Year Ahead 2025

Roaring 20s: The next stage

Chief Investment Office GWM | Investment Research

Year Ahead 2025 – UBS House View

This report has been prepared by UBS AG, UBS AG London Branch,
UBS Switzerland AG, UBS Financial Services Inc. (UBS FS),
UBS AG Singapore Branch, UBS AG Hong Kong Branch, and
UBS SuMi TRUST Wealth Management Co., Ltd.

Foreword

Welcome to the *Year Ahead 2025*

Dear reader,

We are approaching the midpoint of a decade that has brought rising equity markets, solid economic growth, and technological breakthroughs. Of course, this decade has also brought a global pandemic, the outbreak of wars, and societal challenges.

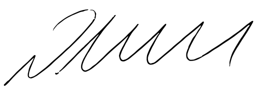
In this *Year Ahead*, we look at key developments that we believe will shape the next stage of these "Roaring 20s," including US political change, falling interest rates, and transformational innovation in artificial intelligence and in power and resources.

Our commitment to you, our valued clients, is to provide you with insightful guidance and foresight now and for the years to come. We look forward to navigating the year ahead together with confidence and purpose, seizing opportunities to meet your financial goals.

Thank you for your continued trust and partnership.

Warm regards,

Rob Karofsky
Co-President Global Wealth Management
and President UBS Americas



Iqbal Khan
Co-President Global Wealth Management
and President UBS Asia Pacific

Roaring 20s:

The next stage

Mark Haefele
Chief Investment Officer
Global Wealth Management

Since the start of the 2020s, global equity markets are up by around 50%, US nominal GDP has increased by over 30%, and US corporate profits are up nearly 70%. All that in spite of unprecedented global lockdowns, the outbreak of wars in Eastern Europe and the Middle East, and the largest spike in interest rates and inflation in decades.

The market and economic developments have led some to term the decade so far as the "Roaring 20s," marked by high economic growth, strong market returns, and improving productivity.

We are now approaching the midpoint of the decade, and the implications of the US election result are a focal point. A key question is whether US political change might extend or end the Roaring 20s.

The upside scenario would see lower taxes, deregulation, and trade deals adding to a positive market narrative built on solid growth and continued investment in artificial intelligence. The risk scenario is that trade tariffs, excessive fiscal deficits, and geopolitical strife will contribute to higher inflation, weaker growth, and market volatility.

As we consider a wider range of market outcomes ahead, the unpredictability of this decade so far should remind us of the importance of humility and market diversification. But it should also remind us of the adaptability of the economy, the power of innovation, and the potential for long-term market growth.

In *Year Ahead 2025*, we highlight the investment opportunities and strategies to help investors capture opportunities and manage risks as the decade enters its next stage.

What does this mean for investors?
In our base case, we believe that central banks are poised to cut interest rates further in the year ahead and that returns on cash will fall. As such, we believe investors should *position for lower rates* by putting cash to work in investment grade bonds, diversified fixed income strategies, and equity income strategies to sustain portfolio income.

We continue to believe that *artificial intelligence* is positioned to be the investment opportunity of the decade. To capitalize, investors should focus on both listed megacaps and innovative private companies. Rising electricity demand and decarbonization goals should also create a significant long-term opportunity in companies related to *power and resources*.

We think there is *more to go in equities*. With markets powered by falling interest rates, solid economic growth, and transformational innovations, we expect the S&P 500 to reach 6,600 by the end of 2025—around a 10% price return from current levels. Tariffs and geopolitical uncertainty are likely to contribute to volatility for European and Chinese markets in the year ahead.

> Lower returns on cash entering 2025 offer an opportunity to add to stocks and bonds.

While tariffs are a concern, they should not completely overshadow the opportunities outside the US. We see value in maintaining diversified exposure to Asia ex-Japan. Korea's and Taiwan's exports, crucial to global supply chains, are less likely to be affected by tariffs owing to their non-substitutable nature. India offers a compelling domestic growth story, and we remain positive on China's internet stocks, which could benefit from potential stimulus measures. In Europe, our focus is on small- and mid-cap stocks in the Eurozone, as well as Swiss high-quality dividend payers.

In currencies, tax cuts, immigration controls, and tariffs are likely to provide short-term support for the dollar. While further near-term strength cannot be ruled out, we believe the dollar is currently overvalued and overextended. Investors should consider *selling further dollar strength*.

In commodities, we expect *gold* to break new highs and anticipate higher prices for "transition" metals like copper, lithium, and nickel. We also think the outlook for global residential and commercial *real estate* is bright amid constrained supply and rising demand.

> Embracing near-term opportunities in a well-crafted strategic plan can help build resilient and profitable portfolios.

Thinking strategically
Beyond some of the specific ideas we present in this Year Ahead, we also provide a number of strategic focus areas that can help investors plan ahead and build better long-term portfolios.

These include: putting cash to work, strengthening your core, diversifying with alternatives, optimizing leverage, being active with managing your investments, and considering going sustainable.

By thoughtfully embracing near-term opportunities within the framework of a well-crafted strategic plan, we are confident that investors can build resilient and profitable portfolios. As we reach the midpoint of this dynamic and transformative decade, we extend our best wishes for a prosperous and successful year ahead.

To find out more about the *Year Ahead 2025*, visit ubs.com/yearahead

2024 in review

Growth
We anticipated a deceleration in growth for 2024, but expected the economy to avoid a recession. Growth exceeded expectations. Developed economies are on track to grow by 1.7% in 2024 versus our estimate of 1.1%, with US economic outperformance a key driver. Emerging market growth also looks set to modestly exceed our forecasts (4.4% versus 3.9% expected).

Inflation and rates
Inflation fell more slowly in 2024 than in 2023, but continued to move down toward central bank targets. We anticipated 50 basis points of rate cuts from the Federal Reserve in 2024. The Fed has already cut rates by 75bps, and we think another 25bp rate cut is possible before the end of 2024.

Bonds
We projected positive returns from quality bonds and forecast that the 10-year US yield would fall to 3.5% by the end of 2024. By September 2024, yields had fallen to 3.6%. But stronger economic growth data and anticipation of higher inflation under a new US administration supported yields later in the year, pushing them up to 4.4% at the time of writing. Investment grade bonds have returned near 3% year-to-date.

Equities
We expected positive returns for stocks in 2024 and advocated a focus on quality companies, including those in the technology sector. Returns exceeded our expectations, with the MSCI AC World index delivering a 15.9% year-to-date price gain in US dollars. The MSCI AC World Quality and MSCI AC World Technology indices are up by 18% and 27.3%, respectively, this year.

Currencies
Our message in currencies last year was to "trade the range." We expected EURUSD to trade between 1.00 and 1.12 and USDCHF to trade between 0.85 and 0.94. Those ranges have held through the year, with EURUSD currently trading near the middle of this range, close to where it was 12 months ago.

Commodities
We expected gold to break new record highs, forecasting it to rise to USD 2,150/oz (from USD 1,950/oz at the time of writing). It overshot our initial expectations, closing as high as USD 2,790/oz in October. Oil helped hedge geopolitical risks in the first half of the year but ultimately fell short of our expectations of USD 90-100/bbl, with Brent crude trading at USD 71/bbl at the time of writing.

Economic outlook

In our base case, we expect sustained economic growth in the US, supported by healthy consumption, loose fiscal policy, and lower interest rates. Tariff threats are a headwind for Asia and Europe. If imposed, they could be partially offset by reactive stimulus measures in China. We expect growth in Europe to modestly improve as interest rates fall.

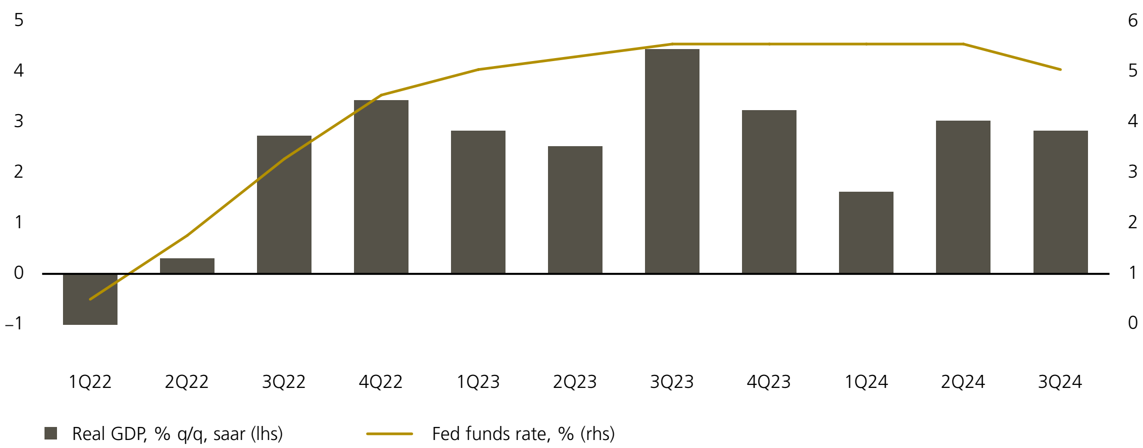
US: Slower but solid

Over the past two years, the US economy has defied expectations that higher interest rates would provoke a sharp slowdown. In 2024, nonfarm payroll growth averaged 170,000 per month, and GDP growth estimates point to a 2.7% rate for the full year.

In the year ahead, we expect US economic growth to slow somewhat but remain close to 2%. We believe many of the key factors that have sustained US economic growth in recent years are likely to persist.

Solid US growth despite sharp rate hikes

US real GDP growth and federal funds rate, upper bound



Sources: Bloomberg, UBS, as of November 2024

Strong incomes support spending

Strong income growth is enabling consumers to increase spending while maintaining decent savings rates. This suggests that consumption can stay robust, provided the labor market remains healthy. Unemployment has started to rise but remains low by historical standards.

We also expect inflation to keep falling, even if selective tariffs contribute to a one-off increase in some prices. US goods prices have been in deflation for the past three years, while stubbornly high shelter prices are easing. In our view, the Fed is likely to look past tariff-induced price increases and will cut interest rates by a further 100bps during 2025, bringing rates close to our estimate of neutral (3.25-3.50%) by the end of the year. Lower rates should ease pressure on indebted households and businesses, and improve conditions in interest-rate-sensitive parts of the economy.

Tax cuts and deregulation under President Trump may further bolster the US economy.

Risks to watch

We are monitoring potential risks. While we do not believe selective tariffs on US imports from other countries are sufficient to derail US growth, blanket tariffs would increase the risk of US stagflation.

> We expect US economic growth to slow slightly but remain close to 2%.

Limits on migration introduced in mid-2024, and potential future limits on migrant labor supply, are likely to mean slower labor supply growth. This could cause inflation to remain more stubborn than expected and could limit overall GDP growth.

We also note that US fiscal policy is unsustainable over the long term. We expect a budget deficit in excess of 6% in 2025 for the fourth consecutive year. We do not expect any major measures to address the deficit to be introduced in the near term, and there is a risk that higher long-term borrowing costs weigh on US growth.

Asia: Divergence amid slower growth

We forecast slightly slower growth in Asia in 2025, with regional variations.

China: Tariff headwinds
In our base case, we anticipate the Trump administration will introduce additional selective tariffs on US imports from China, increasing the effective rate from about 10% to 30% by end-2026. In a risk scenario, a 60% blanket tariff could make much of US-China trade unviable.

However, China's CNY 10 trillion local government debt resolution plan should help mitigate risks, and Beijing appears ready to boost economic stimulus if needed.

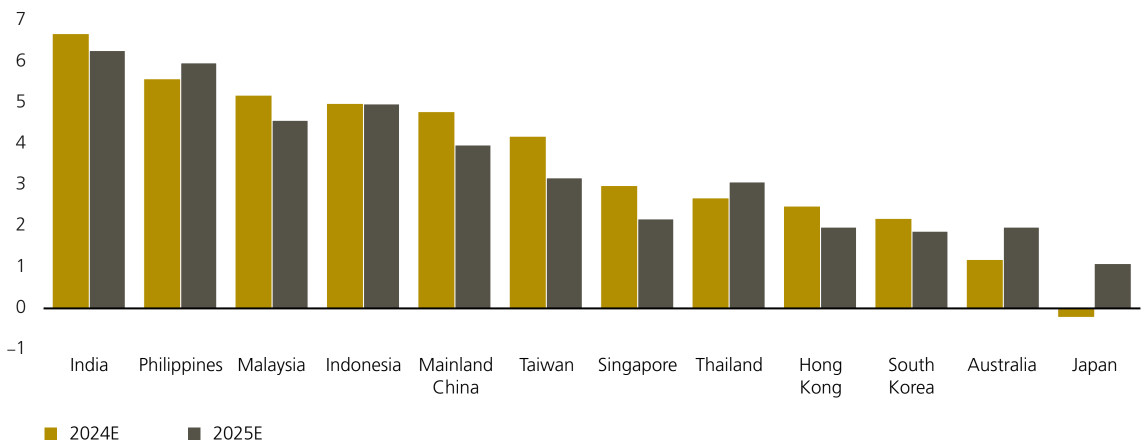
We expect China's growth to move from 4.8% in 2024 to 4.0% in 2025.

