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Should I stay or should I go?

Weekly viewpoints

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It's a classic investor dilemma: When big waves break in the stock markets, many retreat to safety. The question arises: Should one stay or go? We note that since 2009, there have been only two bear markets in the S&P 500 but 74 panic attacks, and we provide reasons to stay the course this time as well. Our scenario of the "Roaring Twenties" seems intact to us. The new world order demands capital investments worth billions. Particularly, the themes of security and energy are becoming two sides of the same coin, gaining political capital. In Europe, they bring movement and spark hope for new investments, growth, and energy security.

"Paradise Lost" is a brilliant annotated new translation of one of the greatest linguistic spectacles in English literature since William Shakespeare. Its status as a work of a turning point and consistent disobedience makes it more relevant than ever. A gift for a good weekend!

1. "Should I stay or should I go?": Corrections, bear markets, and the great rotation

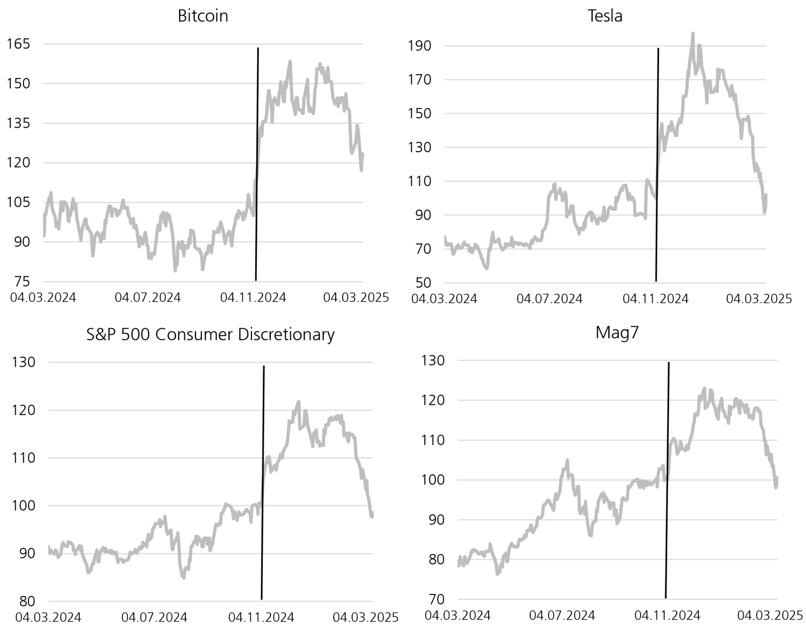
Is the "Trump slump" following the Trump euphoria? This week, it seemed so. The sell-off hit the favorites of the euphoria particularly hard, while government bonds and the euro were in demand.

Just a short "detox"?

With the crash on Wall Street, the *global rotation* from US markets to the rest of the world continued. Neither President Donald Trump nor Treasury Secretary Scott Bessent could calm the situation. On the contrary, Bessent's comment in a CNBC interview[1] that the development was just a short "detox" to free the economy from its stimulus dependency led investors to flee.

1 CNBC: Full interview with U.S. Treasury Secretary Scott Bessent

Figure: Trump slump? What's happening?
Indexed (11/04/2024 = 100)



Sources: Bloomberg, UBS; per 03/12/2025

On the other side of the Atlantic, in Berlin, Friedrich Merz announced radically higher spending on security and infrastructure in a TV interview. Europe is on the move. It's about security, energy, independence, and Ukraine. Merz quoted Mario Draghi's "Whatever it takes." Subsequently, some Wall Street economists increased their growth forecasts for Germany and the EU, albeit in some cases only to a small extent. But every journey begins with a small step.

What a difference a year makes. While the US administration is still advocating for cuts in government spending, Germany is awakening to a new appetite for debt policy. Europe also raises hopes for a big package: for growth, security, infrastructure, and deregulation. We will see. In the meantime, the stock market rotation continues. Instead of making America great, the markets favor MEGA ("Make Europe Great Again"). The euro is appreciating, and Europe's stock markets are leading in the performance derby. But the year is still young. In any case, we closed recommendations on China's tech sector and structures on the DAX last week, and advised using defensive structures to hedge US equities while retaining some upside.

Should I stay or should I go? That's the million-dollar question.

Capital is famously as shy as a deer. Therefore, caution in the stock markets is considered a virtue. However, those who sell their papers too early usually don't hold them during the recovery either. Fear is not only contagious but also a poor advisor. This is evidenced by our recently published UBS Global Investment Returns Yearbook[2] with data from 125 years and 36 countries.

