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TOP INVESTMENT QUESTIONS FOR H2 2024

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02

INTRODUCTION

As we move past the half way mark of 2024, we thought it would be an opportune time to look at some of the top questions investors may be facing as we move into FY25. This is a summary of the report generated by UBS Switzerland AG, UBS AG London Branch, UBS AG Singapore Branch and UBS AG, 'Top 10 Questions Answered - UBS House View Briefcases', July 2024, including added views of the author.

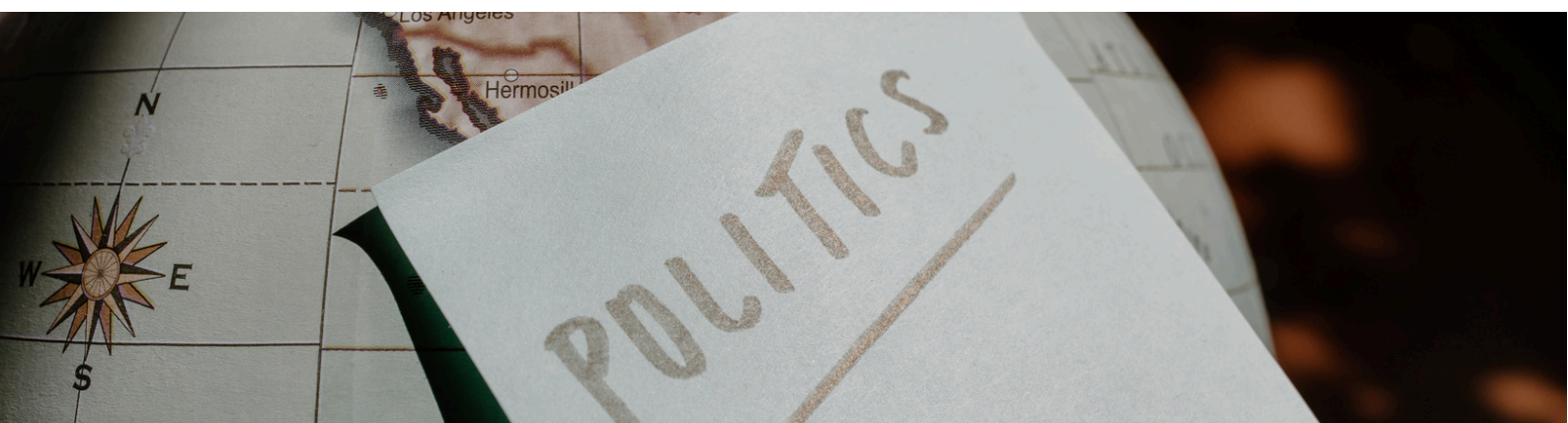
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Here are the key questions:

HOW CAN INVESTORS DEAL WITH GEOPOLITICAL RISKS?

Geopolitical risks have remained in focus, with the conflict in the Middle East showing few signs of nearing a resolution. But international crises tend to have only a brief impact on markets, so we caution against exiting stocks. Instead, we favour alternative strategies to improve the resilience of portfolios, while enabling investors to participate in market rebounds.

Selling risk assets in response to geopolitical flareups tends to be counter-productive. Instead, investors can make portfolios more resilient through hedging, structured strategies, and allocations to macro hedge funds.



03

WHAT SHOULD BE DONE WITH CASH HOLDINGS?

Current returns on cash will not be available for much longer if central banks start to cut rates. Investors holding cash or income funds (or those with expiring fixed-term deposits) need to manage their liquidity accordingly. We think bond ladder strategies can help investors retain attractive yields, while structured investment strategies can provide exposure to market gains alongside a degree of capital preservation.

With the global rate-cutting cycle underway, investors should re-evaluate their cash holdings, lock in yields, and ensure they are sufficiently invested and diversified.

CAN EQUITIES RALLY FROM ALL-TIME HIGHS?

The S&P 500 extended its rally into July (noting we had a blip in August to wake us all), setting new all-time highs. While various economic and geopolitical risks remain, we believe solid economic and earnings growth, the prospect of lower interest rates, and rising investment in AI create a supportive backdrop for equities. We favour quality growth stocks, including the US IT sector.

We believe the fundamental backdrop remains supportive for equities, driven by solid economic and earnings growth, interest rate cuts, and rising investment in AI.

04

HOW TO REACT TO GLOBAL EQUITY VOLATILITY?