Robust growth in emerging Asia
India and Indonesia are likely to experience stronger growth due to favorable demographics and lower tariff risks. In fact, US-China tensions might actually enhance investment in other parts of Asia, bolstering infrastructure and construction activity.

Acceleration in developed Asia Pacific
We forecast Japan's growth to accelerate to 1.1% in 2025 from -0.2% in 2024, driven by higher wages and consumption, with a Bank of Japan rate hike anticipated by mid-2025. We project Australia's GDP to increase to 2.0% in 2025 from 1.2% in 2024, aided by fiscal measures to boost consumption and increased mineral demand for renewable energy.

Asia to experience growth divergence

Real GDP growth, % y/y, UBS estimates



Source: UBS, as of November 2024

Europe: Uneven and subdued but stronger

In 2025, we expect Europe's economic growth to be uneven and subdued, yet stronger than in 2024.

Trade risks
A global trade war is a potential risk for Europe in the year ahead, especially for export-oriented economies. At the same time, higher European defense spending and additional investment associated with near-shoring may support growth.

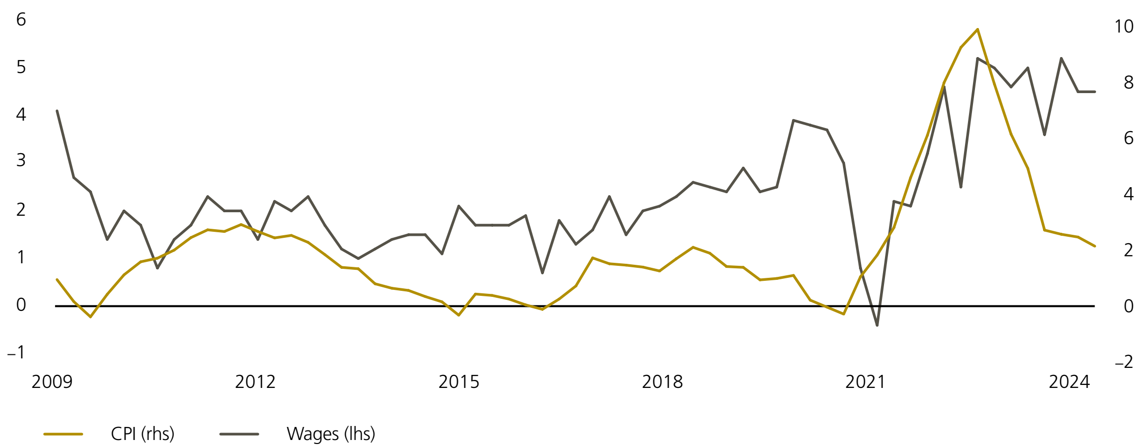
Country-level divergence
We believe Germany, France, and Italy will experience modest growth of around 1%, with structural challenges and fiscal constraints limiting growth. We expect Spain, the UK, and Switzerland to outperform, with growth rates of approximately 2.3%, 1.5%, and 1.3%, respectively.

Fiscal and manufacturing headwinds
Tight fiscal budgets are constraining public spending and limiting the ability of governments to stimulate their economies through public investment. The manufacturing sector is also under pressure due to weak demand from China.

Consumer and monetary support
Despite these challenges, we expect high recent savings rates and rising real incomes to boost consumer spending as inflation declines. Furthermore, we expect further interest rate cuts by the European Central Bank, Bank of England, and Swiss National Bank to support corporate investment.

Wage growth in Europe could boost spending

Eurozone nominal wages and salaries, and headline CPI, quarterly average, % y/y



Sources: Eurostat, Bloomberg, UBS, as of November 2024

What will President Trump mean for markets?

A Trump presidency, coupled with Republican control of Congress, has the potential to reshape the global economic and geopolitical landscape. Key policy areas in focus for investors include tariffs, fiscal policy, deregulation, monetary policy, and international relations.

Economic implications

Trade: Selective and bilateral tariffs likely
Tariffs—particularly the mooted blanket 60% on Chinese imports and 10% on others—pose the most significant global economic risk. Given potential legal and Congressional challenges, we think that the Trump administration is more likely to implement bilateral and selective tariffs. Such tariffs are likely to contribute to volatility for European and Chinese markets, but in our base case we do not believe they would derail US growth.

Fiscal and regulatory policy: Congressional constraints?
The Trump campaign emphasized extending personal income tax cuts, reducing corporate taxes, and implementing deregulation on the financial and energy sectors. While these measures could stimulate economic activity, Congressional objections amid large federal budget deficits may limit their scope. For example, fiscal hawks in Congress might resist policies that further expand the deficit.

The Fed: Still on course for lower rates
Although tariffs could temporarily increase inflation, we believe the Federal Reserve will continue its path of rate cuts toward achieving a neutral policy stance; we anticipate 100bps of rate cuts in 2025. Nevertheless, the Fed will closely monitor factors that could have a more long-lasting impact on inflation or inflation expectations, including limitations on migration, blanket trade tariffs, or significantly looser fiscal policy.

Geopolitics: Peace through strength
A "peace through strength" approach to Trump's foreign policy could increase volatility in a market seeking greater geopolitical stability.

Initially, we expect a more confrontational approach toward China, strains in transatlantic relations, and a "maximum pressure" strategy on Iran, with a view of seeking deals to preserve US interests. At the time of writing, Polymarket prices the odds of Trump ending the Russia-Ukraine war within 90 days of taking office at 39%.

Market implications

Equities: Divergent US and international impact
For the US, we anticipate the S&P 500 reaching 6,600 by the end of 2025, driven by benign growth, lower interest rates, and AI advancements. Potential tax cuts and deregulation under a Trump administration could further support markets. Our preferred sectors include technology, utilities, and financials. While tariffs may affect tech earnings, AI infrastructure spending remains robust. Utilities may face headwinds from less government support for renewables, but demand for AI data centers should drive power demand. We expect the financial sector to benefit from deregulation.

International markets could face greater headwinds from tariffs. That said, Beijing's potential stimulus in response could help mitigate the impact on China, US imports from markets like Taiwan and Korea are not easily replaceable, and most US sales by European companies are from goods and services made in the US.

Bonds: Yields rise too far?
US Treasury yields rose in anticipation of a Trump presidency. But with the Fed likely to stay on a rate-cutting path, and with plans to loosen fiscal policy facing potential Congressional constraints, we think yields are likely to fall in the year ahead. We believe investors should use currently elevated yield levels to lock in returns.

Currencies: Near-term dollar strength, longer-term weakness
The US Dollar Index has strengthened on confirmation of a Trump presidency, driven by expectations of lower taxes, higher tariffs, and heightened geopolitical uncertainty. While the dollar may remain strong in the short term, we believe that the dollar is now overvalued and overstretched at current levels. The Chinese yuan is likely to remain pressured until clarity about trade tariffs emerges.

Gold: Initial sell-off, a good hedge
Gold prices sold off on confirmation of a Trump presidency, with a stronger US dollar, higher yields, and a decline in equity market volatility crimping investor demand for the metal. However, in 2025, we believe gold will remain an effective hedge against key political concerns, including government debt levels, inflation, or geopolitical tensions. We maintain our target of USD 2,900/oz by end-2025 and continue to recommend around a 5% allocation to gold as a diversifier.

Our scenarios

Base case: Growth despite tariffs

Probability	50%
S&P 500	6,600
10-year US yield	4.00
EURUSD	1.12

US equities rise. US growth is supported by deregulation and improved business confidence, more than offsetting the impact of selective tariffs on Chinese and key European imports. Trade and geopolitical negotiations add to volatility for European and Chinese markets. The most expansionary US fiscal plans are shelved and inflation falls toward target. Bond yields fall slightly and central banks consistently cut interest rates toward neutral.

Bull case: Growth surge

Probability	25%
S&P 500	7,000
10-year US yield	4.50
EURUSD	1.15

US equity markets surge on strong US growth and AI optimism, and inflation remains contained. A trade deal is reached and/or Chinese fiscal stimulus and stronger global demand are sufficient to support European and Asian markets, despite tariffs. Bond yields stay elevated on stronger longer-term growth and inflation expectations. Central banks gradually cut interest rates toward neutral.

Bear case: Hard landing

Probability	10%
S&P 500	4,500
10-year US yield	2.50
EURUSD	1.05

US growth declines owing to weak consumer spending and deteriorating labor markets. Tariffs add to economic challenges for Europe and Asia. A weaker consumer more than offsets the inflationary impact of tariffs, and inflation falls, prompting central banks to cut rates. Global equities suffer double-digit losses, and credit spreads widen. Assets with safe-haven characteristics, including high-quality bonds, gold, the Swiss franc, and the yen, appreciate.

Bear case: Tariff shock

Probability	15%
S&P 500	5,100
10-year US yield	5.00
EURUSD	1.00

The imposition of large, blanket tariffs on US imports from multiple countries and retaliation from trading partners trigger higher US inflation, which, alongside a rising fiscal deficit, leads to higher bond yields. The disruption to global trade leads to lower US domestic demand and much weaker global economic growth. US and global equities decline.

How to invest?

Our messages in focus

- » Position for lower rates
- » More to go in stocks
- » Seize the AI opportunity
- » Invest in power and resources
- » Sell further dollar strength
- » Go for gold
- » Time for real estate

Position for lower rates

We expect central banks to cut interest rates further in the year ahead, reducing cash returns. We believe investment grade bonds offer attractive yields and expect mid-single-digit returns in US dollar terms. Diversified fixed income strategies and equity income strategies can also help investors sustain portfolio income.

High grade and investment grade bonds
We have a positive outlook for both high grade (government) and investment grade (IG) bonds.

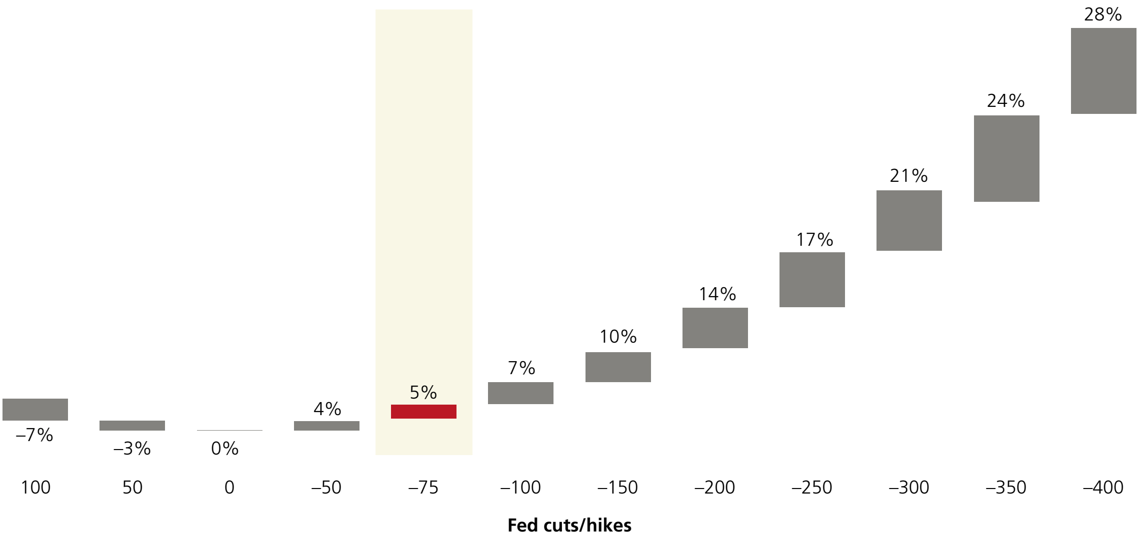
After the recent increase, yields on quality bonds are once again attractive, in our view.

USD IG and EUR IG yield 5.3% and 3.2% at the time of writing. Corporate fundamentals are robust, in our view, with limited expected deterioration in credit quality. And we anticipate the global rate-cutting cycle to contribute to supportive technicals and investor inflows, helping credit spreads stay tight.

