S&P 500 index as of May 1, 2024, since its peak of USD 5,264.85 on March 24, 2024, has reflected a recent shift in the direction of interest rates after Jerome Powell spoke at the Federal Reserve meeting in April. Considering interest rate cuts are an inherently stimulative tool for markets, current bullish conditions do not require the stimulative effect. Additionally, as the most recent inflation rate reports have indicated an annual pace of 3% as of April 2024, the Federal Reserve is still 50% of the 2% target inflation rate. Therefore, despite the Fed effectively controlling inflation rates from its recent high of 9.1% in June 2022 through easing interest rates, the Federal Reserve's gap between its current (3.0%) and target (2.0%) inflation rates necessitates further data supporting greater control on inflation, before pulling the lever on interest rate cuts.

As previous speculations averaged an estimated 3 rate cuts (0.75%) throughout 2024 and 4 rate cuts (1.00%) throughout 2025 states CNBC, the narrative has reversed to not expecting rate cuts until March 2025 CNBC or September 2024 September 2024 . With unemployment rates maintained below 4% for the past 24 months, the lowest in the past 50 years, the FRB is not concerned with cutting rates to stimulate employment rates or economic activity. Conversely, the FRB does need to regain control of price stability by maintaining or potentially raising interest rates to establish confidence that inflation is sustainably closing in at 2%, as noted by Jerome Powell.



Source: Federal Reserve Bank of St. Louis, as of May 2024



Source: Federal Reserve Bank of St. Louis, as of May 2024

Why should the Federal Reserve remain cautious when considering lowering rates? Throughout the 1970's the Federal Reserve prematurely eased rates in 3 sequential attempts before successfully controlling inflation in 1980 after raising rates to an absurd 20%. Therefore, the OFMC is cautious not to release the lever on interest rates prematurely, thereby inhibiting any rebound effect on inflation this time around.

Jerome Powell, noted that the current 5.33% effective federal funds rate creates an equilibrium for allowing the FRB to ease rates if the market unexpectedly weakens into recession or maintain rates if inflationary measures continue to escalate. Therefore, concerning Howard Marks's view, we are currently in a restrictive environment. Once inflationary data consistently supports a 2% rate, interest rates can steadily ease into a neutral 2-4% range. Furthermore, the 0-2% between 09-'21 have been extremely low compared to the historical US Interest Rates of 4.64% since 1955, creating a stimulative, yet unsustainable economy benefiting borrowers and decrementing savers. Throughout the sustained restrictive interest rate environment, the attractive risk-reward outlook for quality bonds (both government and high-grade corporate) can provide attractive returns for invested cash and high-interest-yielding savings accounts for uninvested cash.

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Election Year

Economic Impacts of Legislative Changes

Economic impacts of presidential policy change?

The onset of the 2024 general election campaign marks a pivotal juncture in American politics. With Joe Biden and Donald Trump standing as the presumptive nominees for their respective parties, minds can begin to wander in reflection on the 2020 presidential election. Anticipation mounts for a vigorously contested campaign, characterized by the remarkedly contrasting viewpoints of Biden and Trump, particularly concerning pivotal issues such as taxation, industry regulation, and foreign policy, as per UBS. Although, domestic policy changes will vary immensely based on the eight theoretical outcomes between the simultaneous occurrence of presidential, senate, and house elections. According to UBS, geopolitical dynamics cast a significant shadow over the unfolding presidential contest, exacerbating the contrast between the party's viewpoints. Escalating conflicts in Ukraine and Gaza have fragmented American sentiment regarding the provision of additional financial and material support. Interrogations into the United States' steadfastness to its transatlantic alliances have emerged, paralleled by enduring tensions within the U.S.-China relationship. Furthermore, the permeable southern border with Mexico is a primary focal point of the campaign discourse. Notably, a growing fatigue amongst voters regarding the nation's extensive global obligations is discernible, with the resistance to foreign entanglements leading to implications for significant potential changes in global economics, markets, and world order.

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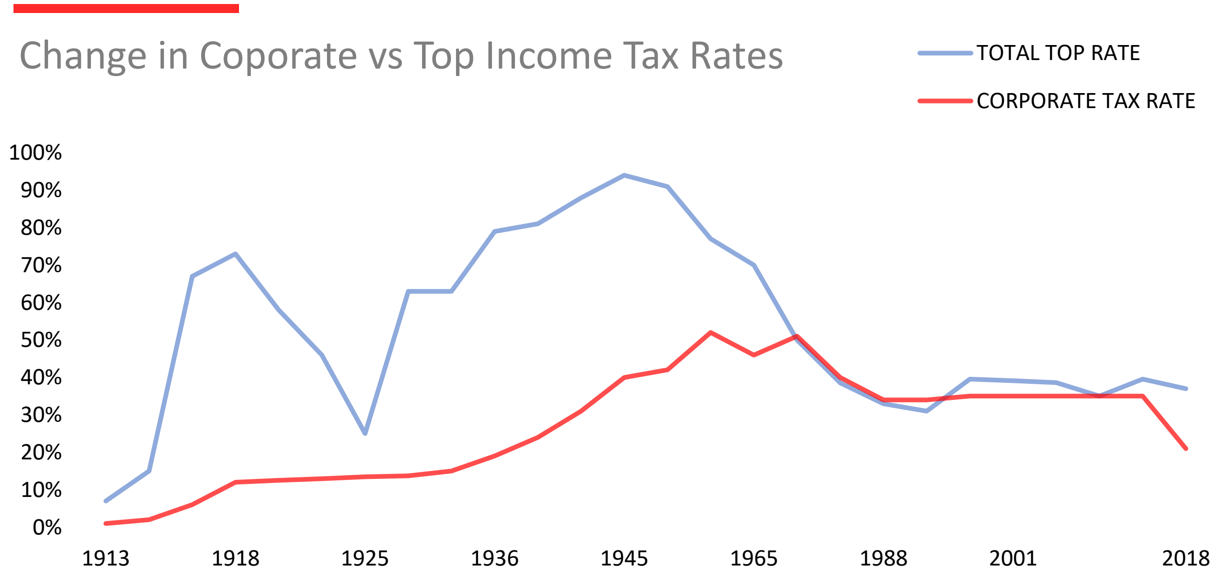


