



With future central bank moves less certain, investors should diversify their fixed income holdings, and consider allocating to assets like Agency MBS, senior loans, sustainable bonds, and private credit strategies. (UBS)

Asset allocation: An eventful start to 2025

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With President Trump's first full week in office behind us, there are a few takeaways for investors on how things might play out in the months ahead.

First, market performance suggests tariff risk is lower than anticipated before Trump retook office, shown by the rally in Mexican and Canadian equities and the fall in the DXY Dollar index. Second, rates are pricing in less upside risk versus the week before Trump's inauguration, suggesting increased investor confidence that policies will avoid being too inflationary. Third, broad-based equity strength so far this year has been led by cyclical, suggesting that the upside is due to improved economic conditions, rather than specific policies.

And so, it begins...

Given our economic outlook of continued US growth around 2%, we believe risk assets, and equities in particular, will be supported in months ahead. We maintain our Attractive outlook for global equities and US equities in particular. Our December 2025 target of 6,600 implies about 10% upside through this year and reflects our belief that there is **more to go in equities**. In the US, we see the largest growth drivers tied to innovations in artificial intelligence (AI). Outside the US, there are attractive opportunities in emerging markets—specifically in Taiwan and India—as well as attractive valuations among European mid- and small-cap names.

In US equities, we upgrade health care to Attractive based on potential earnings upside and improved policy clarity. Elsewhere, we keep our Attractive view on financials, communication services, and consumer discretionary. We also like utilities, as they are defensive and should do well in the event of weaker activity. Additionally, we maintain our positive

outlook on US technology, even as the sector has grown significantly over the past year. Specifically, we are recommending investors **seize the AI opportunity** as we expect AI to be a key driver of equity market returns over the coming years and a winner of corporate capital expenditure spend. Given such, it is important that investors hold sufficient long-term exposure to the theme. We currently see the best opportunities in the enabling layer of the value chain, which is benefitting from significant investments. We also like vertically integrated megacaps, which are well positioned across the value chain.

The confluence of rising electricity demand due to growing use of AI, electric vehicles, and industrial electrification means there are attractive opportunities to **invest in power and resources**. We see opportunities across the electrification value chain, from rising data center usage from AI, to technological innovations in grid modernization, and also rising demand for transition metals like copper and aluminum.

In fixed income markets we maintain our Attractive view on intermediate duration Treasuries and investment grade bonds as we urge investors to **lock in yields**. With future central bank moves less certain, investors should diversify their fixed income holdings, and consider allocating to assets like Agency MBS, senior loans, sustainable bonds, and private credit strategies.

Lastly, with political developments likely to remain in investor focus, we recommend exploring ways to **navigate political risks**. Specifically, for investors concerned with political volatility we recommend employing traditional hedges like oil and gold. We also recommend using market volatility to your advantage by purchasing structural trend winners on pullbacks, as well as looking into equity strategies with downside protection when putting new cash to work in stocks.

For more, see [Yield & Income: An eventful start to 2025, 30 January 2025](#).

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