Our "Roaring Twenties" scenario emphasizes the resilience of US companies and the investment needs of the new world order. Many US companies invest more in technology, are more innovative, profitable, and growth-oriented than those from the rest of the world. Their productivity strengthens profits, valuations, and private incomes. The Biden administration favored the US economy. But it was not the architect of individual company successes. These successes are the merits of American managers, workers, and private households. Does President Trump undermine these qualities? Not so quickly. Moreover, he seems to value popularity over ideology. That's why he withdrew his tariffs on Canada and Mexico after just two days. Markets can get used to unpredictability. They did so during Trump 1.0. because in the end, corporate profits and interest rates are what matter most on the stock market. And these are still moving in the right direction.

Even the recent economic data was not as bad as commented. The expansion of the US trade deficit was primarily due to the doubling of gold imports between December and January. The fires in Los Angeles and record low temperatures in the rest of the country hopefully remain an exception. Private incomes increased by +0.9 percent in January according to the Bureau of Economic Analysis. The official unemployment rate of 4.1 percent is still low. Capital costs, mortgage rates, electricity, and gasoline prices have been falling since the beginning of the year. The balance sheets of banks, companies, and private households are healthy. At the same time, a new world order promotes and demands large capital investments in infrastructure, technology, and security. US companies have a strong track record here.

Meanwhile, in Germany—Europe's largest economy—hopes for a spring awakening are budding. Its economy would benefit disproportionately from falling electricity costs, and its medium-sized businesses are more successful than its car manufacturers.

Corrections versus bear markets

Let's briefly compare corrections and bear markets:

- "Corrections" refer to index declines of between 10 and 20 percent. They are usually quickly made up. Sometimes they seem like a cloudburst; sometimes they arise from fear of a recession, which then does not occur. Current recession fears in the US seem exaggerated to us. The balance sheets of US banks and the private sector are too healthy. It seems more likely to us that last week was a "cloudburst." By the way: Since 2009, there have been a total of 74 panic attacks in the S&P 500 index. They are all listed in the appendix.
- "Bear markets" refer to losses of more than 20 percent. They usually, but not always, follow recessions or rising inflation. Some statistics on this:

[2] UBS Global Investment Returns Yearbook 2025

- Since 1928, there have been 27 bear markets in the S&P 500. They became rarer in the post-war period because the economy became more diversified and resilient. In the 17 years between 1928 and 1945, there were twelve bear markets, after 1945 only 15, and since 2009 two (the euro crisis in 2011 and during the lockdowns, 2020-2022).
- On average, they lasted 1.3 years and lost 38 percent. Bull markets, on the other hand, lasted an average of 6.6 years and gained 339 percent. No wonder bulls usually have it easier on the stock market than bears.
- Many of the best stock market days fall in the darkest bear markets—light and dark are in close proximity on the stock market.

In short: Although Trump 2.0 has not helped the stock market thus far, we trust in the strength of our "Roaring Twenties" scenario. Last week, we closed recommendations on China's tech sector and structures on the DAX, and advised using defensive structures to hedge US equities while retaining some upside. But above all, it is diversification that gives us staying power. We see stocks higher at the end of the year, bond yields lower, and opportunities in technology, energy, and the new world order.

2. New world order 2.0: Energy and security transition go hand in hand

Three major economic changes are expected to shape the rest of this decade: the new global security architecture, the energy transition, and the realignment of global trade. All of them require large, multi-year investments. Alone, the arms race and energy transition demand annual additional investments of one to three percent of economic output in many places. This is a significant structural stimulus that favors our "Roaring Twenties" scenario and requires substantial public-private investment partnerships.

Energy creates security

The interconnection between energy and security is a central aspect for many investors. The Paris Climate Conference in 2015 contributed to making solar, wind, and hydropower the cheapest energy sources in many places. Nevertheless, inadequate power grids and storage, as well as political obstacles, still require much work. But since the energy crisis triggered by Russia's invasion of Ukraine in 2022 and the insatiable power hunger of AI data centers, the energy transition has gained further political advocates. The aim is that sustainable energy supply security is synonymous with stability, freedom, and independence.