Source: U.S. Inflation Calculator, UBS, as of March 2024

Biden vs Trump Tax Policy Discrepancy:

Currently, there is a substantial $6 trillion disparity between the tax policies advocated by Biden and Trump, according to [3]WSJ. Trump's approach, initiated in 2017, entailed a reduction in the individual tax rate from a maximum of 39.6% to 37%, alongside an increase in standard deductions from $13,000 to $24,000, a doubling in size of child tax credits, and a significant corporate tax reduction from 35% to 21%, all meticulously designed to stimulate economic activity through fiscal policy. Trump intends to extend these tax cuts, estimating a $4 trillion government cost over the next decade, primarily allocated for sustaining reduced rates and expanding standard deductions, according to WSJ. Additionally, Trump proposes tax hikes for universal tariff's targeted to levy Chinese imports, creating potential supply chain disruptions and leading to potential retaliatory actions impacting various industries, as per a UBS report. In contrast, Biden proposes extending tax cuts for incomes below an annual $400,000 threshold while concurrently raising taxes for those surpassing this threshold, according to tax foundation. These tax raises include a proposed increase in the corporate tax rate to 28%, an increase in additional Medicare tax on high-income, an increase in capital income tax, and an imposed 25% minimum tax on the wealthiest taxpayers, projected to generate an estimated $1.83 trillion in federal revenue, as per WSJ. Biden aims to reconcile the $4 trillion coverage while maintaining continued tax cuts through raising over $2 trillion by increasing tax rates of corporations and highly wealthy individuals, and will likely focus on domestic manufacturing to restore U.S. production, as per a UBS. However, despite Democratic control of the House, Senate, and White House in 2021 and 2022, minimal tax increases were enacted, highlighting the intensity of the ongoing debate over tax policies. Although both parties concur on

[3] Richard Rubin, "$6 Trillion in Taxes Are at Stake in This Year's Elections." The Wall Street Journal. January 2024, https://www.wsj.com/politics/policy/6-trillion-in-taxes-are-at-stake-in-this-years-elections-ee4353ed

maintaining these tax cuts for income earners below the $400,000 annual threshold, the economic and political ramifications of potential tax legislation in 2025, particularly concerning corporate tax and high-income earners, remain contentious.

> "We advise investors consider a range of risk-mitigation strategies, starting with diversification by geography, asset class, sector, and security. Gold and oil have performed well in recent weeks, and we would expect prices to continue rising if geopolitical risks carry on escalating. Systematic allocation strategies and structured strategies may also prove helpful risk management tools."
>
> **Mark Haefele** Chief Investment Officer, UBS Global Wealth Management

Geopolitical Considerations

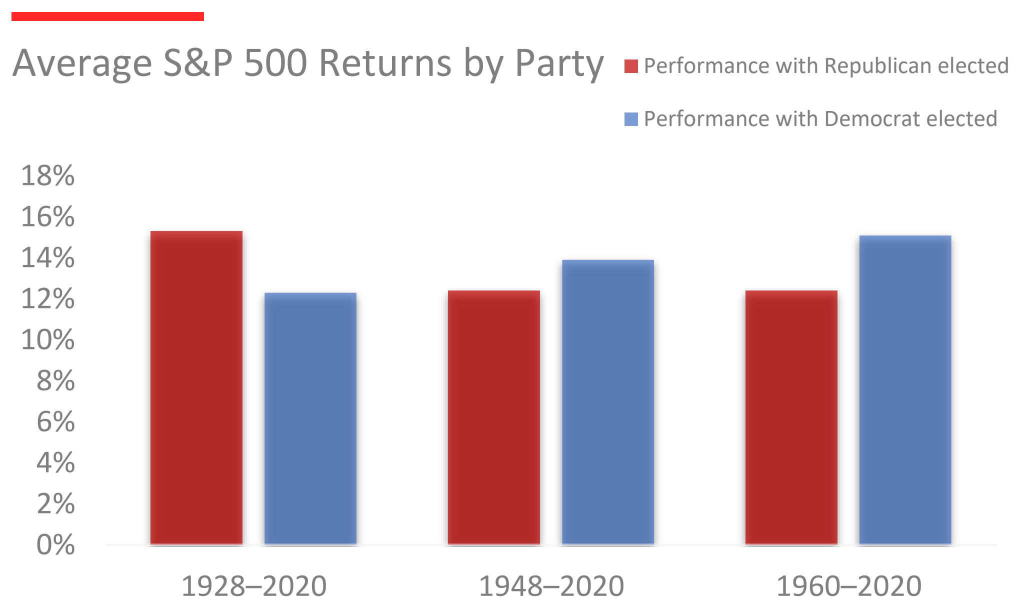
The creation of NATO in 1949 was a major shift from US isolationism, establishing collective security against the Soviet Union and becoming a key part of American foreign policy. Despite fluctuating opinions, NATO remains strongly supported by Americans. Donald Trump's recent comments suggesting leniency towards Russia on NATO obligations have raised concerns among allies, reflecting his view that the US bears too much of the monetary responsibility, according to UBS. If Trump returns to office, we could see a move towards transactional isolationism, with US support contingent on concessions from other nations and subject to congressional approval. NATO members, prompted by events like Russia's invasion of Ukraine, have increased defense spending, potentially heightening European military competition. Under a Trump administration, we can also expect continued or intensified trade tensions with China, with higher tariffs and stricter trade policies disrupting global supply chains and affecting industries reliant on Chinese manufacturing. Presidential campaigns often amplify geopolitical threats to enhance a candidate's leadership image. Trump appears to use this strategy to differentiate himself from Biden, making provocative statements to highlight his unique approach.