In our base case, we expect IG to deliver mid-single-digit total returns in USD, EUR, and GBP. These returns come from both yield (accounting for around two-thirds of returns) and capital appreciation (around one-third), as steepening yield curves mean investors benefit from "roll down" as bonds approach maturity.

Investment grade bonds can deliver attractive returns

Estimates of investment grade total returns over the next 12 months under different Fed policy rate scenarios, current (shaded area)



Note: Analysis assumes credit spreads remain unchanged under the different scenarios and the US Treasury curve will move by the same magnitude as Fed rate cuts. Index: Bloomberg US Corporate Bond Index.
Source: UBS, as of 15 November 2024

Investment grade bonds are also appealing from a risk management perspective. While a tariff shock is a potential risk, IG bonds should perform strongly in a hard landing scenario. In such a scenario, we would expect falls in government bond yields to more than offset higher credit spreads.

Diversified fixed income strategies
Although spreads for lower-quality credit are tight by historical standards, and we believe the risk-reward profile of investment grade bonds is more favorable, we also expect respectable absolute returns for riskier credits in the year ahead. Solid economic and corporate fundamentals should keep default rates low, and investor inflows should keep spreads tight.

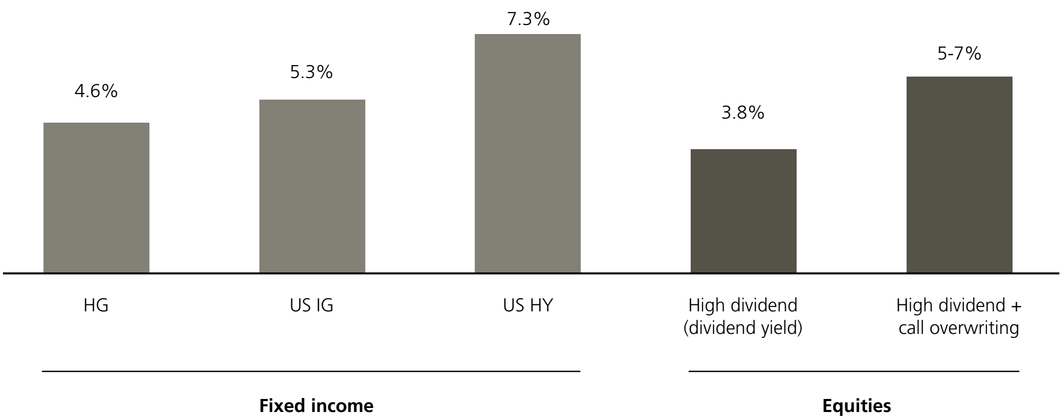
As such, in a portfolio context, we think that complementing IG bonds with riskier credit (like US, EUR, and Asia high yield, emerging market bonds, or senior loans) can improve diversification and increase returns.

For investors managing single bond portfolios, we recommend a focus primarily on quality bonds but augmenting those with select investments in short- and medium-duration riskier credits. We advocate staying in liquid parts of the bond market to maintain flexibility to take advantage of new opportunities.

Target portfolio composition depends heavily on individual risk appetite, but for an investor with a mod-

Portfolio income strategies can offer attractive yields

Yields across fixed income and equities, including a high dividend + call overwriting strategy



Note: The call option income is based on a simulation of a globally diversified equity call option strategy and refers to the net yield obtained through this strategy. For more details on our methodology for the call option strategy, see “Selling options in a portfolio context” dated 16 June 2022 (not available for US investors).
Indices used: SOFR rate and expected rate based on forward markets, Bloomberg Eurodollar Aa of higher, Bloomberg US aggregate Corp, JP Morgan EMBI Div., MSCI ACWI High Dividend index.
Sources: Bloomberg, UBS, as of November 2024

erate risk tolerance, we would typically recommend allocating 20-40% of a fixed income portfolio to sub-investment grade and emerging market credit.

Equity income strategies

Investors seeking income can also consider equity income strategies, including high dividend, dividend growth, or option premia strategies.

The MSCI AC World High Dividend Yield Index is forecast to yield 3.5-4.0% in 2025, according to Bloomberg consensus estimates, a level likely to surpass cash yields by the end of the year. Considering high-dividend yielders that have a track record of consistently growing dividends can improve income sustainability.

Options strategies, including put writing and covered-call writing, can further enhance income potential. By harvesting volatility premia, such strategies can further diversify sources of portfolio income and may be treated as capital gains (rather than income) in some jurisdictions.

We estimate mixing high dividend, dividend growth, and option strategies could deliver a total yield of around 5-7% per year.

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How far will central banks cut rates?

At the time of writing, rates are 50-75bps below their recent peaks in most major economies.

But even after recent cuts, rates remain restrictive, in our view.

We think that as 2025 advances, most major central banks will want to bring interest rates back to a level that is neither stimulative nor restrictive for the economy. From current levels, we expect a further 125bps of cuts from the Fed, 50bps from the Swiss National Bank, 125bps from the European Central Bank, and 100bps from the Bank of England.

The Fed has stated that it will be monitoring the net inflationary effect of new US policies as they are introduced, and we think it could cut rates more slowly if inflationary risks rise. But in our base case, we do not expect new US policies to have a significant upward impact on inflation and believe the Fed would likely look past one-off price rises related to tariffs. It is also important to remember that rates could fall faster than in our base case in the event of a consumer-led slowdown in economic activity.

We recommend limiting cash and money market holdings to the amount needed to cover one year of spending needs. For funds needed to cover the next three to five years of spending needs, high-quality bonds and bond ladders can help to minimize reinvestment and market timing risks. For funds not needed in the next three to five years, we recommend investing into a core long-term multi-asset portfolio.

More to go in stocks

After strong years for equities in 2023 and 2024, we see further upside in 2025. We expect the S&P 500 to reach 6,600 by the end of 2025, around 10% higher than today's levels. Tariffs could contribute to volatility in European and Chinese markets. But we see value in maintaining diversified exposure to Asia ex-Japan. In Europe, we like small- and mid-cap stocks and Swiss high-quality dividend payers.

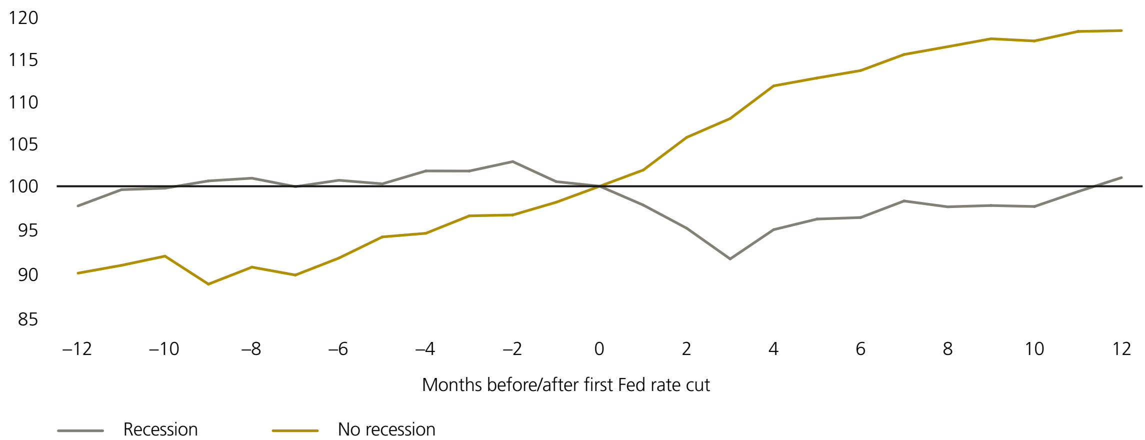
We view the outlook for US equities as constructive from a macroeconomic, structural, and bottom-up perspective. The combination of resilient US growth and lower Fed rates has historically been a powerful combination for US stocks. In the past, when the Fed cut rates and the US did not enter recession, US equities rose 18% on average in the 12 months after the first Fed rate cut.

The recent earnings season demonstrates that AI capex intentions remain robust, supporting our positive outlook on US technology stocks. Earnings growth is also broadening into non-tech earnings in the US, a trend which could be further supported by US deregulation and tax cuts.

Valuations are not low in a historical context. On a 12-month forward price-to-earnings ratio basis, the S&P 500 currently trades at 22.3x versus a 20-year average of 16x. But we believe this valuation is justified by the healthy US economic backdrop and the high degree of exposure to structural growth.

Rate cuts support US equities without recession

S&P 500 average performance (indexed to 100) following first Fed rate cut



Sources: Bloomberg, UBS, as of November 2024

US: AI, tech, financials, and utilities to drive further upside

We think the US equity market looks Attractive and expect the S&P 500 to hit 6,600 by the end of 2025, around 10% higher than today's levels.

The US economic backdrop is supportive, the market is less at risk from tariffs than other international markets, and structural trends around AI and power and resources bolster the outlook. AI-related companies that span semiconductors, cloud service providers, devices, and data centers account for over one-third of the S&P 500 by market cap. We expect around 11% S&P 500 earnings per share growth in 2024 and 8% in 2025.

Within the US, we view the technology, utilities, and financials sectors as Attractive.

- *Technology:* AI infrastructure spending remains robust, and we expect key semiconductor components needed for AI to remain supply constrained in 2025, supporting pricing. In addition, the tech sector should benefit from an improvement in PC and smartphone end markets. The industry could face headwinds from tariffs, but we do not believe this will outweigh the structural growth story over the medium term. We see the best opportunities in AI-linked semiconductors and US megacaps.

- *Utilities:* Although utilities companies with high renewables exposure could face near-term pressures, we also expect significant growth in AI data centers to fuel power demand, leading to higher power prices. Roughly 20-25% of the sector has material exposure to these trends. The sector's defensive characteristics should also offer ballast to a portfolio in case economic growth concerns rise.

- *Financials:* We expect Fed rate cuts to lead to lower funding costs, higher loan growth, and more capital market activity. Following the US election, we also expect the financial sector to benefit from deregulation.

Asia: Diverse growth opportunities
We find the Asia ex-Japan market Attractive overall, and expect the MSCI Asia ex-Japan index to return about 15% by the end of 2025.

While tariffs are likely to be a headwind for China, AI spending, high GDP growth, and declining US and regional interest rates should be supportive for other markets in the region.

We expect Asia ex-Japan to offer one of the most appealing earnings growth profiles globally, with a forecast of 13% earnings growth in USD for 2025.

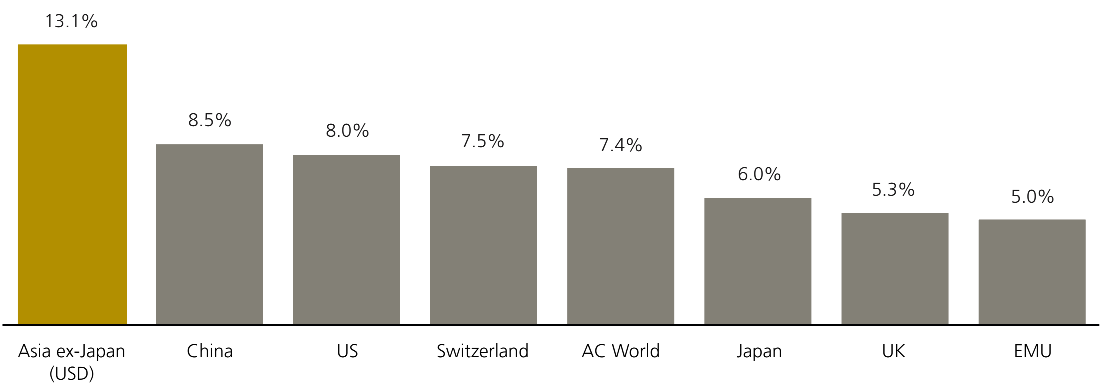
- *Mainland China:* We expect US tariffs and potential stimulus disappointments to pose risks to Chinese stocks in the months ahead. Against this backdrop, we anticipate defensive and high-yielding value sectors to outperform, like financials, utilities, energy, and telecoms. Corrections in internet names could be seen as good entry points for investors willing to hold over multiple years, due to their attractive growth prospects and valuations.

- *Taiwan:* We see Taiwan as an Attractive market. While the market is sensitive to trade, key semiconductor exports are not readily substitutable, we expect AI demand to remain robust, and think that pricing power should lead to positive gross margin surprises in 2025.

- *India*: We view India's market as Attractive. High structural rates of GDP growth are supported by favorable demographics in a domestically oriented market, and we expect 12% EPS growth in fiscal year 2025 (MSCI India) and 14% in fiscal year 2026.