Recent market volatility has triggered a significant shift in global equity performance, with small and mid-cap stocks outperforming large-cap US tech companies over the past month. This rotation follows an extended period where a few US mega-cap tech companies led the market. The catalyst for this change appears to be rising expectations of imminent Federal Reserve rate cuts, which have encouraged investors to explore alternative equity investing styles and sectors other than mega cap tech. Small and mid-caps, which are more sensitive to economic conditions and typically have more leveraged balance sheets, tend to perform better in environments of improving monetary liquidity. Historically, small caps have outperformed large caps in the year after interest rates peak and begin to decline. Despite the risk of a US economic slowdown, recent economic data still point to a potential soft landing in our view, which along with attractive valuations could continue to support the strength of small and mid-cap equities.



05

HOW SHOULD I INVEST IN TECH?

The race to build and harness new AI capabilities and tools has boosted related capital expenditure across industries. We think the adoption of AI will unlock value across a number of sectors. Large-cap tech names could have more room to run, and for us, US information technology is most preferred. This aligns with our bias for quality as the sector offers robust balance sheets and high earnings growth.

US IT offers quality exposure within a portfolio, in our view, while technological disruption across industries is creating compelling opportunities for longer-term portfolio growth potential. But caution also, given some are questioning whether the AI hype has been overdone.

IS IT TIME TO LOCK IN BOND YIELDS?

Yields are attractive. Inflation is falling. Central bank rate cuts are starting. And economic growth is robust, keeping default rates low. We recommend investors build an active and diversified fixed income exposure. Complementing a core holding in quality bonds with a satellite in higher yielding parts of the fixed income market can improve overall portfolio yields.

With rate cuts underway, we believe investors should consider taking advantage of current attractive yields, if not already doing so.

06

HOW SHOULD INVESTORS PREPARE FOR THE US ELECTION?

The US election campaign is heating up. While investors may feel tempted to take positions based on their expectations for the outcome, we advise caution.

Portfolio construction is best treated as an apolitical exercise. With uncertainty still high, investors can consider strategies to manage potential market and policy risks leading up to the election.

WHY INVEST IN A BALANCED PORTFOLIO NOW?

US stocks reached new record highs on expectations of Fed easing and strong AI revenue forecasts. But geopolitical and US election uncertainties suggest potential volatility in the second half.

We believe that holding a balanced portfolio is an effective way for investors to preserve and grow wealth over time. If investors are long term (>10 years) investors, then a growth portfolio may be more appropriate.



07

WHY LOOK AT PRIVATE INVESTMENT IN RENEWABLES?

Renewable energy investments in listed stock markets have faced challenges. However unlisted investments in renewable energy infrastructure look increasingly appealing. We like their potential to offer diversifying returns uncorrelated to other asset classes and inflation-linked cash flows that can help build long term wealth. Investors should be aware of the unique risks of private markets, including illiquidity and long investment horizons.

Private renewable investments can offer appealing and diversifying returns tied to enduring trends like AI and the low carbon transition.

IS A REBOUND IN REAL ESTATE ON THE WAY?

Real estate investing has come under pressure in recent years, with valuations falling amid fast-rising rates while some sectors' rental incomes failed to keep pace with inflation. Parts of the market have also suffered from structural headwinds like e-commerce, home-working, and environmental upgrading. But a turning point for the asset class looks on the way as the rate-cutting cycle proceeds. Selective fund managers have been able to avoid weaker parts of the market and excessive investor pessimism has left some valuations looking attractive.

The headwinds facing some commercial real estate look set to abate. Selective investors have been able to minimize exposure to trouble spots by focusing on quality assets.

08

WHAT'S NEXT FOR SUSTAINABLE INVESTING IN 2024?

We see investment opportunities in key sustainability-related themes and believe that falling rates, a resilient economic outlook, advancing regulations, and public capital spending will support broader sustainability efforts. We recommend a diversified portfolio approach to sustainable investing and see focused thematic opportunities in industrial transition, water, food and agriculture, and sustainable infrastructure assets.

We still see strong underlying momentum for both investments into sustainability, and sustainable investments overall. Investors should maintain a diversified portfolio approach to capture top-down and bottom-up opportunities in SI.

CONCLUSION

Careful consideration of global and local factors that may impact the investment environment is key to understanding where the trends lie and what the effects of external factors may have on the composition and structure of your investments. Being prepared and aware of the risks and opportunities is important when managing your investment strategy. While short term effects can have an impact it is always important to take a long term view.

09

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