Immigration Differences:

According to a Pew Research survey, 75% of respondents prioritize strengthening the economy when voting for a presidential candidate, underscoring the traditional influence of the domestic economy on election outcomes. However, immigration has recently surged as a top concern, with 60% of those surveyed now viewing it as a major policy priority. This shift is driven by notable partisan differences and heightened focus on the southern border due to increased crossings. Immigration may thus become a decisive factor in the next presidential election. Beyond the usual challenges illegal immigration poses for state and local governments—such as increased spending on social services and public safety—the resulting population growth might help minimize inflationary pressures. UBS notes that the issue's importance is highlighted by both Biden and Trump's visits to the southern border, reflecting their differing approaches. This will likely remain a key factor motivating Republican voters throughout the election.

Politics & Market Performance:

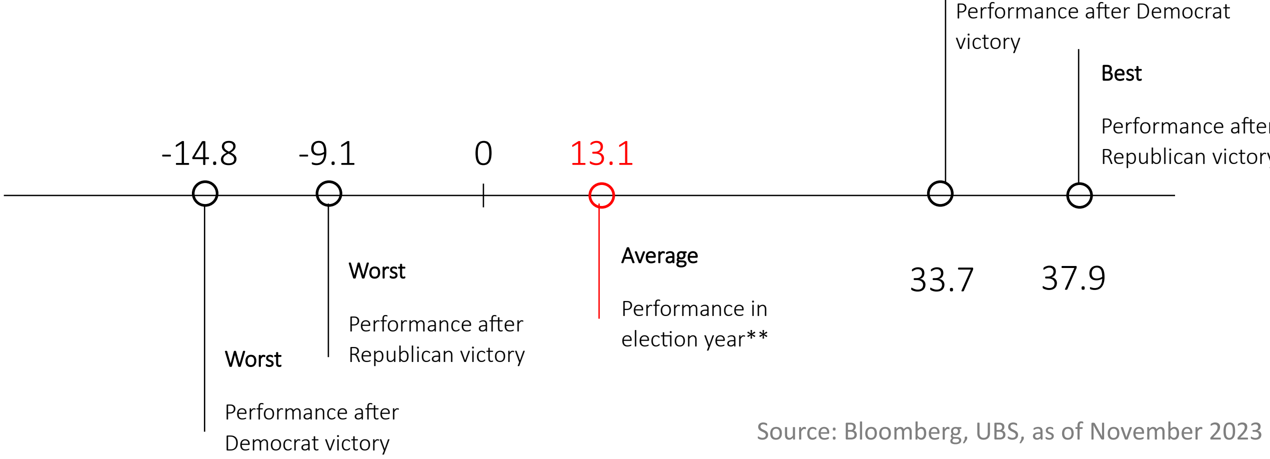
While predictions for the long-term impacts on markets based on presidential candidates are unreliable, speculation for the short-term implications can prepare investors to formulate a plan. Subsequently, investors are advised to maintain a nonpartisan approach to portfolio construction. The upcoming months leading to November are expected to be condensed with media coverage, creating equity market volatility due to investor aversion to uncertainty. However, government policy is just a single factor influencing markets, alongside Federal Reserve actions, inflation, market sentiment, and corporate profit growth. According to UBS, given the partisan divide, passing significant legislation revisions may prove challenging, specifically with tax policy, as both parties fight to advance their agendas amidst the expiration of the upcoming tax provisions by the end of 2025. All in all, investors are encouraged to avoid politics when regarding their portfolios.



Source: Bloomberg, UBS, as of March 2024

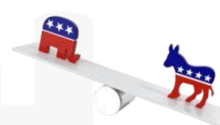
Given the unpredictability surrounding the current market conditions, finding comfort in an apolitical portfolio is resolidified. Constructing a diversified portfolio, capitalizing on high-bond yields, and maintaining equity holdings supported by solid earnings growth, suspected Fed rate cuts, and soaring investments in AI. According to the UBS CIO, the S&P 500 excluding the Magnificent 7 will be beneficiaries contributing to a year-end pricing of around 5,500. Therefore, reliable investment approaches are supported by a well-diversified balance of equities and high-quality bonds, despite apprehensive market sentiment surrounding the presidential election. Likely economic and market scenarios resulting from the 4 most likely political election outcomes are listed below, as per UBS.

Do Elections Effect Markets?



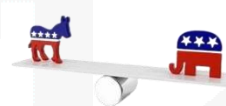
Source: Bloomberg, UBS, as of November 2023

Biden & Blue Sweep



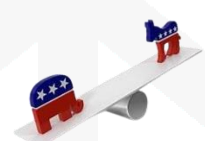
Potential adverse effects on equity markets from likely increased corporate tax rate hikes and potential decrease in consumer spending an expiration of select personal tax cuts, increased capital gains, and increased estate tax . Regulatory pressures could intensify within specific industries.

Biden & Split Congress



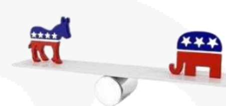
Likely limited policy changes enacted, creating very little effect on financial markets. Increased highest income earner tax rate, no change in capital gains or estate tax. Likely, extensive on executive measures and regulatory supervision to advance its agenda.

