What will the new year bring?

CIO Essentials

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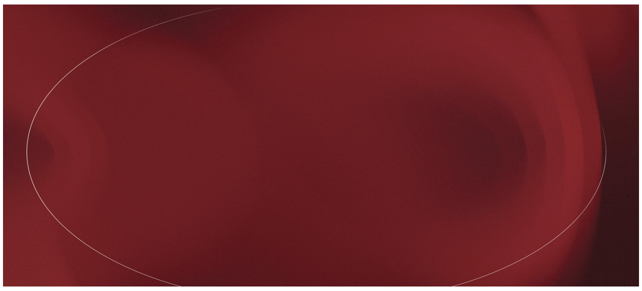
- Monetization has historically lagged spending, and AI should not be an exception. Company pricing power will follow as AI adoption increases.
- As government debt increases, financial repression is more probable in our view and politics will continue to shape markets.
- We are positive on equities—US, Europe, Japan and China, constructive on Bonds; we prefer quality IG bonds with 4-7 year duration; and positive on Commodities and negative on the dollar.



Source: UBS

Recent weeks have seen a decline in market optimism, with strong results from leading technology firms such as NVIDIA unable to reverse the broader equity market down trend. This shift comes as investors increasingly question whether high valuations and rapid growth—particularly in earnings and AI-related capital spending—are sustainable. The central question for the year ahead is whether the momentum from the AI revolution can continue to drive markets higher, or if factors like rising debt, inflation, and geopolitical tensions will prompt a correction.

Technology stocks now represent over a third of global equity indices, reflecting the surge in AI investment. The key test will be whether future demand and effective monetization can justify the scale of recent spending. While further growth is anticipated, it is important to recognize that not every company will meet elevated expectations, and the sector remains in a phase of maturation. For those focused on long-term outcomes, opportunities in technology remain compelling, with selectivity and diversification across the value chain essential for managing risk.

For investors seeking alternatives to AI-focused strategies, longevity emerges as a resilient structural theme. The expanding global population and advancements in health care suggest a growing market, potentially reaching USD 8 trillion annually based on our estimates, driven by innovation in areas such as obesity treatment, oncology pharmaceuticals, and medical devices. This theme offers the prospect of supporting longer, healthier lives and may provide defensive positioning within portfolios.

The outlook for bonds is increasingly relevant as government debt levels are projected to rise—G7 debt could reach 137% of GDP by 2030, according to IMF projections. Traditional approaches to deficit reduction, such as higher taxes or lower spending, are proving challenging. Policymakers may increasingly rely on "financial repression," working with central banks to maintain low interest rates and manage borrowing costs. In this environment, quality bonds with medium durations (four to seven years) are expected to play a stabilizing role in portfolios, potentially delivering mid-single-digit returns in 2026. These instruments can provide diversification and resilience, particularly during periods of market stress. Caution is warranted in riskier segments like high yield, where credit spreads are tight and risks remain elevated.

Political events will continue to shape market sentiment in the coming year. Recent experience has demonstrated how swiftly policy changes—such as adjustments to tariffs or fiscal measures—can influence markets. In 2026, attention will center on trade policy developments, changes in leadership at the Federal Reserve, the US midterm elections, and ongoing geopolitical tensions in regions such as the

Middle East and Eastern Europe. While political uncertainty can increase volatility, its impact on financial markets is often temporary, and diversified portfolios have historically proven resilient.

Prospects for equities remain attractive in regions including the US, Japan, Europe, and China, supported by robust earnings growth and supportive policy environments. Commodities, especially industrial metals, stand to benefit from supply constraints and rising demand, while oil may experience improved conditions from mid-2026 onward. In currency markets, continued US dollar weakness is anticipated as interest rate cuts reduce its advantage, with the euro and Australian dollar positioned to benefit from diversification and commodity trends.

Appendix

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