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# Stocks with further upside potential

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**Despite geopolitical uncertainties, we expect the stock market rally to broaden over the coming months due to robust economic development. Investors should position themselves accordingly.**

Those who look beyond the headlines, which are dominated by geopolitical events, and examine the underlying economic fundamentals of the financial markets will likely find that they are fundamentally very solid. In particular, we believe the US economy continues to show resilience to the Fed's sharp rate hikes. The US economy remains robust, and recent economic indicators have again exceeded economists' expectations. In China, after some hesitation, authorities have launched a stimulus program, the extent of which is not yet fully clear. However, it should ensure that economic growth in China and therefore Asia stays on track. And if both the West and East grow solidly, we also expect economic growth in Europe, currently the least dynamic continent, to pick up again in the long term.

Against this backdrop, we expect global corporate earnings to rise by 10 percent this year and around 8 percent next year. Additionally, almost all major central banks are now rapidly cutting interest rates, having successfully contained the major inflation surges of 2021 and 2022. Overall, this presents a favorable environment for equity investments, in our view.

Skeptics may argue that geopolitical disruptions could acutely threaten the rosy economic picture at any time. We also see some risk that a significant escalation in the Middle East could cause a sharp rise in oil prices. Additionally, uncertainties surrounding the US elections are causing some nervousness. However, we believe that none of these events will derail the overall robust global economy.

Therefore, we believe investors should position themselves for further upside potential in the stock markets. As we expect the stock market rally, which has so far been driven mainly by large technology names, to broaden, we recommend investing more broadly in the US stock market, with a preference for technology, utility, and financial stocks. In Europe,

small and mid-cap stocks, which are currently relatively undervalued, are likely to benefit from the gradually improving economy and particularly from further falling interest rates. In Asia, we recommend a broadly diversified engagement focusing on India and Taiwan, as well as mainland Chinese internet stocks.

You can find many more analyses and current investment recommendations in the latest edition of our fully revised Equity Compass.

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