

Year Ahead 2025: Roaring 20s: The next stage

UBS House View - **Daily US**

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From the studio:

Video: [CIO's Sundeep Gantori on NVIDIA earnings, tariffs impact, and AI positioning](#) (1:09)

Video: [CIO's Matthew Tormey on 3Q earnings](#) (1:24)

Podcast: [CIO's Jason Draho on supply-side economics](#) (17:09)

What to watch: 22 November 2024

- Flash PMIs for November from the US, Japan, Eurozone, and UK
- UK October retail sales

Thought of the day

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 despite 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 (AI). The risk scenario is that trade tariffs, excessive fiscal deficits, and geopolitical strife will contribute to higher inflation, weaker growth, and market volatility.

While we are monitoring the potential risk scenarios closely, our base case is optimistic about the prospects for US stocks and high-quality bonds. We are more cautious about the US dollar's medium-term prospects but continue to like gold.

Specifically, our high conviction investment ideas for 2025 are:

- **Position for lower rates.** In our base case, major central banks will cut rates as inflation normalizes and jobs markets cool. Investors should

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therefore diversify into high grade, investment grade bonds, diversified fixed income, and equity income strategies to bolster yields.

- **More to go in stocks.** Falling rates and solid growth make the US market Attractive—we expect the S&P 500 to reach 6,600 by end-2025. We also like select markets in Asia ex-Japan, Eurozone small- and mid-caps, and Swiss high-quality dividend stocks.
- **Seize the AI opportunity.** AI will likely prove to be one of the biggest investment opportunities of the decade, with potential revenues of more than USD 1.1tr across the segment by 2027. We recommend that investors focus on megacap tech and private companies in the enabling layer for now.
- **Invest in power and resources.** AI power usage, industrial electrification, and decarbonization will all spur electricity demand—we recommend investing in transmission, distribution, data centers, transport, and energy storage.
- **Sell further dollar strength.** While the US dollar may stay well bid in the near term, we advocate hedging it, selling it on strength, or generating yield through options as it falls back in line with declining yields and as twin deficit concerns look set to rise.
- **Go for gold.** Gold looks poised to gain on lower rates, persistent geopolitical risks, and government debt concerns. We also like transition metals as rising demand for them to generate power likely meets constrained supply.
- **Time for real estate.** The global real estate outlook is promising. With limited supply and growing demand, sectors like logistics, data centers, and multi-family housing present opportunities. We recommend focusing on quality assets and strategic diversification.

Taking a step back, while these investment ideas present compelling cases for immediate action, they must be considered within the broader context of your financial goals. Our Liquidity. Longevity. Legacy.* framework is designed to help you integrate these opportunities into a strategic plan by linking your financial goals to your investments. We recommend putting cash to work and building a core diversified portfolio, including exposure to alternatives. Subject to careful planning and risk management, borrowing may help improve portfolio diversification, while mixing index-tracking and more active approaches provides the potential to generate alpha in a risk-controlled way. Finally, sustainable options are available across all major asset classes, including equities, bonds, hedge funds, and private markets, offering similar risk and return profiles to traditional investments.

Read more in our Year Ahead 2025 outlook, [“Roaring 20s: The next stage.”](#)

**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.*

Caught our attention

NVIDIA reports earnings beat. After the US market close on Wednesday, NVIDIA reported strong results for the quarter ending in October, with both revenue and earnings per share beating consensus estimates (by 6% and USD 0.06, respectively). However, shares of the chipmaker fell by about 3% in

extended trading, as its fourth quarter revenue guidance came in only slightly above average analyst estimates. Nasdaq futures were down 0.5% at the time of writing.

Our view: Without taking single-name views, NVIDIA's results support our positive outlook on the broader AI growth story. CEO Jensen Huang highlighted strong demand from its customers, consistent with the spending commitments from big tech in recent quarters. While volatility in the tech sector is likely to increase amid near-term risks such as export controls and new tariff policy under President-elect Donald Trump's second term, we maintain our confidence in the investment boom and technological advances AI will continue to bring. We recommend taking advantage of potential near-term volatility to build up sufficient exposure to quality AI stocks.

Fed officials diverge on inflation risk. Fed governors Michelle Bowman and Lisa Cook laid out differing views on inflation in separate speeches on Wednesday. Bowman, at an economic forum in Florida, warned that inflation progress has stalled, and said she would "prefer to proceed cautiously in bringing the policy rate down." She added that the Fed should be wary of cutting rates too far too fast, and allowing inflation to resurge. Cook, on other hand, in remarks in Charlottesville voiced confidence that price pressures are now largely confined to the housing sector and will continue to ease. With the disinflationary trajectory still in place and the labor market gradually cooling, she said she sees "the direction of the appropriate policy rate path to be downward." Separately, Boston Fed President Susan Collins expressed support for more rate cuts amid diminishing inflation pressures.

Our view: The latest consumer and producer inflation data should see the Fed's preferred inflation gauge, the personal consumption expenditures (PCE) price index, come in higher for October than in recent months. However, with rates still in restrictive territory and the labor market continuing to soften, we still see a 25bp cut in December, followed by another 100bps of reductions in 2025. This would likely require somewhat softer inflation prints in the months ahead given the Fed's data dependent approach. We recommend investors redeploy excess cash in a lower-rate environment, including in investment grade bonds, diversified fixed income, and equity income strategies to enhance portfolio income.

Market update

Percent change. For volatility indices, net change in points. For yields, net change in bps

21.11.2024

	Current (*)	1D	5D	1M	YTD
VIX Index	17.3	+0	+3	-1	+5
MOVE Index	107	+2	+7	-22	-8
S&P 500	5917	+0.0%	-1.1%	+1.1%	+24.1%
Russell 2000	2326	+0.0%	-1.9%	+3.8%	+14.7%
Euro Stoxx 600	499	-0.2%	-1.5%	-4.2%	+4.3%
Shanghai Composite	3370	+0.1%	-0.3%	+3.1%	+13.3%
US 10-year Treasury	4.40	-1	-4	+20	+52
US 2-year Treasury	4.30	-2	-5	+27	+5
Germany's 10-year Bund	2.35	+0	+1	+7	+33
Germany's 2-year Bund	2.12	-1	+2	-6	-27
EURUSD	1.053	-0.0%	-0.3%	-2.7%	-4.6%
EURCHF	0.93	-0.1%	-0.8%	-0.8%	+0.1%
USDCHF	0.88	-0.1%	-0.5%	+2.1%	+5.0%
USDJPY	154	-0.5%	-0.8%	+2.6%	+9.5%
Brent crude, USD/bbl	74	+1.0%	+1.3%	-1.0%	-4.6%
Gold, USD/oz	2671	+0.7%	+3.8%	-1.9%	+28.9%

(*) or last close if not available

Source: Bloomberg, UBS, as of 21 November 2024

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