Main Sequence

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Global Strategy Views: Diversify to Amplify

We are entering a more benign phase of the economic cycle characterized by sustained economic growth and declining policy interest rates. Historically, such an environment supports equities but also highlights the increasing importance of broad diversification across regions and sectors.

Overview

Longer-term interest rates are expected to remain elevated, driven by rising government deficits and persistent term premiums. However, the reduced likelihood of a near-term recession presents opportunities for positive equity returns, notably in sectors like technology and select value-oriented areas such as financials.

This evolving landscape emphasizes the necessity of expanding our investment horizon beyond traditional focuses—such as large-cap US technology—to include regional markets, mid-cap companies, and "Ex-Tech Compounders." Such diversification aims to enhance risk-adjusted returns as global growth trajectories become more aligned.

Key Takeaways

- **Diversification enhances return potential:** Capturing alpha in the upcoming cycle will likely depend on a diversified approach across multiple regions and investment factors.
- **Technology remains essential:** Rising demand for physical infrastructure, such as data centers and AI-supportive hardware, will benefit traditional industrial sectors, creating new investment opportunities.
- **Divergent interest rate dynamics:** Central banks have started easing policies, but persistent high bond yields imply limitations on further equity valuation expansions.