Security needs strengthen the energy transition

The two oil crises of 1973 and 1979 already triggered a global energy transition. In retrospect, it was even faster and more profitable than the one of the last twenty years, as a recent study[3] by Carlyle's strategist Jeff Curry calculates. Crises are always accelerators of change. They focus the mind and foster inventiveness. This is also the hidden contribution of current geopolitical tensions. The growing political importance of energy supply security will accelerate the current energy transition and make it more powerful and profitable than the markets are pricing in, in our view.

Bretton Woods shaped the old energy order

Looking back: After World War II, it was in the interest of the United States to guarantee global energy trade and free sea routes. After all, they imported more oil than any other country. The heart of the former Bretton Woods system was the US dollar, the US Navy, and global oil trade routes.

But the shale gas revolution around 2010 transformed the US from the largest energy importer to its largest exporter. This new energy independence reduces Washington's interest in protecting sea routes and global free trade at great expense. If the US withdraws as the world's policeman, the rules of the seas change. No wonder all energy importers like China, India, and Europe are doubling their efforts to replace imported energy with domestic sources like solar, wind, water, or nuclear energy.

Freedom, bread, or climate – what comes first?

When times change, political goals change. If freedom and prosperity are secured, interest in the climate benefits. But if freedom or bread is in danger, that can change. For example, Germany reactivated its coal power in 2022. Security, prosperity, and independence were more important than climate. But there doesn't have to be a conflict between these goals. On the contrary, energy-hungry AI and the new geopolitical-threat landscape strengthen everyone's strategic interest in the energy transition. A lesson from the oil crisis of the 1970s is that crises accelerate change. US President Nixon used them, for example, to free the US from the smog that polluted the air in Los Angeles and other major cities.

Electrification is key

For the energy transition, electrification and diversified energy sources are central. Investments in power infrastructure associated with the new Swiss electricity law could increase tenfold by 2050. Switzerland is not alone in this. In most industrialized countries, electrification resembles a proverbial train that has left the station. There is no way back. No wonder copper is considered the new gold by many. Because without copper, there are no cables and no electrification.

The "peak oil trade" works. But differently...

"Peak oil" does not mean that the demand for oil is declining. That will not be the case for the foreseeable future. But: If countries or consumers can reduce their oil imports, they will do so. Chinese consumers love electromobility. But it will take time before their entire fleet is electrified. In the meantime, the demand for oil continues to grow—but slower than the demand for

[3] Carlyle (2025): The New Joule Order

electrification and solar, wind, water, or nuclear power. The energy transition shifts global commodity demand from fossil to mineral resources, such as lithium, whose price has increased tenfold from around USD 1,500 per ton in the 1990s to around USD 15,000 per ton today. *The premium in the "peak oil trade" is primarily a "security premium"*—and secondly an "environmental premium." This is an important aspect of the current energy transition, a strong pillar of our "Roaring Twenties" scenario.

3. "Paradise Lost": A new introduction at the right time

John Milton (1608-1674) was an unyielding rebel. He knew Galileo and Kepler, fought for enlightenment and a republic. His epic poem "Paradise Lost" (1658) is perhaps the grandest literary and linguistic spectacle in English literature since William Shakespeare (1564-1616). The "English Homer," as he was called during his lifetime, continues to engage Anglo-Saxon literature to this day. Yet outside of it, he is hardly known. This is partly due to the complex language—or some translations. In the latest annotated edition, translator Rolf Schönlau explains, for example, why the title "Paradise Lost" is poorly captured by the previous formulation "The Lost Paradise." The difference between attributive and predicative use of the participle is crucial. The traditional translation "The Lost Paradise" announces a long-past event. "Paradise Lost," on the other hand, refers to the observation of a witness still under the immediate impression of the events, like "game lost, war lost, power lost."

Indeed, John Milton had lost when he began writing "Paradise Lost" around 1658. For him, the suppression of the Puritan revolution and the restoration of the monarchy must have evoked the title "Paradise Lost." Thus, his masterpiece not only has disobedience as its theme but also practices it from the first to the last line.

However, Rolf Schönlau does not simply present "just" a new translation. Rather, he captivates us with a lively elaboration of what "Paradise Lost" is about, by narrating, translating, and commenting on this grand epic.[4] And so, one devours chapter after chapter—it is like a stellar moment in literature mediation. And it makes one crave more of Milton's mighty verse cascade, which sparked many literary discussions, from William Blake, the Shelleys, through Thomas Carlyle and Chateaubriand to Virginia Woolf and T. S. Eliot. The small book opens vast spaces while rediscovering a forgotten classic of world literature. Remarkable also because the upheavals and turning points of then and now have much in common. And that says a lot about the timeless power of epics and stories.