Trump & Red Sweep



Likely that the 2017 tax cuts will be extended, with possible further reduction in corporate tax rates, potentially financed by scaling back support for green energy initiatives. Equity markets could initially react favorably to lower taxes and less regulation, as well as an initial influx in interest rates and the dollar with the financial sector notably benefiting.

Trump & Split Congress



Likely characterized by heightened tariffs and a relaxation of regulations. This blend would likely produce an unpredictable effect on equity markets, moderate upticks interest rates and the dollar, with the financial sector notably benefiting.

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TURNING
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The Great Wealth Transfer

Histories Largest Transfer of Wealth

The USD 30 Trillion Transfer of Wealth

In 1945, the aftermath of World War II left the U.S. as one of the only functioning manufacturing hubs globally, ushering in an era of unparalleled economic prosperity. This period of growth coincided with a significant spike in birthrates, positioning the Baby Boomer generation to oversee the largest wealth transfer in history, estimated at $30 trillion in the U.S. alone. This massive capital movement will have profound economic ripple effects, both immediate and long-term. Collectively, the estimated inheritance stands at around $72 trillion, with Baby Boomers, Gen X, Millennials, and Gen Z inheriting approximately $4 trillion, $30 trillion, $27 trillion, and $11 trillion, respectively. The global inheritance is projected to be around $100 trillion, with $30 trillion in the U.S., divided into $9 trillion in liquid/semi-liquid assets and $21 trillion from private companies and trusts. As Boomers, born between 1946-1964, approach an average life expectancy of 85.35 years, the Great Wealth Transfer is anticipated to occur from 2031-2049.

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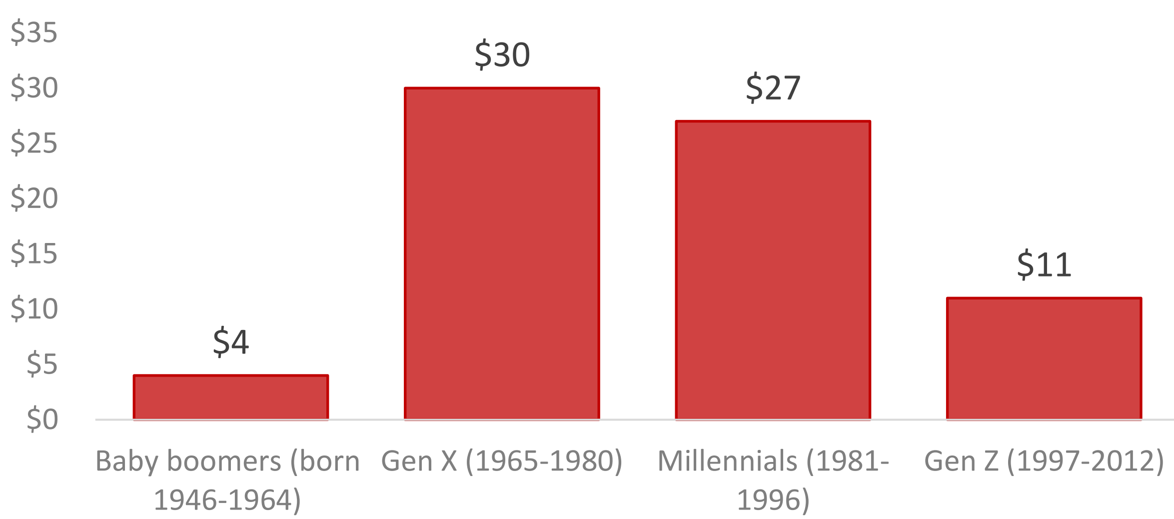
Estimated wealth to be inherited through 2045, by generation
USD Trillions



Source: Cerulli Associates, “The Cerulli Report: U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2021

Economic Implications

Despite the intuitive notion that an influx of inherited wealth would boost demand, this may not necessarily lead to sustained economic prosperity for the inheriting generation. A paper from the American Economic Review suggests that 70% of households spend their inheritance within five years. This trend is compounded by an increasing marginal propensity to spend rather than save. Smaller inheritances, in particular, are often quickly depleted. Additionally, a 2016 Gallop poll found that only 25% of Americans invest directly in shares outside of their 401(k) and Roth IRA, due to market risk fears. With the median inheritance at $69,000 and the mean at $707,000, most beneficiaries are likely to use this cash for short-term needs rather than long-term investments. In 2024, the average student debt is estimated around $37,850 and overall debt averages $104,215, suggesting that many will prioritize debt repayment, providing financial relief but limited impact on investments or discretionary spending.

Although the $9 trillion wealth transfer might minimally influence GDP and long-term wealth building for the next generation, the $21 trillion from private companies and trusts tells a different story. According to Forbes, only 33% of family-run businesses survive the second generation, and just 16.5% to the third generation. This poses a significant economic challenge, as small and medium-sized family businesses constituted 50% of the GNP in 2019. The transfer of these businesses could lead to job losses, productivity declines, and supply chain issues globally. New businesses will emerge, but the transition could cause structural inefficiencies during this "Post-Boomer Boom."

How is this Transfer Managed?

While the 40% estate tax on estates valued over $13.61 million ($27.22 million for married couples) will primarily affect the wealthiest estates and small-medium businesses, the effects can be drastic for some, forcing beneficiaries to sell assets or entire businesses to meet tax obligations. However, proper valuation and succession planning can mitigate some negative impacts, making these effects are not as negatively impactful as suspected

As with any significant economic shift, there will be both winners and losers, and the effects will reverberate through the economy. While the Great Wealth Transfer might temporarily stimulate the economy and provide relief for a generation burdened with debt and stagnant wages, it could also disrupt the broader U.S. and global economy by impacting small-medium private companies and limiting consumer spending, especially in the absence of strategic estate planning.