Asia ex-Japan earnings growth to lead the way

CIO's 2025 EPS earnings forecasts for select equity markets (MSCI indices)



Source: UBS, as of November 2024

Europe: Focus on Eurozone small- and mid-caps and Swiss high-quality dividends

The potential for tariffs under a Trump administration is a concern for European companies, particularly European cyclicals (like consumer discretionary and industrials) exposed to China. We expect European earnings growth to be weaker than elsewhere in the world, and expect European stocks to underperform US equities.

Nevertheless, solid economic growth, lower interest rates, and reasonable valuations should offer some support. The MSCI Europe Index trades at a 12-month forward price-to-earnings ratio of 12.9x. We expect total returns of around 6% by the end of 2025.

We favor beneficiaries of falling interest rates and structural growth opportunities. Eurozone small- and mid-caps and Swiss high-quality dividends are among our preferred tactical ideas in Europe.

- *Eurozone small- and mid-caps*. Eurozone small- and mid-caps are currently trading at a 20-year low price-to-earnings ratio compared to large caps (MSCI EMU). They should benefit from falling rates, improving lending conditions, and healthier domestic growth. In addition they offer some exposure to structural trends, including power generation, decarbonization, and automation.

- *Swiss high-quality dividends.* The 3% dividend yield of the Swiss Performance Index (SPI) is higher than Swiss franc bond yields and above the 25-year historical average of 2.4%. Balance sheets and profitability are robust, in our view, suggesting that distributions are sustainable.

Transformational innovation opportunities

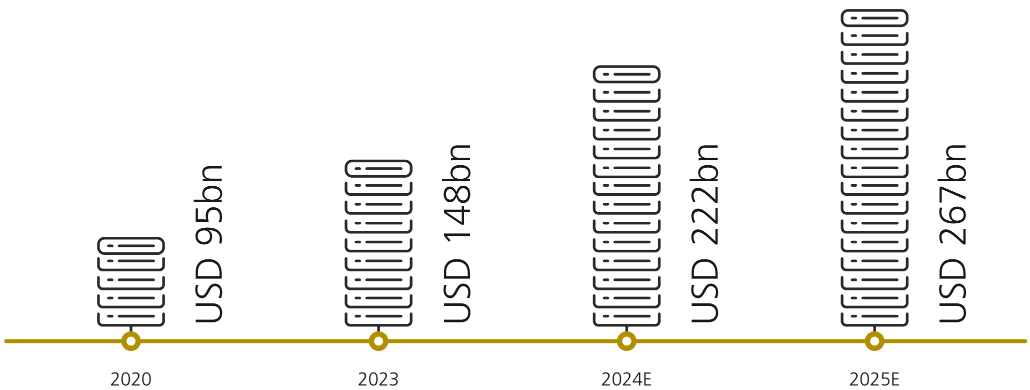
We expect significant and sustained profit growth in the transformational innovation opportunities of (1) *Artificial intelligence* and (2) *Power and resources*. By investing in these areas, we believe investors can earn strong long-term returns.

1. Seize the AI opportunity

We expect artificial intelligence to be one of the most important investment opportunities of the decade. We expect high rates of investment to soon be followed by growth in applications, and we expect companies across the AI value chain to generate more than USD 1.1 trillion in revenue by 2027, just five years after the onset of ChatGPT. Investors should focus on both listed megacaps and innovative private companies to capitalize.

Rising capital expenditures by big tech bodes well for AI data centers

Big 4’s capital expenditure (Alphabet, Amazon, Meta, Microsoft)



Sources: Bloomberg, FactSet, UBS, as of November 2024

Recent years have seen capex on artificial intelligence increasing sharply.

By the end of this year, we estimate that four tech companies (Alphabet, Amazon, Meta, Microsoft) will have spent USD 222bn on AI capex in 2024 alone—a 50% year-over-year growth rate. That has been supporting significant growth in earnings for AI chip companies and cloud service providers, both of which are in the enabling layer of the AI value chain.

But we believe there is more room to grow.

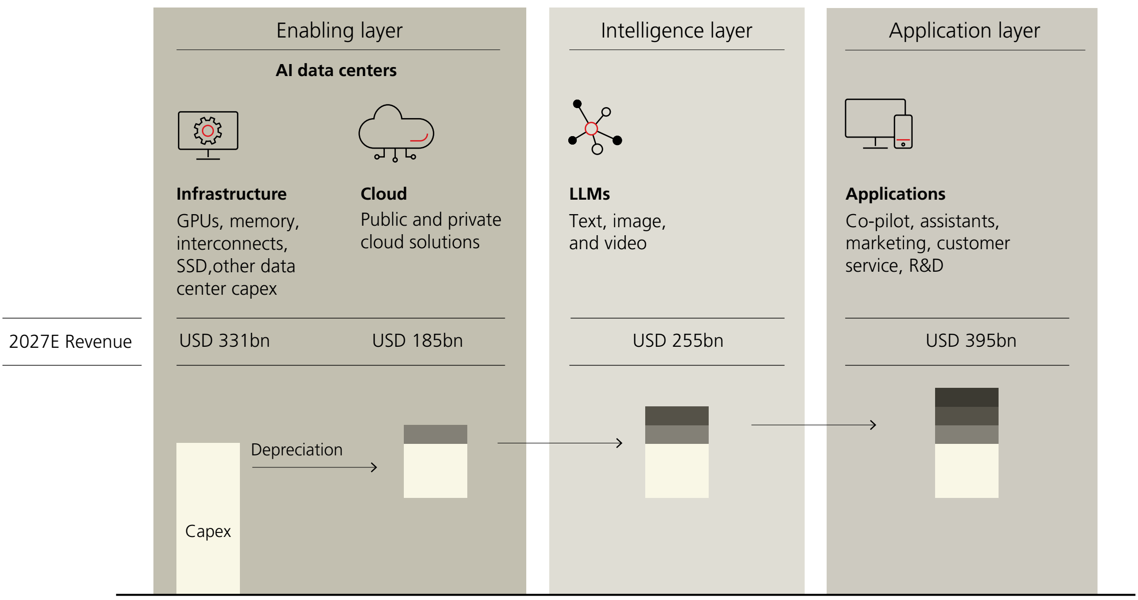
By 2027, just five years after the onset of ChatGPT, we expect the enabling layer to generate USD 516 bn in revenue, with AI chip companies and cloud service providers likely to capture most of this value.

We expect strong growth in revenues in the intelligence layer—i.e., large language models—too.

And by 2027, we also expect a directly addressable market of USD 395bn in revenue opportunities for the application layer. We expect successful generative AI applications across a range of industries, including in health care, cybersecurity, and fintech.

The AI market opportunity: a bottom-up perspective

Estimated 2027 revenue in each layer of the AI value chain



Sources: Bloomberg, UBS, as of November 2024

The commercial effects of AI adoption could range from shorter drug discovery cycles (health care), to lower cost bases (financials) and greater demand for security and infrastructure safety (cybersecurity).

How should investors position?

- *First,* investors should ensure they are sufficiently invested. The sheer pace of growth in the industry means that investors who were underallocated before have become even more underallocated. We believe a neutral allocation to artificial intelligence would involve allocating around 25% of an equity portfolio to stocks with a high degree of exposure to the technology.

- *Second,* for now, tilt toward the enabling layer. We believe this segment currently offers the best mix of attractive and visible earnings growth profiles, strong competitive positioning, and reasonable valuations. We favor the semiconductor companies that benefit from the current investment in AI infrastructure. This includes not only leading US fabless chip designers, but also Taiwanese foundries with a strong technological edge and limited substitution risk posed by competitors, enabling them to better mitigate any potential tariff hikes. We believe specific opportunities in the application layer will become clearer over the coming years.

- *Third,* diversify investments between listed megacaps and innovative private companies. The AI rush so far has been highly beneficial for the largest tech firms. We believe this is a feature of the new AI investment landscape, and we expect an oligopoly of vertically integrated "foundries" and monolithic players to dominate. But we also see appealing opportunities in non-listed companies in areas including LLMs, software, and data centers, for investors willing and able to bear the risks inherent in private market investing, including illiquidity.

2. Invest in power and resources

We believe the power and resources field is set for transformational growth, offering significant investment opportunities across power generation, grid infrastructure, and natural resources as the world adapts to increasing electricity demand.

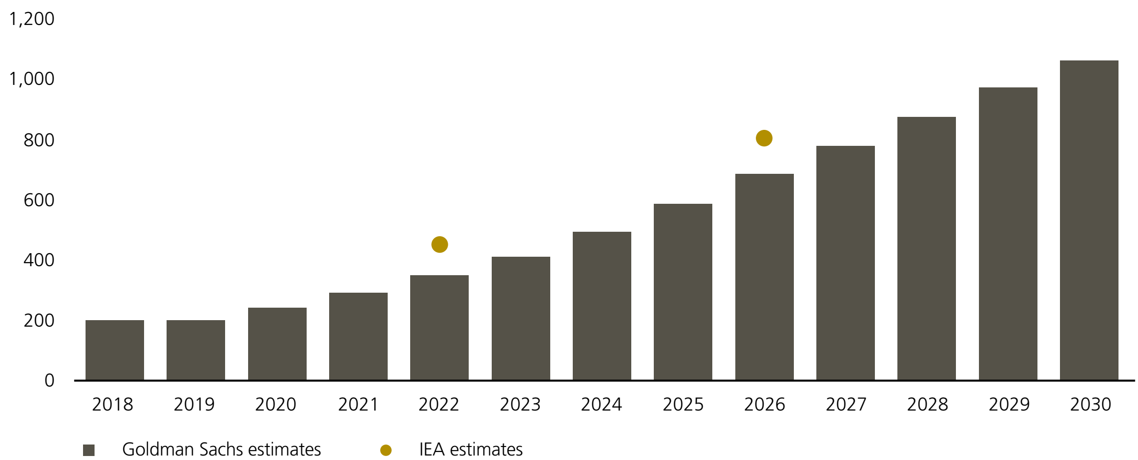
The rise of AI data centers, industrial electrification, electric vehicles, and global climate goals is increasing electricity demand. We estimate that electrifying the economy will require USD 3 trillion annually by 2030, benefiting companies in power and resource innovation.

The electrification value chain includes raw materials, generation, storage, transmission, distribution, and consumption (e.g., data centers, transport, heating, and cooling). Currently, we believe the best opportunities are in transmission, distribution, data centers, transport, and energy storage.

Consumption: Data centers as growth accelerators
Large AI data centers are significantly boosting electricity demand. A single NVIDIA GB200 GPU can consume as much power as an average US household in a year, and a server rack can hold 72 GPUs. Cooling a modern hyperscale facility can require transferring heat equivalent to melting 40,000 tons of ice daily. The Electric Power Research Institute projects data centers could use up to 9% of US electricity by 2030, up from 4% today. We also expect growth in electric transport, heating, cooling, and energy efficiency equipment.

AI-driven data center growth should boost energy demand

Global data center energy consumption estimates, in TWh



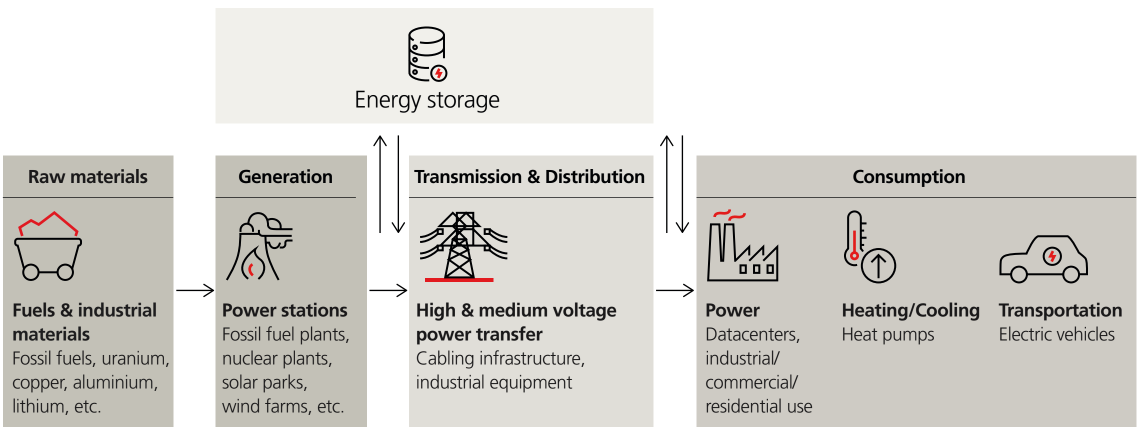
Sources: Manaset et al. (2020), Cisco, IEA, Goldman Sachs, UBS, as of November 2024

Transmission and distribution: Strong growth ahead
We anticipate the transmission and distribution segment to experience the strongest growth within the electrification value chain. A decade of underinvestment has left grids in developed markets needing significant upgrades. Emerging markets also require extensive buildout to meet rising electricity demands. The shift toward smaller, less centralized generation necessitates further investments in grid modernization, including sensors, digital technologies, and load management software. Also, as the electric intensity of households and businesses increases, more equipment, transformers, and switchgear will be needed.

