CIO expects the highest returns from equities, and within equities the potential leaders from disruption, notably those associated with technology disruption including AI, energy disruption, and health disruption. (UBS)

# Looking to the year and decade ahead

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**The mood in markets has been improving as we head toward the final month of the year. The S&P 500 has now gained 17.3% so far in 2023, while a rally in 10-year Treasuries has taken its yield back down to 4.5%, from a recent 16-year peak of 5%.**

So, how do we see the outlook for the coming year? Today, we published our *Year Ahead 2024* report. In our view, we are entering "a new world," the subtitle of the report, defined by economic uncertainty and geopolitical instability, but also profound technological change.

On the economic front, we expect global growth to slow. US consumption is likely to decline even if a deep contraction is unlikely. We expect European growth to remain subdued. China is entering a "new normal" of lower growth than in the past. This should allow central banks to commence rate-cutting cycles in 2024 starting mid-year, leading to a further decline in government bond yields. Meanwhile, we expect politics to play an outsized role, with the US presidential election, the Israel-Hamas and Russia-Ukraine wars, and the US-China rivalry all having the potential to shape markets.

Against this backdrop, we recommend several key strategies for investors to position for 2024:

**First, manage liquidity**. Lower interest rates and lower yields will reduce the return of cash and increase reinvestment risks. We believe investors need to limit cash balances and optimize yields.

**Second, buy quality in both stocks and bonds**. Quality bonds offer attractive yields today, and we expect capital appreciation as growth slows and yields fall. Quality stocks with strong balance sheets and high returns, including many in the technology sector, should be best positioned to generate earnings despite weaker growth.

**Third, trade the range in currencies and commodities**. We expect the US dollar to remain around current levels in the months ahead but weaken as US growth slows, so we like strategies that sell dollar upside risk. We think oil prices are likely to trade in a USD 90–100/bbl band over the coming months.

**Fourth, hedge market risks.** Investing against a backdrop of war and geopolitical uncertainty means investors need to prepare for volatility ahead. Aside from diversification, investors can further insulate portfolios through capital preservation strategies, alternative investments, or positions in oil and gold.

**Fifth, diversify with alternative credit**. Within the alternatives asset class, we see a supportive backdrop for credit arbitrage and distressed debt. High debt balances, slowing growth, and refinancing needs could contribute to elevated price and spread volatility, creating opportunities for managers. So, while the coming year is likely to pose challenges, we see various ways in which investors can optimize the potential for strong returns.

We also address longer-term trends that look set to shape the decade ahead. We focus on the interaction between the 5Ds—debt, demographics, digitalization, deglobalization, and decarbonization. While various scenarios are possible, our base case is that cash will lag other major asset classes, especially if financial repression is used to manage debt burdens. Attractive current yields mean prospective fixed income returns look better than they have in recent history.

We expect the highest returns from equities, and within equities the potential leaders from disruption, notably those associated with technology disruption including AI, energy disruption, and health disruption.

We also think investors can capture growth with private markets. Private market managers, with their ability to provide equity or debt capital to companies at different lifecycle stages, have a key role to play funding companies that offer innovative solutions in these thematic spaces. However, investors should be aware of the risks of investing in private markets, such as illiquidity and potentially long lock up periods.

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For more visit the **Year Ahead 2024 landing page** and read the full report **Year Ahead 2024: A new world.**

Read the original report: **Looking to the year and decade ahead, 16 November 2023.**