2024 State Estate Taxes and State Inheritance Taxes

State	Estate Tax Exemption	Estate Tax Rate	Inheritance Tax Rate
Connecticut	$12,920,000	12%	
Hawaii	$5,490,000	10.0%-20.0%	
Illinois	$4,000,000	0.8%-16.0%	
Iowa			5%-15%
Kentucky			4%-16%
Main	$6,410,000	8.0%-12.0%	
Maryland	$5,000,000	0.8%-16.0%	0%-10%
Massachusetts	$1,000,000	0.8%-16.0%	
Minnesota	$3,000,000	13.0%-16.0%	
Nebraska			0%-15%
New Jersey			11%-16%
New York	$6,580,000	3.06%-16.0%	
Oregon	$1,000,000	10.0%-16.0%	
Pennsylvania			4.5%-15%
Rhode Island	$1,733,264	0.8%-16.0%	
Vermont	$5,000,000	16%	
Washington	$2,193,000	10.0%-20.0%	
District of Columbia	$4,528.800	11.2%-16.0%	

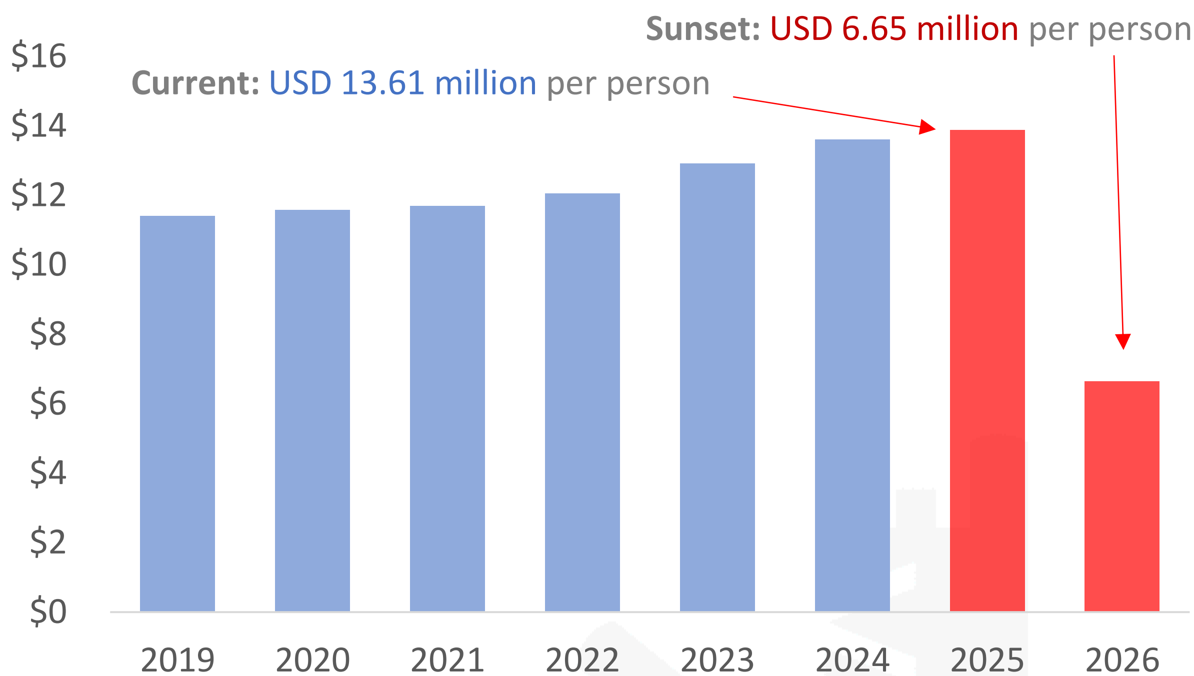
Source: Lara Sass & Associates, as of 2024

Strategizing for Major Wealth Transitions

To navigate this major wealth transition, it is essential to begin estate planning early. Despite current laws allowing a $13.61 million exemption from the gift or estate tax at a 40% rate, this threshold will adjust for inflation through 2025 and then drop to an inflation adjusted $5 million in 2026 due to the Tax Cuts and Jobs Act provision, according to UBS.. This will subject many more individuals to the 40% estate tax rate. Any amount exceeding the $13.61 M will be taxed according to the tax brackets in "2023 State Estate Taxes and State Inheritance Taxes" Table. Any amount with the $13.61M is considered a federal state tax exemption, which will change to $6.80M in 2026. While there is no state estate tax or inheritance tax in most states, the following doe enforce one or both of the taxes; WA, OR, MN, NE, IA, IL, KY, NY, PA, MA, RI, CT, NJ, DE, MD, and DC, according to Tax Foundation. Therefore, initiating estate planning conversations within 2024-2025 is crucial to take advantage of the current exemptions.

Whether transferring wealth to heirs or charities, implementing adequate capital preservation strategies within a trust, maximizing estate and gift tax exemptions, and establishing disciplined financial habits, such as the 4% distribution rule, monitoring RMDs, and investing according to time horizons, are fundamental to avoiding unnecessary losses during retirement.

Lifetime Gift & Estate Tax Exemptions



Source: Bloomberg, UBS, as of November 2023

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Investment Outlook

How to Invest for Quarter 3

Overarching Viewpoint

In the evolving landscape of the US economy, we're witnessing inflation easing, a robust labor market, anticipated interest rate cuts, and a potential decline in growth. This resilience underscores the wisdom of maintaining a balanced portfolio, which allows investors to navigate and capitalize on the diverse outcomes that the coming year may bring. The recent GDP growth, even amid higher interest rates compared to the last decade, highlights promising investment opportunities across equities, fixed income, private markets, and alternative assets. With stagnant interest rates at elevated levels, inflation is suspected to ease throughout the year to 2–2.5% range by year end, the attractiveness of high-quality bonds grows, according to UBS CIO. In this bull case scenario, encompassing both drastic control on inflation, UBS believes the S&P 500 could climb to approximately 5,500 by year-end, even with a 10-year Treasury yield at 5%.