Raw materials: Demand for transition metals
Electrification and renewable energy will increase demand for metals like copper and aluminum in our view, which are crucial for electrical components and renewable technologies. Companies with strong resource bases and efficient production are likely to benefit.

Generation and energy storage: Challenging fundamentals
We expect long-term growth in electric generation technologies, including renewables, natural gas/hydrogen, and nuclear energy. However, developing new capacity is complex and time intensive owing to land, capital, financing, and grid management needs. Equipment demand could lead to excess capacity, and tariffs may affect supply chains. Companies with strong financial health and competitive advantages in solar, wind, nuclear, and natural gas-hydrogen technologies should be prioritized. Emerging technologies like advanced battery storage and small modular nuclear reactors can offer immediate growth opportunities.

The electrification value chain



Source: UBS

Sell further dollar strength

While the US dollar may stay well bid in the near term, we believe its valuation may now be overstretched. We recommend investors use periods of strength to reduce US dollar exposure through strategies such as hedging dollar assets, switching USD cash and fixed income exposure to other currencies, and through options.

USD: Strength has its limits
The US dollar is entering a phase of uncertainty.

Tax cuts and deregulation may attract capital inflows to US markets, while immigration controls could tighten the labor market, potentially keeping interest rates elevated. Tariffs might strengthen the dollar.

But the dollar appears overvalued based on fair value metrics. We believe markets are overestimating the likelihood of prolonged high rates by the Fed.

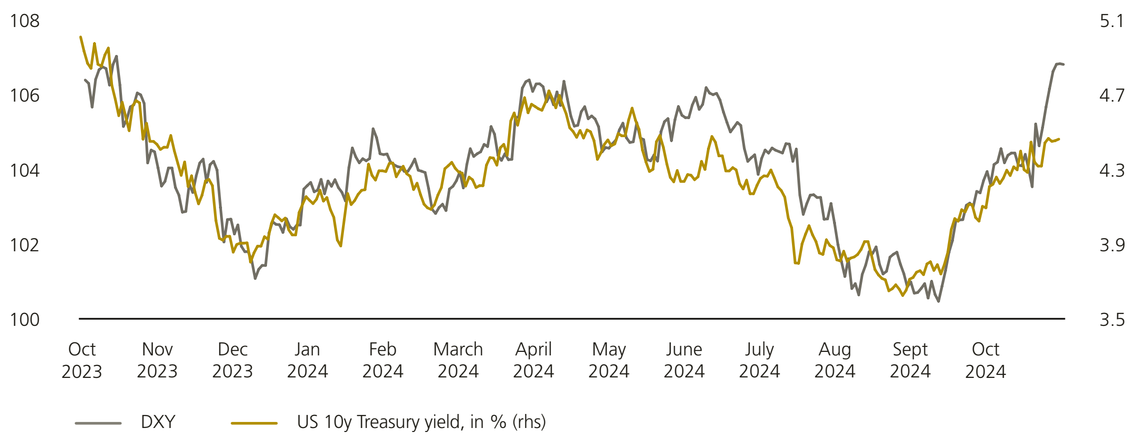
Additionally, worries about the US government debt trajectory or unpredictable foreign policy could undermine confidence in US Treasuries as a safe asset.

In the short term, new policy announcements might boost the dollar, but we anticipate it will approach 1.12 (versus the euro) by end-2025.

We advise investors to use periods of further dollar strength to decrease exposure through hedging, shifting USD cash and fixed income to other currencies, and using options.

The US dollar looks stretched

DXY Index (lhs), US 10-year Treasury yield, in % (rhs)



Sources: Bloomberg, UBS, as of November 2024

EUR: Low expectations

While we do not expect Eurozone growth to be robust, we do expect it to be somewhat stronger than it was in 2024. And with sentiment on Europe muted, we see scope for a positive surprise for the euro. In our base case, we also do not expect EUR government bond yields to decline much further from already low levels.

The euro may stay weak against the dollar in the short term, but we believe it will strengthen over the year, projecting an EURUSD rate of 1.12 by the end of 2025.

CHF: Rate cuts almost complete

After the Swiss National Bank cut interest rates three times in 2024, we expect one more 25-basis-point cut in December and another in March 2025. We do not expect Swiss bond yields to move lower from already low levels. On a relative basis, this should support the CHF as yield differentials become less negative for the Swiss currency. Safe-haven demand could remain a CHF-supportive factor if geopolitical tensions remain elevated.

We expect USDCHF to trade at 0.84 by end-2025.

GBP and AUD: Our preferred developed market carry currencies

In the UK and Australia, given the mix of inflation and economic growth dynamics, we think interest rates could be cut more slowly than in other regions, supporting positive total returns against peers.

We expect AUDUSD and GBPUSD to trade at 0.68 and 1.35, respectively, by December 2025.

JPY and CNY: Strength for yen, weakness for yuan

We anticipate the yen will strengthen in 2025, predicting USDJPY to hit 145 by year-end. First, we believe the yen is undervalued, not reflecting the current yield differences with the US dollar. Second, we expect the yield gap between the US and Japan to close in 2025, as the Federal Reserve reduces rates while the Bank of Japan raises them. Third, politically, President-elect Trump has criticized the yen's weakness, and Japanese policymakers are also against it weakening beyond 160. A stronger yen could align with both US and Japanese interests.

We expect USDCNY to rise toward 7.5 by end-2025 as trade tariffs contribute to yuan weakness, even as the People's Bank of China leans against CNY depreciation by stabilizing its daily USDCNY fixing rate.

Go for gold

We expect gold to build on its gains in 2025. Lower interest rates, persistent geopolitical risks, and strong dollar-diversification trends likely see investor and central bank buying continue. Outside gold, we also see long-term opportunities in copper and other transition metals, with demand increasing alongside higher investment into power generation, storage, and electric transport.

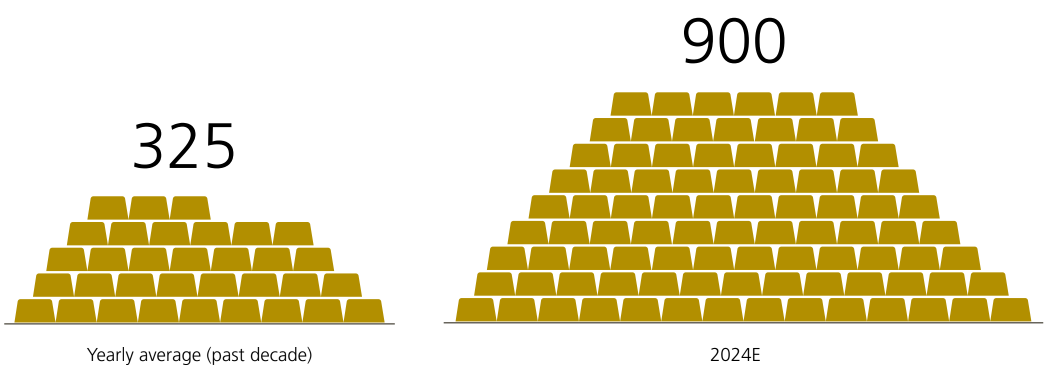
Further upside for gold
Gold reached new record highs, with the price topping USD 2,790/oz—a gain of 35% to 30 October 2024. Since Election Day, the metal has faced modest setbacks, as investors focused on the decisive nature of Trump's victory and the potential benefits of Trump's policies on US stocks.

We expect the de-dollarization trend among central banks and private asset managers to continue. We estimate central banks bought around 900 metric tons of gold in 2024, and these volumes can be sustained well above the prior decade's average of around 325 metric tons a year. Additionally, we see other traditional drivers of gold like lower real interest rates, fading dollar strength, and rising geopolitical uncertainties reasserting themselves in the year ahead.

We think prices could rise to new highs in 2025, underpinned by a step higher in exchange-traded funds inflows; the third quarter saw the strongest net inflows in a quarter since 1Q22.

Central banks' demand for gold has supported gold prices

Purchase of gold by central banks, in metric tons



Sources: IMF, World Gold Council, UBS, as of November 2024

More in metals
Industrial metals have faced headwinds in recent months, as weak economic data from China and fears of a cutback in US climate-related spending have outweighed concerns about longer-term supply shortages. However, in 2025, we believe tightening fundamentals will again support metal prices as the global energy transition continues and the number of new mining projects disappoints. For example, we see copper prices reaching a near-record USD 11,000 per metric ton by end-2025. We also see opportunities in more niche minerals like manganese, rare earths, and lithium. Owing to the complexities of attaining direct exposure, we prefer buying select miners and processors that have exposure to these metals.

Oil: Higher prices on supply disappointments
Consensus expects the oil market to be oversupplied next year. But we think that current low prices could lead to lower supply growth than expected in the US. Also, OPEC+ is likely to be cautious about increasing supply if the market cannot handle it, and renewed sanctions on Iran and Venezuela could affect supply.

Meanwhile, solid economic growth, global interest rate cuts, and fiscal stimulus measures should moderately increase oil demand. With financial positioning in oil currently low, we expect moderately higher crude oil prices in 2025 and favor yield-generating strategies that take on the risk that the oil price will not fall below a certain level.

Copper is our high-conviction pick among exchange-traded base metals.

Time for real estate

We think the outlook for global residential and commercial real estate investments is bright. With declining and constrained supply paired with rising demand, we see opportunities in sectors including logistics, data centers, and multifamily housing. Investors should focus on quality assets and strategic diversification to capitalize on these favorable market dynamics.

The global real estate market is poised for greater activity in the year ahead, driven by lower capital costs, increased debt availability, and over USD 400 billion in private capital ready to be deployed. Although transactions had previously halved due to high leverage costs, the current environment of lower interest rates and tighter borrowing spreads should boost deal activity.

Supply and demand dynamics improving

Conditions vary across regions and markets, but, overall, robust real estate demand is meeting constrained new supply. Since COVID-19, construction activity in both commercial and residential sectors has been limited due to increased regulation and higher costs. This has resulted in a scarcity of new, quality space, even in the challenged US office market.

These dynamics are likely to lead to decreasing vacancy rates, rising rental growth, which we believe will drive capital appreciation over the next several years.

Investment opportunities

Both public and private real estate markets are trading at attractive yield gaps and offer good discounts, in our view. We recommend focusing on sectors with strong fundamental dynamics:

- *Commercial:* Logistics properties, data centers, and telecommunication towers are well-positioned, particularly in the US and Europe, benefiting from trends like e-commerce and AI, and have barriers to entry.

- *Residential:* Broad exposure to multifamily, senior, and student housing sectors is advisable, although we are less optimistic on the sector in the UK and China.

- *Retail:* Selective opportunities exist, particularly in need-based retail properties.

- *Office market:* Caution is advised, with a focus on prime, high-quality central office spaces, which should outperform lower-tier, older properties.

Public market performance
In listed markets, we anticipate double-digit performance overall. While US real estate companies have strong balance sheets, Singapore developers and REITs, along with Japanese developers, are expected to benefit most from interest rate cuts, and we believe these likely improvements are not yet fully priced in compared to their US and European counterparts.

Private market strategy
In private markets, we expect similar performance. We focus on core/core-plus real estate managers capable of generating income and capital growth, particularly in our key sectors. We also favor managers who can execute opportunistic acquisitions through take-privates or joint ventures with asset owners seeking liquidity. Additionally, we see opportunities in real estate debt.

Regional variations in direct real estate
At a regional level, direct real estate investments in Canada, the US, and Continental Europe may, in our view, yield the most attractive returns owing to strong rental growth and falling interest rates. Conversely, we are less optimistic about the UK residential market because of affordability issues. In China, we foresee challenges and expect residential investments to deliver lower-than-average returns.

> We expect real estate to revive in 2025, with opportunities across commercial and residential sectors.

Decade Ahead

The 5Ds—debt, deglobalization, demographics, decarbonization, and digitalization—will be significant forces in the decade ahead that present opportunities and risks for investors. In aggregate, we expect them to lead to higher growth and periods of higher inflation over the long term.

