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News Release

UBS Year Ahead 2025: Roaring 20s – The next stage

By many measures, markets have had a "roaring 20s" – with five years of strong performance for global equity market indices, technological breakthroughs, and stronger-than-expected US economic growth. As we enter 2025, UBS's Chief Investment Office looks at key developments that will shape the next stage of this decade, including US political change, transformative innovations, and lower interest rates.

Zurich, 21 November 2024 – Since the start of the 2020s, global equity markets are up by around 50%, nominal GDP has increased by over 30%, and US corporate profits have nearly doubled. 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. In the *Year Ahead 2025* UBS Global Wealth Management's (GWM) Chief Investment Office (CIO) outlines what's next for investors, as they enter the second half of the decade.

A Trump presidency has the potential to reshape the US economic and geopolitical landscape. Tariffs in particular have the potential to disrupt trade, reduce domestic US demand, and increase inflation. A tariff shock could trigger a stagflationary downside scenario. At the same time, negotiations with trading partners or domestic legal challenges might mitigate their scope and impact, and tax cuts and deregulation could support a more positive market narrative. In its base case CIO believes the S&P 500 could reach 6,600 by the end of 2025 driven by solid US growth, lower interest rates, and AI advancements.

Elsewhere, in Asia, China's growth is likely to slow, with reactive fiscal stimulus measures unlikely to be sufficient to fully offset the impact of tariffs and structural challenges. India is expected to continue to deliver more robust growth. In Europe growth is likely to be uneven and subdued, but it should improve as wage growth remains strong while interest rates fall. Spain, the UK, and Switzerland should outperform with growth rates above 1%, compared to more modest growth of around 1% in Germany, France and Italy.

The report highlights the following investment views for the year ahead:

- **Position for lower rates:** Cash returns are set to diminish in light of further central bank rate cuts. Meanwhile, investment grade bonds offer attractive yields and potential for capital gains, with total expected returns in the mid-single-digit range in USD.
- **More to go in stocks:** 2025 should bring further upside for stock markets. The US is a preferred market, while diversified exposure to Asia ex-Japan could be an effective way to capture potential upside in the region while managing risks. In Europe, Eurozone small- and mid-caps and Swiss high-quality dividend stocks look attractive.
- **Transformational innovation opportunities:** *Artificial intelligence* and *power and resources* constitute two opportunities within equities with the potential to provide significant and sustained profit growth, that could earn investors in these areas outsized long-term returns.

- **Trade the range in the US dollar:** The US dollar is likely to be caught between short-term positive drivers, including tight US labor markets and tariffs, and longer-term negatives, including overvaluation . Investors should use periods of strength to reduce US dollar exposure.
- **Go for gold:** Lower interest rates, persistent geopolitical risks, and US government debt concerns should continue to support gold in 2025. There are also long-term opportunities in copper and in other transition metals as demand rises alongside rising investment in power generation, storage, and electric transport.
- **Time for real estate:** The outlook for residential and commercial real estate investments is bright. With constrained supply and rising demand, there are opportunities in sectors including logistics, data centers, and multifamily housing.

Looking further ahead, the 5Ds of debt, deglobalization, demographics, decarbonization, and digitalization remain key factors likely to drive markets and economies in the years to come presenting both opportunities and risks for investors. In aggregate they should lead to higher growth, e.g. driven by artificial intelligence, which could prove to be one of the most influential innovations of the century, and periods of higher inflation, due to more deglobalized trade and higher energy prices driven by decarbonization efforts.

Mark Haefele, Chief Investment Officer at UBS GWM, says:
"The US election result remains a focal point, with the prospect of lower taxes and deregulation adding to a positive 'Roaring 20s' market narrative built on solid growth, and continued investment in AI. Still the problems of deglobalization, debt, and demographics—among others—mean the we have to be prepared for a wide range of outcomes in the year ahead."

Scenarios for the year ahead

Base case: Growth despite tariffs

Probability: 50%

S&P 500: 6,600 l 10-year US yield: 4.00 l 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 l 10-year US yield: 4.50 l 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 l 10-year US yield: 2.50 l 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

Bear case: Tariff shock

Probability: 15%

S&P 500: 5,100 l 10-year US yield: 5.00 l 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 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.

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.

Links
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