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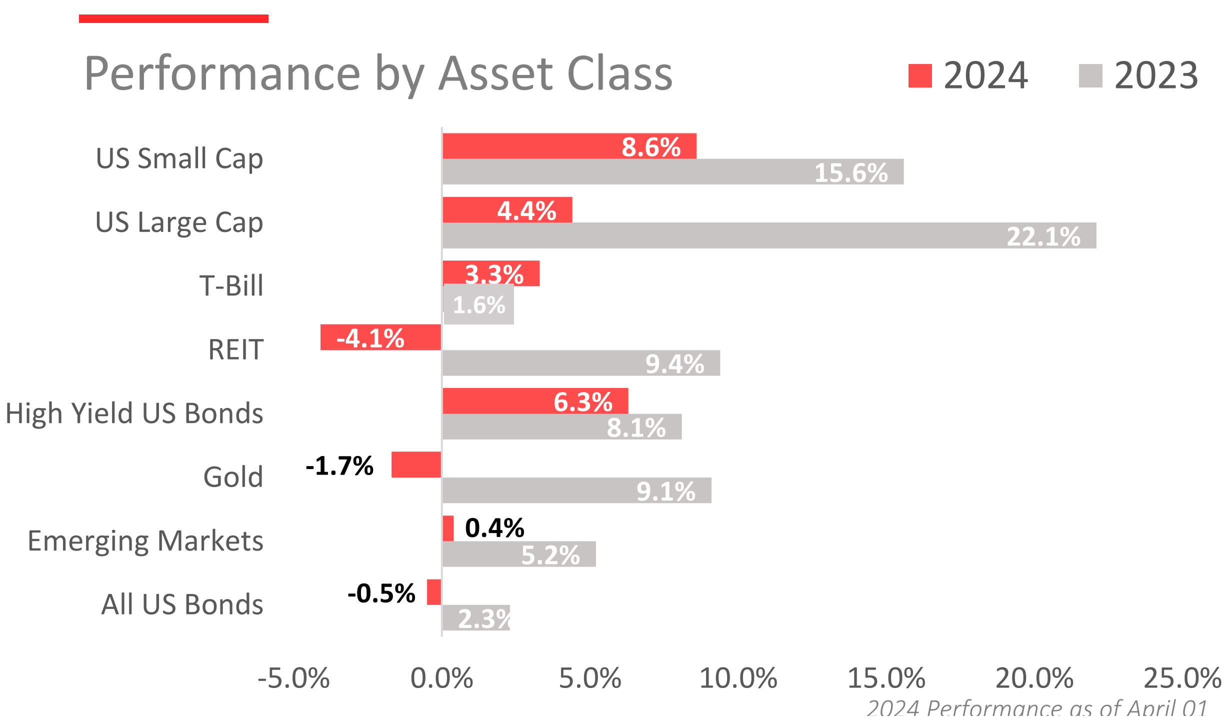

Source: BlackRock, as of May 2024

Economics

In 2023, US economic growth surpassed expectations, buoyed by excess consumer savings. Looking ahead to 2024, UBS CIO projects a slowdown in growth. The high-interest rate environment, the steepest since 2001, is likely to dampen spending as borrowing costs rise. This trend will likely affect larger purchases dependent on borrowing, such as homes and automobiles. Households face additional pressures from the end of childcare subsidies, reductions in Medicaid rolls, and the resumption of student loan payments. As a result, savings rates are expected to increase, reflecting a more cautious economic sentiment.

Despite the anticipated slowdown, a significant contraction in activity is not expected. Historically, recessions have often followed rate hikes, but UBS there are reasons for optimism. Job security remains robust among the middle class, investment spending in AI semiconductors, infrastructure, and green energy integration is expected to be substantial, and business balance sheets are strong. These factors collectively suggest that while growth may slow, a full-blown contraction is unlikely, as per UBS.

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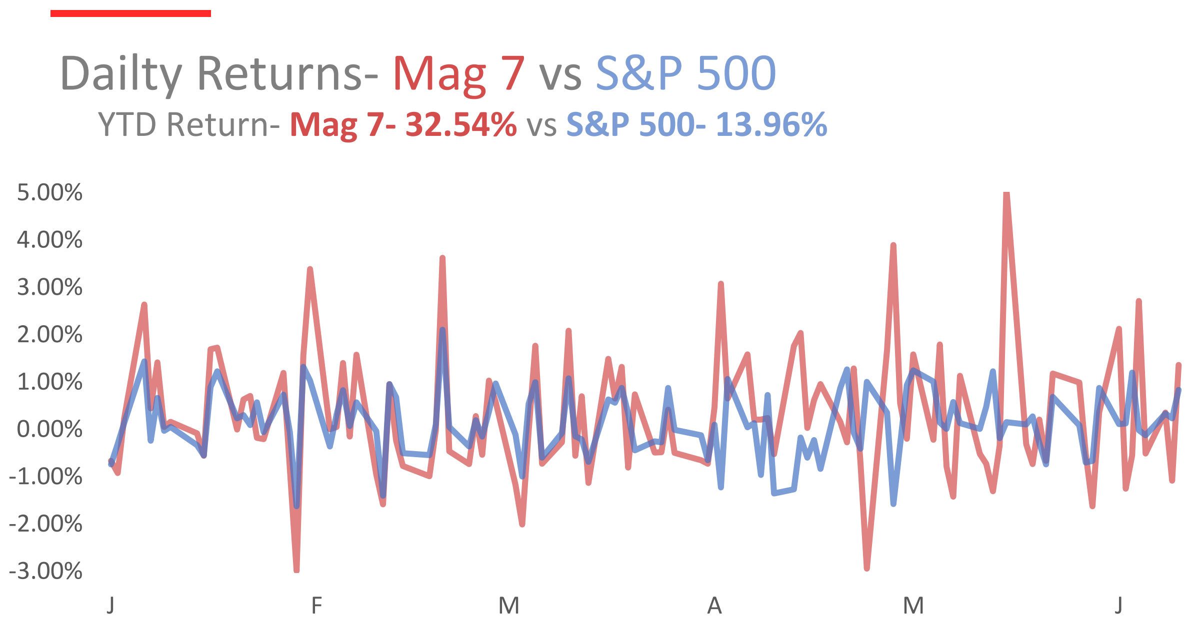
Equities