Debt: A growing concern

Growth effect ◎ **Inflation effect** ◎

Investment idea *Real assets*

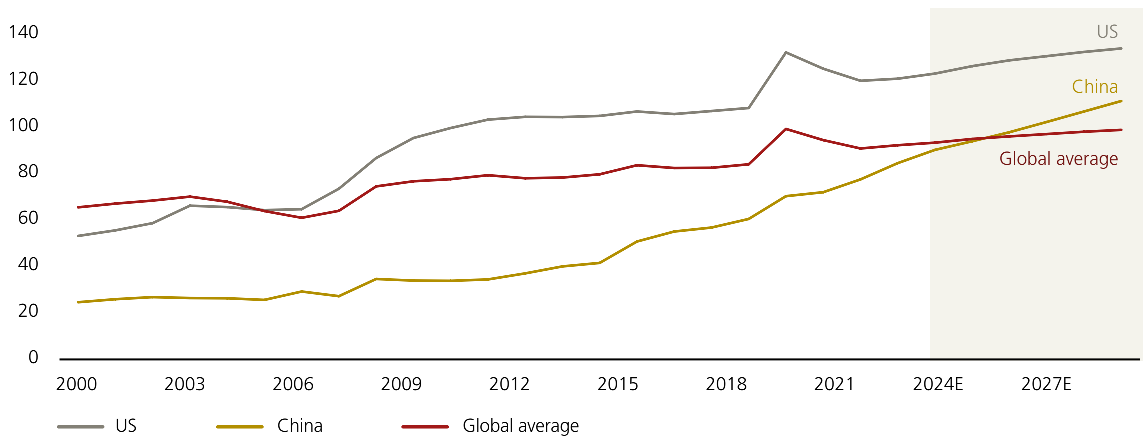
Fueled by the extraordinary fiscal stimulus following the COVID-19 pandemic, aging populations, and increased defense spending, government debt has grown considerably since the beginning of the decade.

With debt levels now much higher, governments have reduced capacity to deal with a future recession or inflationary shock. There is therefore a greater risk of swings in long-dated government bond yields on periodic fiscal sustainability concerns. Higher taxes could be one way of accounting for higher debt levels.

With a higher risk that governments lean on central banks to finance deficits, we advise boosting exposure to real assets (including equities, real estate, infrastructure, and gold) in portfolios, as they have a greater chance of matching or exceeding rates of inflation than cash or fixed income.

Global debt is seen rising further, driven by the US and China

Public debt in % of GDP, global average, US and China, including IMF projections (shaded area)



Sources: IMF, UBS, as of November 2024

Deglobalization: Shifting paradigm

Growth effect ◎ **Inflation effect** ⊕ ⊕

Investment idea *Companies exposed to infrastructure and reshoring*

In recent years, the world has become less global, influenced by the pandemic, rising nationalism, geopolitical tensions, and technological changes. These factors have led countries to prioritize domestic interests, resulting in increased trade barriers and protectionist policies. The election of President Trump, with his "America First" approach, could further accelerate these changes.

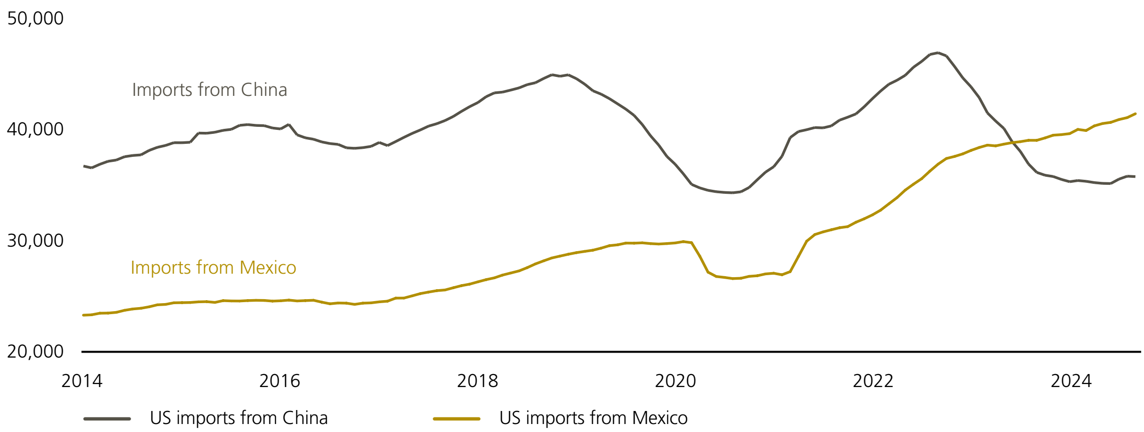
Active conflicts in regions such as Eastern Europe and the Middle East add to this trend, creating instability and discouraging international collaboration. Technological advancements, while facilitating global communication, have also enabled more self-sufficient economic strategies.

Any increase in trade and capital flow restrictions could lead to higher costs for consumers and businesses, slower global growth, and increased inflation. We also expect increased spending on defense to raise levels of debt and inflation.

Despite these challenges, deglobalization offers growth opportunities in certain sectors. As countries focus on cyber and national security, investment and innovation in these areas may rise, creating new growth avenues. Companies involved in reshoring, automation, and national security could benefit from increased demand.

US-China trade tensions have led to a rise in US imports from Mexico

US imports from China and Mexico, in USD millions, 12-month moving average



Sources: Bloomberg, UBS, as of November 2024

Demographics: Longevity in focus

Growth effect ◎ **Inflation effect** ◎

Investment idea *Companies exposed to longevity*

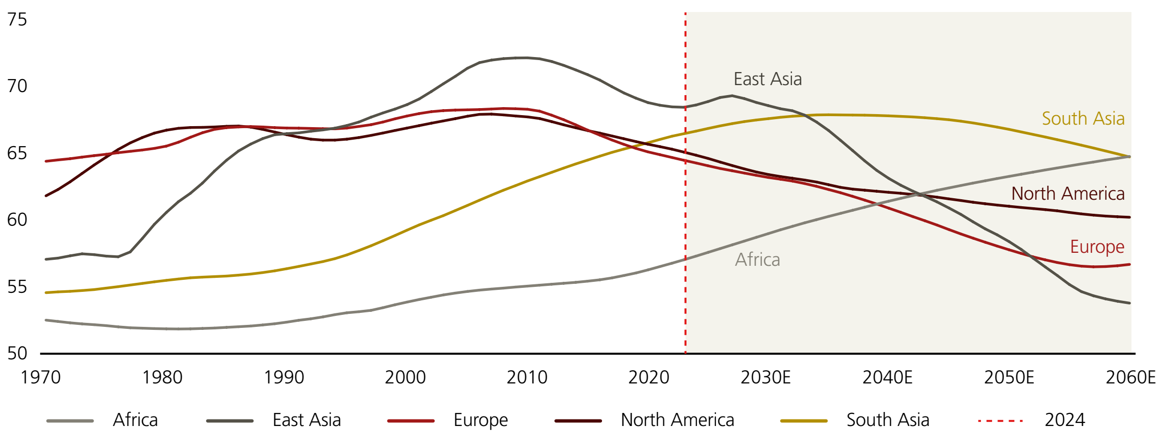
Demographics are slow-moving, but we have already seen significant shifts in demographic patterns since the turn of the decade. According to the UN, the global population over 65 has grown by around 100 million in the past five years.

The combination of aging populations in the US, Europe, and North Asia with young and fast-growing populations in Africa and South Asia is likely to present both challenges and opportunities. How societies—individually and collectively—choose to manage migration will play an important role in determining the impact on economic growth and inflation.

For investors, we expect aging populations in the developed world to contribute to the growing emergence of a transformational innovation opportunity in the field of human longevity.

Strong regional disparities in working-age population growth

Working-age population (age 15-64) as % of total population, including UN projections



Sources: United Nations, Department of Economic and Social Affairs, Population Division (2024), UBS, as of November 2024

Decarbonization: Power and resources

Growth effect ⊖ **Inflation effect** ⊕ ⊕

Investment idea *Companies exposed to power and resource innovation*

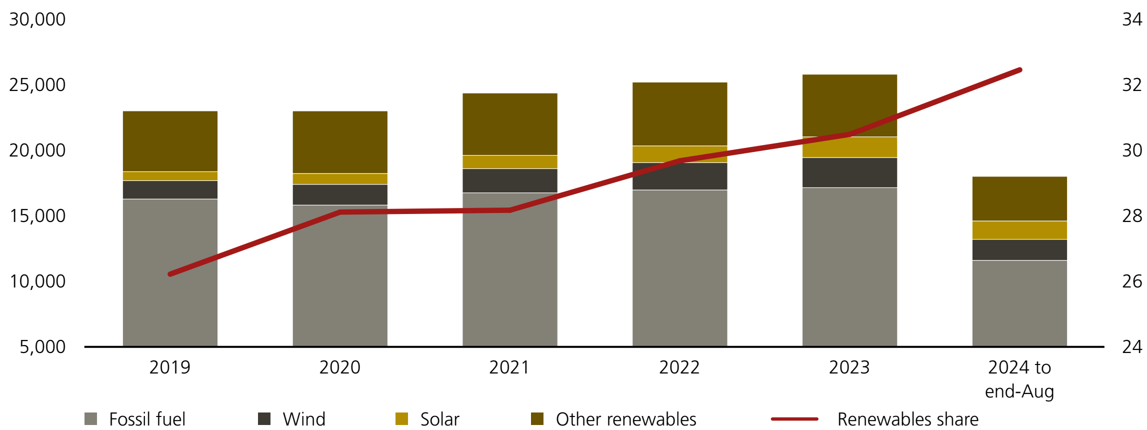
Since the start of the decade, renewable energy has accounted for a greater share of the global energy mix, with fossil fuels accounting for a lesser share. Looking ahead, we anticipate that regulatory pressure to decarbonize will persist, and several factors could drive up the prices of scarce resources, including resource protectionism, environmental taxes, higher insurance costs, and restrictions on certain energy sources.

It remains uncertain whether societies are prepared to accept higher energy costs, especially if energy demand rises owing to increased use of artificial intelligence. Despite these challenges, the substantial investment needed to meet rising energy demand and sustainability goals could also stimulate economic growth.

We believe the biggest investment opportunity in the field is with power and resource innovation (see page 33).

Renewable energy gaining share in global electricity mix

Breakdown of energy contribution by source, TWh (lhs), and share of total renewables in electricity mix, % (rhs)



Sources: Ember, UBS, as of November 2024

Digitalization: The AI revolution

Growth effect + + **Inflation effect** – –

Investment idea *Companies exposed to AI*

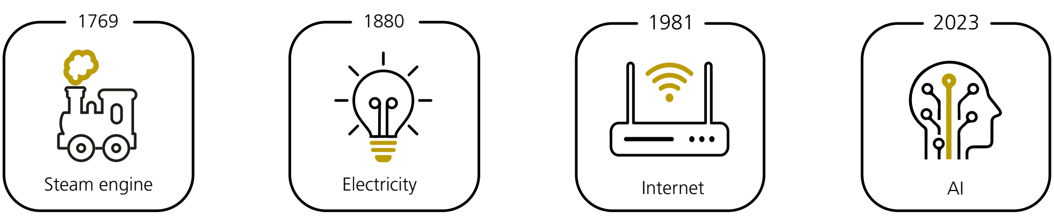
We believe artificial intelligence could prove to be one of the most influential innovations of the century. While most market attention so far has focused on the firms enabling the technology, we ultimately expect AI to drive efficiency, innovation, and new business models across sectors, from automating routine tasks to enabling advanced data analytics.

If AI's potential can be realized, we believe it could augur a productivity revolution, and contribute to lower prices for various goods and services and higher rates of economic growth. Historical examples can provide some context for the potential magnitude. The PC increased labor productivity by 18% from 1986 to 2000, and the internet by 20% from 2000 to present. Assuming a 15% productivity boost from AI, we estimate the value creation could amount to USD 4.4 trillion.

For investors, at a macroeconomic level, we believe the AI revolution is likely to help lower inflation, boost growth, and therefore result in higher real interest rates in the years ahead. At a company level, we see potential across the enabling, intelligence, and application layers (see page 31).

The timeline from innovation to productivity growth has been shrinking

Year from innovation to productivity growth, JPMorgan estimates for AI



61 years | 32 years | 15 years | 7 years

Sources: JPMorgan, Crafts (2021), NBER, BEA, as of December 2023

Asset class expectations

Since the beginning of the decade, cash returns have struggled to surpass inflation and bonds have faced headwinds from rising interest rates. In contrast, equities have thrived, and private markets and commodities have offered robust returns. Looking ahead, we expect equities and private markets to continue to offer the highest potential returns.

