



CIO continues to believe that a well-diversified portfolio is the most effective way to manage near-term risks while growing long-term wealth. (UBS)

A well-diversified portfolio is the most effective way to manage near-term risks

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The Republican Party held onto their narrow majority in the US House of Representatives, giving President-elect Donald Trump and his party unified control of the elected branches of the US government.

According to the Associated Press, Republicans have now secured 218 of the 435 House seats, with nine seats still to be called. Trump's cabinet has also come into view in recent days, with Marco Rubio named as the next secretary of state, Mike Waltz enlisted as his national security advisor, and Pete Hegseth tapped as defense secretary, among others.

Trump campaigned on a platform of extending personal income tax cuts, lower corporate taxes, deregulation, trade tariffs, immigration controls, and reassessing America's role in global affairs. The red sweep should give him greater scope to pursue this policy agenda. But a narrow congressional majority could constrain some policy measures, especially with the US deficit as a share of GDP now twice as large as it was at the start of Trump's first term. Promises made on the campaign trail may not be implemented immediately, with final legislation likely to be a pared-down version of the original proposals.

Still, Trump's policies will likely have wide-ranging implications, and market volatility could increase as these changes take shape. While uncertainty could persist, we believe investors can bolster their portfolios by positioning for several enduring trends that may be less sensitive to US politics:

Interest rates will continue to fall and cash returns decline. While shelter prices reaccelerated in October's consumer price index (CPI), the US inflation print was largely in line with market expectations. The headline CPI rose 0.2% month

over month, while core CPI, which excludes food and energy, was up 0.3%. With the current interest rate still well into restrictive territory, and the US labor market continuing to soften, we believe the latest data is good enough for the Federal Reserve to continue to cut rates by 25 basis points at the next FOMC meeting in December, with additional easing to come next year. Cash returns will reduce as global central banks cut rates further in the year ahead, and we believe investors with elevated cash balances should consider investment grade bonds, diversified fixed income, and equity income strategies to enhance portfolio income.

The secular trend of artificial intelligence will continue to drive growth. Microsoft CEO Satya Nadella said in the company's recent earnings call that he's seeing increased AI adoption "from customers in every industry" to drive business value. Alphabet CEO Sundar Pichai highlighted that AI has helped Google engineers to "do more and move faster." Supported by big tech's commitment to AI investments, we believe we are just at the start of a major investment boom and technological advances that may fundamentally affect all economic sectors. We estimate that AI value creation could amount to USD 1.16tr by 2027, and recommend investors have sufficient exposure to quality AI names in the semiconductor and big tech segments.

Gold's function as a portfolio hedge should continue to prove useful. Gold prices have fallen over 8% since the end of October as US Treasury yields and the dollar extended gains following Trump's win. But the sell-off looks excessive to us, and we believe the fundamentals remain supportive for gold. For example, continued US rate cuts should draw in more exchange-traded fund buying. The prospect of a more combative Trump administration should add further impetus to both central bank dollar diversification and private investors' hedging demand. We maintain our September 2025 target at USD 2,900/oz.

We continue to believe that a well-diversified portfolio is the most effective way to manage near-term risks while growing long-term wealth. Alternative investments should also be considered for investors able to tolerate inherent risks such as illiquidity and leverage.

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Original report: [Building a resilient portfolio as red sweep reshapes markets, 14 November 2024.](#)

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