As 2023 drew to a close, UBS maintained a neutral stance on equities. Moving into 2024, an AI-driven rally propelled select equities to remarkable growth, bolstering the broader equity market. As of June 13, 2024, the S&P 500 is up 13.92%, Stoxx 600 up 7.73%, and MSCI Emerging Markets up 4.11% year-to-date. UBS projects that equities will deliver the highest returns among major asset classes over the next decade. Aggregate earnings growth is expected to be supported by strong performance from companies driving innovation in technology, energy, and healthcare, with substantial growth potential still untapped in generative AI.

Historically, innovation thrives on infrastructure and inputs, developing new hardware operating on platforms provided by key enablers, ultimately benefiting the broader economy, as seen with history's most influential innovations, such as the computer, internet, and mobile internet, followed a similar path. As for Generative AI this theme has proven resilient, with businesses monetarily capitalizing from each phase within the value chain. For infrastructure, it consists of cloud computing, providing the necessary computing power, akin to towers and semiconductors for mobile internet. Hardware manufacturers, such as GPU producers, are pivotal in training neural networks, analogous to smartphones for mobile internet. Operators and enablers of large language models (LLMs) play a critical role, similar to iOS and Android in the mobile internet era. Application beneficiaries will develop ecosystems around AI technologies, much like social media, e-commerce, and the gig economy did with mobile internet. A distinguishing feature of generative AI's implementation is the simultaneous development across multiple stages of the value chain from the outset.



Source: Yahoo Finance, as of June 2024

Key companies, including the "Magnificent 7" (NVDA, AAPL, META, TSLA, AMZN, GOOGL, & MSFT), are already capitalizing on generative AI. Despite TSLA's underperformance, the "Mag 7" have continued outpaced the broader market, closing in on the second quarter with a 32.54% YTD increase versus the S&P 500's 13.92% YTD as of June 12.

Adoption in AI is growing. According to a US Census Bureau Business Trends and Outlook Survey, the first quarter of 2024, 5.4-9% of companies reported implementing AI, a 0.9–1.7% increase from third quarter 2023. Responses furthered AI adoption confidence, forecasting a potential increase of 6.6–12% over the next six months, according to UBS. Continual adoption of AI technology and its magnetizability will advance investor confidence in the longevity of AI.

AI-related opportunities span infrastructure, manufacturing, operations, and applications. Semiconductor companies should see robust demand in the near term; product launches from the Magnificent 7 are likely to sustain momentum; and internet stocks should benefit as AI becomes more integrated into consumer applications like gaming, entertainment, and advertising, as per UBS CIO. Along with the long-term growth potential, investors should brace for potential short-term volatility or market corrections. Historical technology booms often experience an initial surge followed by a period of adjustment. For long-term investors, these periods can offer attractive entry points to increase exposure. Therefore, while incorporating AI technology is essential in a portfolio, maintaining high diversification across various asset classes and cautious approach is crucial to mitigate overexposure amongst opportunity.

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Fixed Income

As May confirms a continuation of the downward trend in CPI, falling to 3.3% from March's 3.5% and April's 3.4%, UBS CIO April in Review anticipates CPI inflation to approach the target range by year-end, settling around 2-2.5%. This disinflationary trend is bolstered by expected decreases in shelter inflation, a historically low U.S. savings rate of 3.6% indicative of unsustainable consumer spending, slowing wage growth, and strong resistance to price hikes, according to UBS CIO.

Despite Q1 inflationary trends diverging from public consensus, recent developments suggest that U.S. rate cuts are postponed rather than canceled. Initial expectations of 4-6 rate cuts amounting to 1-1.5% have been revised to approximately per 2 cuts, totaling 0.5%, projected for September and December. The Fed remains cautious about reducing rates too soon to ensure price stability and full employment, particularly before the U.S. presidential election, avoiding a repeat of the 1970s inflationary rebound.

Currently, markets are anticipating that the Fed will maintain rates above 4.2% over the next five years. However, given the high probability of encountering at least one recessionary period, it's unlikely that rates will remain above 4.2% throughout this duration. With an expected slight deceleration in economic growth in 2024, UBS forecasts the 10-year US Treasury yield to fall to 3.5% by the end of 2024, down from its current level of 4.21% as of June 14.