Cash

Recent years have been dismal for real returns on cash, with higher interest rates not sufficient to offset the surge in inflation. Since the start of the decade, the real purchasing power of cash has fallen by 8% in US dollars, 13% in euros, and 6% in Swiss francs.

We expect cash to remain among the worst-performing major asset classes. A rate-cutting cycle is underway, eroding future returns on cash. Meanwhile, secular trends such as deglobalization, decarbonization, higher debt, and an aging population may put periodic upward pressure on inflation, eroding cash's after-inflation returns.

We advise investors to shift excess cash deposits and money market funds into assets that provide higher and more durable sources of income.

Government bonds

Government bonds have had one of the worst five-year periods in modern history, with the Bloomberg US Aggregate Government bond index delivering a nominal negative return of 2.8%.

Conditions for government bonds have improved lately, with yields now higher and lower inflation and central bank rate cuts ahead.

That said, because of strains on public finances, investors may increasingly demand higher risk premia for government bonds. And while central banks may use their balance sheets to smooth financial market functioning, investors may need to prepare for greater volatility on longer-dated debt.

We believe investors should therefore supplement core government bond holdings with alternative sources of income, including investment grade credit, fixed income hedge fund strategies, or private credit funds.

Credit

Corporate debt has also faced headwinds in recent years amid rising rates, high inflation, and the shock of the pandemic. But prospects have revived amid stronger-than-expected US growth and healthy consumer and corporate balance sheets. We expect higher returns from corporate credit than in recent years.

We do see challenges in the years ahead, however, particularly as bond investors digest changes in investment needs, bond issuer profitability, and the composition of bond indices. But we believe a diversified allocation to credit remains a key part of a balanced portfolio.

Equities

Despite a challenging start to the decade, equities have delivered very strong performance over the past five years. Returns have been led by the US, with the S&P 500 returning around 111% over the period, at the time of writing. Technology stocks flourished during the pandemic and have gained an additional boost in recent years by advances in artificial intelligence.

While US equity market valuations are now higher than historical averages, we are positive on the long-term outlook for overall equity market returns. Over the coming years, we expect the commercialization of AI to benefit top US tech firms as well as other sectors and markets through higher productivity and profit margins. We also expect equities to suffer less of a drag from higher inflation than fixed income, since leading companies should be able to pass on higher costs through higher prices.

We believe equities will likely remain the key driver of long-term portfolio growth. We advise investors to maintain adequate exposure to developments in AI, as well as to ensure global diversification.

Alternatives

Annualized returns on global private equity so far this decade have outpaced those on global stocks, according to data from Cambridge Associates, and opportunities have expanded, as companies have delayed or avoided listing on public markets. Separately, private credit funds have expanded into areas vacated by bank lenders, with direct lending achieving higher returns than leveraged loans.

We expect continued strong returns from private markets over the next 15 years, with the highest absolute returns from private equity. We also expect a growing private markets opportunity set, given the scale of capital required for digitization and decarbonization.

For investors willing and able to tolerate lower liquidity and less transparency, alternatives have become both an important driver of returns and a portfolio stabilizer.

Commodities

The UBS Bloomberg CMCI Composite Index has returned around 75% over the past five years, helped by rising global demand for energy and industrial metals. High inflation has boosted demand for commodities from inventors seeking a hedge.

Looking ahead, a range of long-term forces will likely affect the outlook for the asset class. Deglobalization could lead to regional scarcities. The shift to electric vehicles and continued investment in zero-carbon infrastructure should boost demand for a range of metals and minerals. And increased use of AI is boosting energy demand. At the same time, while gradual, the process of decarbonization should ultimately reduce the share of oil and gas in the total energy mix.

Overall, commodity volatility could be elevated in the years ahead, so we recommend a tactical and actively managed approach to long-term commodity exposure.

Currencies

The US dollar has outperformed most major currencies in the decade so far. The trade-weighted dollar index has appreciated by around 10% since the start of the decade. Now, the US currency trades at strongly overvalued levels compared to most of its peers, in our view. We estimate purchasing power parity for EURUSD at 1.25.

Looking forward, we expect the forces that have supported the USD in recent years to fade, and large US fiscal and current account deficits could start to exert downward pressure on the currency.

How to plan ahead?

Our strategic messages in focus

- » Put cash to work
- » Strengthen your core
- » Diversify with alternatives
- » Optimize your leverage
- » Be active
- » Go sustainable

Review your plan

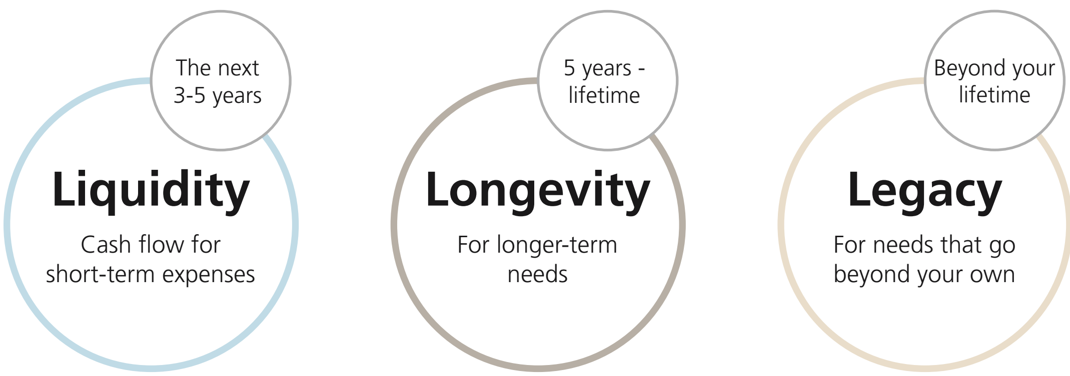
Developing a strategic plan that links goals with strategies can improve investors' chance of success and help them stay focused on the bigger picture amid potential market turbulence.

Our Liquidity. Longevity. Legacy.* approach can help investors pursue wealth goals over different time frames:

- *Liquidity:* We recommend holding sufficient funds to cover the next three to five years' worth of short-term expenses, liabilities, and spending plans in a Liquidity strategy mainly using cash and short-term bonds. This can offer peace of mind during market volatility, and a disciplined process of drawing on, and refilling, the strategy during bear markets can help generate performance over time.

- *Longevity:* Funds needed to meet financial goals throughout an investor's life should be in a Longevity strategy. We believe this is best invested in a well-diversified global portfolio, with the objective of balancing long-term returns with diversification to reduce volatility and manage withdrawal risks.

- *Legacy:* Excess funds beyond Liquidity and Longevity needs can be in a Legacy strategy, focusing on goals beyond an investor's lifetime, like bequests or philanthropy. With immediate needs covered, this strategy can focus on aiming to maximize growth through equity or illiquid strategies or impact investing. Effective legacy planning can help maximize wealth transfers, impact, and supports philanthropy.



* Time frames may vary. Strategies are subject to individual client goals, objectives and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

✓ Put cash to work and secure durable income

Cash's long-term underperformance compared to other asset classes is a structural phenomenon. Stocks have beaten cash in 86% and 100% of all 10- and 20-year holding periods, respectively, and by more than 200x overall since 1945.

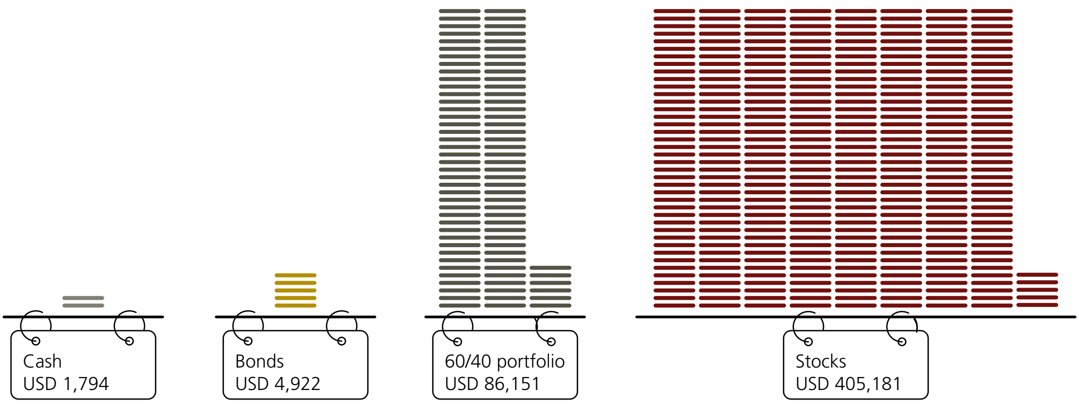
The imperative to put cash to work is likely to grow in 2025: With interest rates likely to fall further, investors will earn progressively lower returns and will need to find alternative, more durable sources of income.

Switching cash into high-quality fixed income can lock in yields and help dampen portfolio volatility.

Deploying excess cash into equity income or balanced strategies can provide a more long-lasting source of return and increase the likelihood of beating inflation over the long term.

Annuities should also be considered, as they can play an important role in providing greater stability and predictability to income streams.

How much would USD 100 invested in 1945 be worth today?



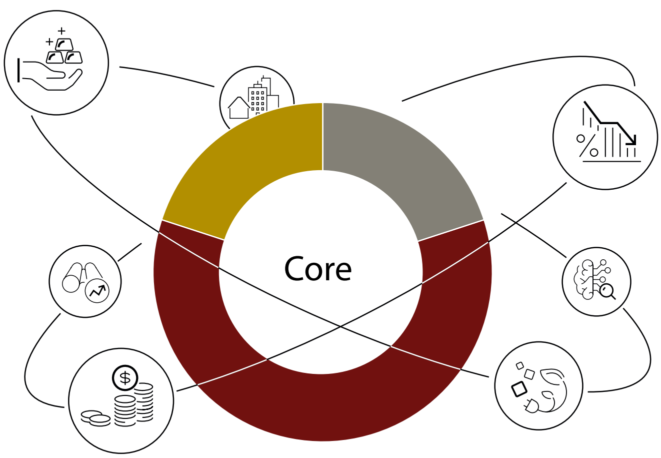
Total returns on cash (1-3m T-bills), stocks (S&P 500 total return), bonds (US Treasuries Intermediate-Term), and a 60/40 balanced portfolio (60% S&P 500 and 40% US Treasuries Intermediate), in USD.
Note: Past performance is not a guarantee of future results.
Sources: Morningstardirect, UBS, as of November 2024

✓ Strengthen your core

Investors can build an effective portfolio with a variety of individual investments. But there is a risk that portfolio complexity can lead investors to lose sight of their overarching goals, particularly when markets become more volatile or when financial news headlines seem pressing.

To tackle this, we believe that investors should implement a "core" component in their wealth management strategy. The core should be a portfolio diversified effectively across asset classes, geographies, and sectors, and left alone to grow wealth consistently for the long term.

Establishing such a core and letting it deliver compounded returns over time can provide investors with the confidence that their financial goals are accounted for while freeing up time and mental energy to pursue other passions or to seek tactical satellite opportunities.



For illustrative purposes only.
Source: UBS

✓ Diversify with alternatives

By including an allocation to private equity, private debt, private infrastructure, and/or private real estate into portfolios, investors can diversify sources of return and potentially enhance portfolio growth. We believe that investors can consider replacing around 30% of their public equity exposure with private markets, depending on their tolerance for illiquidity.

In private markets, we like private credit, value-oriented buyout, and secondaries including infrastructure; and thematically, we favor software, health, and climate.

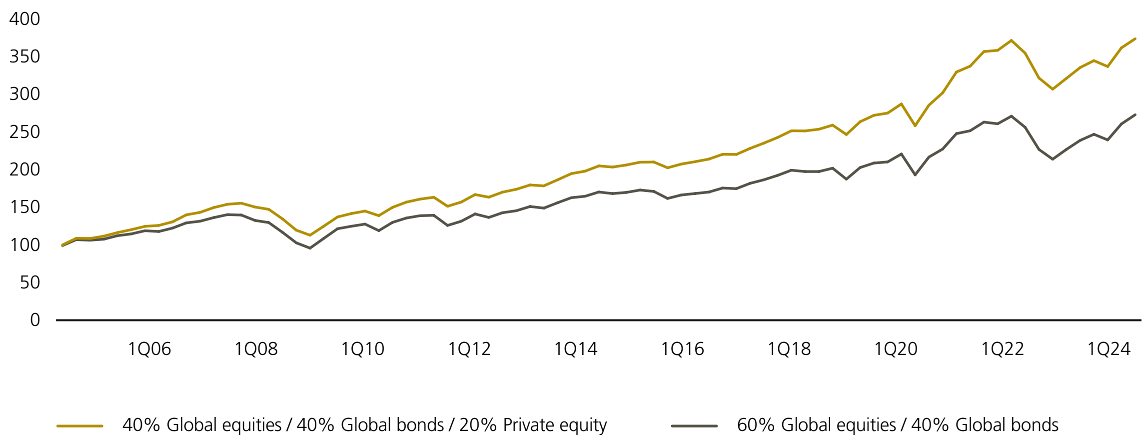
Meanwhile, exposure to select hedge funds can play various roles in a portfolio, acting either as a pure diversifier or as a substitute for other assets.