All the best

Burkhard Varnholt

[4] John Milton: "Paradise Lost." Narrated, translated, and commented by Rolf Schönlau. Friedenauer Presse, Berlin 2024, 310 pages

Appendix: Panic attacks in the S&P 500 since 2009

Panic Attack	Start Date	Triggering Events
74	2/18/2022	Ukraine crisis
73	1/5/2022	Taper tantrum
72	11/30/2021	Powell turns hawkish
71	11/26/2021	WHO designates Omicron a Covid-19 variant of concern
70	9/21/2021	Evergrande / energy crisis / inflation
69	2/22/2021	Return of the Bond Vigilantes
68	9/2/2020	Overvaluation correction & election jitters
67	1/24/2020	Coronavirus
66	8/14/2019	Yield curve inverts
65	8/1/2019	Trump threatens new tariffs on China
64	5/6/2019	US-China trade war escalates
63	10/3/2018	Powell's hawkish interview
62	3/1/2018	Trade war talk
61	2/2/2018	Wage, inflation fear
60	8/9/2017	North Korea crisis
59	5/17/2017	Trump impeachment scare
58	10/28/2016	FBI flags Hillary Rodham Clinton
57	9/9/2016	Fed tightening tantrum
56	6/23/2016	Brexit vote
55	2/11/2016	Price of West Texas Intermediate oil bottoms
54	1/29/2016	Japan adopts NIRP (near-zero interest-rate policy)
53	1/20/2016	Brent bottoms at $27.88
52	1/14/2016	Endgame Panic
51	1/4/2016	Williams' tightening warning
50	12/11/2015	Third Avenue blows up
49	8/24/2015	ETF flash crash
48	8/22/2015	Yuan devalued
47	7/20/2015	Chinese stocks sink again
46	6/27/2015	Greece sets 7/5 vote
45	3/11/2015	Oil falls, dollar rises
44	1/26/2015	Renewed Grexit scare
43	1/15/2015	Swiss franc unpegged
42	1/12/2015	Brent oil price drops below $50/bbl
41	12/3/2014	Brent oil price drops below $70/bbl
40	9/30/2014	Global growth and Ebola virus scares
39	7/29/2014	Sanctions imposed on Russia
38	7/17/2014	Malaysian jet crisis
37	7/10/2014	Portuguese bank panic
36	6/10/2014	ISIS invasion of Iraq
35	4/3/2014	Momentum stocks meltdown
34	3/19/2014	Yellen rate-hike scare
33	2/28/2014	Crimea invasion
32	1/23/2014	Emerging markets mini-crisis
31	12/14/2013	Fed taper fears
30	9/28/2013	Looming budget deadlines & debt ceilings
29	8/17/2013	Fed speculation & weak retail sales
28	5/21/2013	Bernanke's taper talk
27	4/16/2013	Worries about slowdown in China / commodities plunge
26	2/23/2013	Fed comments on ending QE
25	12/29/2012	Lack of fiscal cliff deal
24	11/10/2012	Obama reelection / fiscal cliff fears
23	10/13/2012	Lowered IMF global growth outlook
22	9/29/2012	US economic weakness / Spain's bank stress tests
21	7/21/2012	Spanish bond yields spike
20	7/7/2012	Libor scandal
19	6/30/2012	Negative Operation Twist news
18	6/2/2012	Eurozone debt crisis
17	5/5/2012	Eurozone debt crisis
16	4/14/2012	Eurozone debt crisis
15	4/7/2012	FOMC members raise end-of-easing fears
14	3/24/2012	Slowing China growth
13	3/10/2012	Greek debt restructuring
12	8/1/2011	Eurozone debt crisis
11	5/1/2011	Greece debt crisis
10	3/11/2011	Japan nuclear disaster
9	2/22/2011	Libyan oil crisis
8	11/12/2010	Cisco profit warning / Chinese slowdown fears
7	8/13/2010	Bernanke's confusing message
6	7/2/2010	Investors fear US slipping back into recession
5	5/7/2010	Greek debt crisis / flash crash of 9% in DJIA
4	1/22/2010	Chinese regulators begin to curb lending / Obama proposes limits on bank risks
3	7/2/2009	Weak jobs report hammers stocks
2	2/10/2009	Fears of nationalizing US banks / lack of confidence in government
1	1/9/2009	Weak jobs report / worst holiday spending season on record

Source: Yardeni Research

Appendix

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