Cash Positions

Despite the appeal of high-yielding cash positions, it's crucial to recognize that interest rates are expected to decline in the coming years. Holding onto excessive cash could hinder your ability to optimize returns. Given that cash is likely to underperform compared to other major asset classes, it's advisable to maintain only 2-5 years' worth of expected needs for liquidity purposes. This approach ensures you are strategically positioned to capitalize on better-performing assets while meeting your liquidity requirements

With unexpected economic growth and a resilient labor market, bond yields are rising. This surprising trend underscores the attractiveness of quality bonds, which now offer appealing yields and potential for capital appreciation, especially if markets start adjusting their interest rate expectations downward for 2024. The long-term outlook for government bonds remains strong, with promising near-term returns as inflation and growth moderate. While yields are expected to decline, they will likely stay above pre-pandemic levels, as per UBS. Therefore, investors should maintain exposure to quality bonds, including investment-grade, strategically leveraging the current attractive yields based on their time horizons and liquidity needs.

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Alternatives

According to UBS CIO, incorporating a 20% allocation to alternatives in a balanced portfolio could boost expected returns by approximately 50 basis points annually over the long term, without increasing risk. In an environment characterized by higher rates and attractive returns for traditional assets, opportunities for alternative investments—such as hedge funds, currencies, and commodities—become more appealing. This strategy enhances portfolio diversification and capitalizes on the favorable conditions for alternatives.

Diversifying between equities and bonds generally safeguards a portfolio, as these two asset classes are typically uncorrelated in controlled inflationary environments. However, during inflationary periods, equities and fixed income often move in tandem, prompting investors to seek uncorrelated alternative investments. When stock-bond correlations rise, hedge funds offer valuable diversification. By employing equity-market neutral and specialist credit strategies, these funds can deliver differentiated returns by capitalizing on the significant disparity between the strongest and weakest companies. As of April, hedge funds limited losses to -0.7% month-over-month (+3.7% year-to-date), while traditional benchmarks like the S&P 500 Index fell by -3.9% month-over-month, according to UBS.

Given the Fed rate cut expectations in September, the U.S. dollar is anticipated to hold its value in the coming months. However, UBS projects rate cuts by the European Central Bank in June and the Bank of England in August. As a result, UBS expects the EURUSD to hover around 1.05 in the short term and reach 1.09 by the end of the year.

For 2024, Solita Marcelli, CIO for the Americas at UBS Global Wealth Management projects overall commodity indexes to gain around 10% over the next 6-12 months. Despite a stable US dollar, UBS sees significant value in including both oil and gold in a portfolio, particularly as protection for geopolitical risks. The current low supply of oil supports premium pricing, while gold prices are expected to rise further, potentially reaching USD 2,500/oz by year-end, according to, UBS. With heightened volatility in the tech sector, supply-side constraints, and anticipated interest rate cuts, commodities offer both opportunity and diversification for an overall portfolio strategy.

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A Balanced Portfolio

Identifying key investment opportunities is just one aspect of a comprehensive financial strategy. To simplify this complex journey, the Liquidity. Longevity. Legacy. framework segments your wealth-building strategy into three categories that align with your liquidity needs and time horizon. Liquidity targets short-term spending needs, typically investing in cash or cash-like securities for the next 2-5 years. Longevity focuses on investing throughout an investor's lifetime, providing income through a well-diversified, balanced portfolio of risk and return. Legacy aims beyond an investor's lifetime, maximizing assets for future generations or philanthropic endeavors. For investors to effectively grow their wealth over a lifetime, a balanced portfolio diversified across various assets is crucial for achieving adequate returns and managing risk. Building a clear financial plan, considering required rates of return, and understanding one's tolerance for volatility and risk are essential first steps. Given the positive outlook on equity markets, fixed income markets, and alternatives over the next year, it is more critical than ever to maintain sufficient diversification to navigate unpredictable periods.

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" It's only by looking at the rise and fall of various asset classes over time that you can truly understand the importance of diversification and the full value of a disciplined asset allocation approach. "

Mark Haefele Chief Investment Officer, UBS Global Wealth Management

Key Takeaways

An Approach to Current Conditions

The US economy shows resilience with easing inflation, a robust labor market, and potential interest rate cuts, though growth is expected to slow in 2024 due to borrowing costs and policy changes. Equities, especially in tech and AI sectors, are poised for growth, exemplified by Nvidia's significant gains. Diversification across asset classes, regions, and sectors remains crucial amid geopolitical tensions and interest rate uncertainties. High-quality bonds and alternative investments offer opportunities amidst economic shifts.

As investors navigate the uncertainties within the market, it becomes apparent to familiarize oneself with trends that may arise in the 2024 election, introducing increasing volatility with policy contrasts between candidates Biden and Trump, influencing tax policies and geopolitical relations. Investors should diversify globally, monitor tax policy changes, and prepare for potential market disruptions based on election outcomes. Focus on maintaining a neutral stance to navigate policy shifts and Federal Reserve actions impacting markets.

Amidst the upcoming policy changes, such as the Tax Cuts and Jobs Act provision, the $30 trillion wealth transfer from Baby Boomers to younger generations from 2031-2049 poses its own complexities. Early estate planning, strategic financial management, and debt management are critical. Encouraging long-term investments and robust succession planning for family businesses mitigate risks associated with inheritance and economic disruptions. Diversifying investments and monitoring economic trends are key amidst this generational wealth shift. Nevertheless, maintaining a balanced portfolio and strategic focus remains paramount above all else.

Sustaining a balanced portfolio involves exposure across equities, fixed income, and alternatives to navigate economic uncertainties and capitalize on growth opportunities. Embracing AI-driven sectors and quality bonds while monitoring economic shifts and adjusting strategies accordingly. Focus on long-term growth, review portfolios regularly, and leverage market corrections for strategic investments.

By integrating these insights, investors can effectively navigate current market conditions, prepare for potential election impacts, manage the wealth transfer process, and optimize their investment strategies for long-term growth and stability. While it is important to remain vigilant in the pursuit for higher yields and returns, remain cautious and allow wisdom guide you towards financial prosperity.

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