Our analysis indicates that global discretionary macro hedge funds have historically shown an average correlation of 0.2-0.4 with various bond indexes since 1997, and exhibit negative downside correlation during periods of financial stress. We believe investors should consider having around 10% in hedge funds, funded by a combination of bonds and equities.

In hedge funds, we favor low net equity long/short strategies, macro, and multi-strategy, and select alternative credit.

An allocation to private equity has helped generate performance

Historical analysis of adding private equity in a portfolio between 2004 and 1Q24



Indices: MSCI ACWI, Bloomberg Global Aggregate, CAPE Global Private Equity
Note: For a portfolio starting in 3Q04.
Sources: Bloomberg, Cambridge Associates, UBS, as of September 2024

✓ Optimize your leverage

Borrowing is risky, but we believe that proactive, prudent, and strategic borrowing can enhance an investor's financial plan, especially as interest rates fall.

If managed correctly, borrowing can help with:

- *Managing liquidity:* A flexible line of credit can provide immediate access to funds without the need to sell assets, reducing the necessity of holding excess cash. This can be beneficial for handling tax bills, capital calls, or retaining the flexibility to make larger investments.

- *Improving diversification:* Borrowing against existing assets to invest in less correlated assets may help smooth portfolio fluctuations and broaden return sources, with future cash flows used to gradually reduce debt.

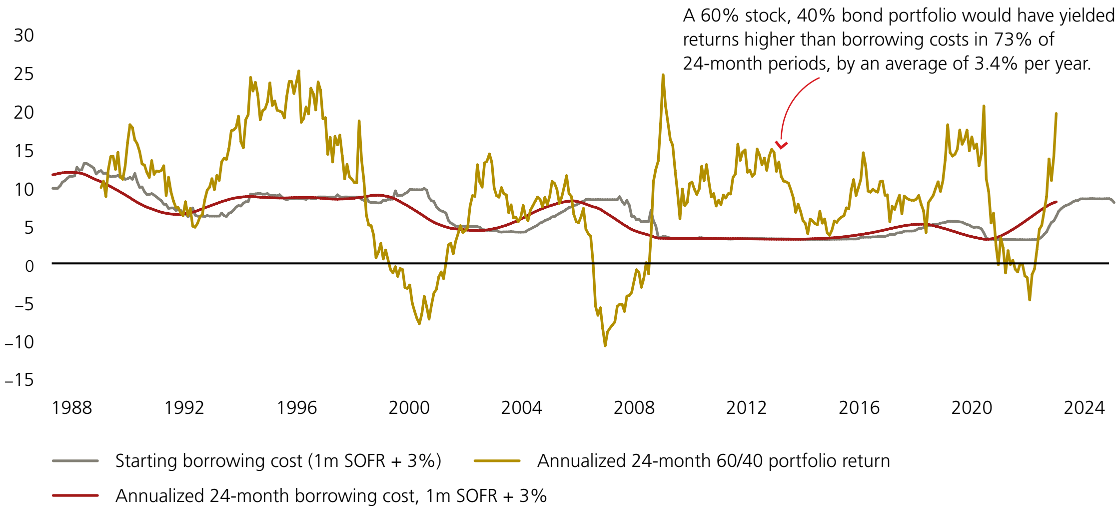
- *Currency management:* Borrowing in foreign currencies can help manage exchange rate risks associated with future foreign income and offer additional funds for domestic investments.

- *Boosting return potential:* For those with a high risk tolerance, borrowing could potentially lead to higher long-term gains if returns exceed borrowing costs, particularly as interest rates decline. However, this strategy is risky, as leverage can amplify both losses and gains.

Investors should carefully compare loan rates with expected returns, consider refinancing and interest rate risks, and be aware of the potential for margin calls during market fluctuations.

As central banks cut rates, falling costs may increase the appeal of borrowing strategies

12-month rolling returns and hypothetical borrowing costs



Indices used for 60/40: S&P 500 total return, Bloomberg government bond index, total return
Sources: Bloomberg, UBS, as of November 2024. Portfolio is 60% S&P 500, 40% government bonds. For illustration purposes only.

✓ Be active

The investment industry has undergone a passive revolution in recent years. In 2023, assets held in global passive equity funds (USD 15.1 trillion) overtook assets in active funds (USD 14.3 trillion) for the first time, according to LSEG Lipper. But investors need to ensure they are balancing their exposure to passive and active strategies effectively.

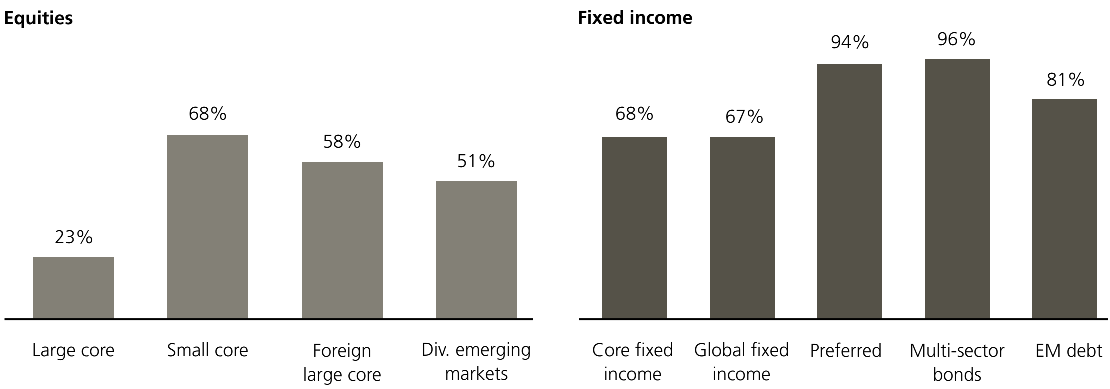
In equities, passive investing can be a good way to quickly and cheaply add exposure to broad markets. But for investors looking to add exposure to new or less prominent markets, including small caps, emergent growth themes, or emerging markets, passive investments may be too broad to navigate fast-evolving industries or companies that are not as well covered. An active approach to investing can also enable investors to take advantage of changing volatility conditions, generating yield when volatility is high, or hedging portfolios when volatility is low.

In bonds, the complexities of managing weights, maturities, cash flows, duration risk, interest rate risk, and credit risk mean that actively managed funds can often offer greater convenience and superior risk management than investors trying to manage single bond exposure themselves.

Generating alpha is also a core aim of alternative investment managers.

Active investing offers the opportunity to beat the benchmark

5-year success rate (ann. return), % of managers beating the benchmark



Benchmarks considered: in equities, S&P 500 (Large Core), Russell 2000 (Small Core), MSCI ACWI ex US (Foreign Large Div. Core), MSCI EM (Div. EM). In fixed income: Bloomberg US Aggregate (Core FI), Bloomberg Global Aggregate (Global FI), ICE BofA Fixed Rate Preferred (Preferred), Bloomberg US Universal (Multi-Sector Bonds), JPM EMBI Global Diversified (EM Debt). Success rates may be higher than actual experiences in certain categories due to potential survivorship bias.
Source: UBS, as of November 2024

✓ Go sustainable

All major asset classes, including equities, bonds, hedge funds, and private markets, offer sustainable options, which have shown similar risk and return characteristics to traditional investments. With the return of President Trump to the White House, we expect volatility but believe that the longer-term performance of diversified sustainable investing strategies will be driven more by investment fundamentals and the macro environment than by politics.

In stocks, we think investors can consider the equities of companies that are demonstrating improvements or leadership in ESG principles; or in fixed income; bonds issued by multilateral development banks or those with stated green intentions; or credit strategies with an active approach.

In alternatives, consider sustainable hedge funds. Such funds incorporate ESG factors into their investment processes, aiming to exploit market inefficiencies related to ESG issues. They thus may offer differentiated investment opportunities.

And in private markets, sustainable strategies focus on sectors such as renewable energy and sustainable agriculture, and aim to achieve positive environmental and social outcomes while providing diversification and potential for competitive returns.

Returns of global indices

	1-year	5-year
MSCI ACWI	33%	11.1%
MSCI ACWI ESG Leaders Index	33%	11.1%
Bloomberg US Treasury 5-10	9%	-0.7%
Solactive Global MDB Bond USD 5-10	9%	-0.7%
MSCI USA	38%	14.7%
MSCI USA ESG Leaders	38%	15.1%

Note: 5-year return is annualized
Source: Bloomberg, UBS, as of end October 2024

Philanthropy and blended finance

We see a growing opportunity set in investments that support sustainability and impact goals while aiming for competitive returns. However, some social and environmental issues cannot be easily addressed by investors seeking market-rate returns owing to factors like size, development stage, location, or business model. Philanthropic or concessionary funding can help attract commercial investors to these areas by reducing risks and encouraging more investment through structures like blended finance. While promising, blended finance deals are complex and need thorough assessment to meet investor expectations.

Forecasts

Economy

GDP (%)

	2024E	2025E	2026E	2027E
US	2.7	1.9	1.6	1.8
Canada	1.1	1.6	1.9	1.7
Japan	-0.2	1.1	0.6	0.6
Eurozone	0.7	0.9	1.1	1.2
UK	0.9	1.5	1.3	1.3
Switzerland	1.4	1.3	1.6	1.6
Australia	1.2	2.0	2.2	2.1
China	4.8	4.0	3.0	3.6
India	6.7	6.3	6.6	6.8
EM	4.4	4.0	3.6	4.0
World	3.2	2.9	2.6	3.0

Inflation (%)

	2024E	2025E	2026E	2027E
US	3.0	2.6	2.5	2.5
Canada	2.4	2.0	2.0	2.0
Japan	2.6	2.2	2.1	2.1
Eurozone	2.4	2.1	2.0	2.0
UK	2.5	2.3	2.1	2.0
Switzerland	1.1	0.7	1.1	1.0
Australia	3.3	2.7	2.8	2.8
China	0.4	0.1	-0.2	0.5
India	4.7	4.2	4.3	4.5
EM	8.2	4.0	3.0	2.8
World	5.8	3.3	2.7	2.6

Source: Haver, CEIC, National Statistic, Bloomberg, UBS, as of 14 November 2024

Asset classes

	Spot	June-25	Dec-25
Equities			
S&P 500	5,894	6,300	6,600
Eurostoxx 50	4,790	4,850	4,900
FTSE 100	8,109	8,100	8,200
SMI	11,640	12,000	12,200
MSCI Asia ex-Japan	708	780	800
MSCI China	65	67	74
Topix	2,692	2,810	2,850
MSCI EM	1,090	1,180	1,220
MSCI AC World	1,028	1,090	1,140
Currencies			
EURUSD	1.06	1.09	1.12
GBPUSD	1.27	1.33	1.35
USDCHF	0.88	0.85	0.84
USDCAD	1.40	1.37	1.35
AUDUSD	0.65	0.68	0.68
EURCHF	0.94	0.93	0.94
USDJPY	155	150	145
USDCNY	7.22	7.50	7.50
Interest rates, in %			
USD	4.58	3.83	3.33
EUR	3.25	2.00	2.00
GBP	4.75	4.25	3.75
CHF	1.00	0.50	0.50
JPY	0.25	0.75	1.00
10-year yields, in %			
USD 10y Treas.	4.45	4.00	4.00
EUR 10y Bund	2.39	2.25	2.25
GBP 10y Gilts	4.52	4.00	4.00
CHF 10y Eidg.	0.39	0.50	0.50
JPY 10y JGB	1.05	1.20	1.30
Commodities			
Brent crude, USD/bbl	72.3	80	80
WTI crude, USD/bbl	68.4	75	75
Gold, USD/oz	2,573	2,850	2,900
Silver, USD/oz	30.4	36	38
Copper, USD/mt	9,047	10,000	11,000

Source: SIX Financial Information, UBS, as of 14 November 2024

Impressum

Year Ahead 2025 – UBS House View
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Global asset class preferences definitions
The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid, commonly known indexes, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.
Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities.

Note: For equities, we have collapsed "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive" from the five-tier rating system that is found in the Equity Compass into 3 tiers.

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Nontraditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments; there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund, and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

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- **Private Equity:** There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
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