

Strengthening portfolios amid geopolitical uncertainty

Weekly Global

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Deeper Dive

Syrian President Bashar al-Assad's government has fallen after a territorial advance by opposition groups over the past several days, with Assad fleeing to Moscow. The shift in Syrian leadership capped off a week dominated by political surprises and geopolitical uncertainties. South Korea's president briefly imposed martial law before rescinding the order following pressure from lawmakers. The French government collapsed after a no-confidence vote, and President Emmanuel Macron is now seeking a new prime minister to resolve the 2025 budget.

Yet, global financial markets have been relatively calm, with the MSCI All Country World and the S&P 500 indexes sitting at all-time highs and Asian shares down just marginally. We have highlighted that fundamentals have been the main market drivers, with the strength of the US economy, the global rate-cutting cycle, and AI advancement likely to sustain the equity rally. Federal Reserve Chair Jerome Powell last week described the US economy as being in "very good shape," noting that the risk of a sharper-than-expected labor market slowing are fading, while growth has surpassed expectations.

But after a period of sustained gains for equity markets, the risk of a correction remains, especially if geopolitical conflicts start to affect major oil supply routes, US economic data disappoint, or if US President-elect Donald Trump's policy sequencing and priorities turn out to be more negative for growth and inflation than investors have expected. While we continue to hold a positive outlook for risk assets in the year ahead, we see ways investors can bolster the resilience of their portfolios.

Hold exposure to gold as a hedge. Gold prices have consolidated in the range of USD 2,600-2,700/oz in recent weeks, but we continue to expect higher prices ahead. The latest International Monetary Fund data suggests global central banks' gold purchases in October rose to the highest level this year, while China has returned to the market in November after a six-month hiatus. We anticipate central banks will continue accumulating gold, which should also benefit from lower US rates and recovering exchange-traded flow demand amid greater geopolitical uncertainty.

Utilize structured strategies to navigate potential volatility. Structured strategies offer a defensive way to stay invested, allowing investors to retain

From the studio

Podcast: [CIO's Dominic Schnider on the Fed, Asia FX, and more](#) (12:30)

Podcast: [Jump Start – More global rate cuts, US CPI, and political tumult](#) (4:48)

Questions for the week ahead

Will the global easing cycle sustain its momentum? The global rate-cutting cycle has continued in recent weeks with reductions from the Reserve Bank of New Zealand and the Bank of Korea. This week, investors are closely monitoring the policy decisions from the Reserve Bank of Australia, the Bank of Canada, the Swiss National Bank, and the European Central Bank. We expect the ECB to cut rates by 25 basis points at this meeting and to continue reducing them at each meeting through June 2025.

Will US inflation data shine more light on the Fed's easing path? The consumer price index for November, released on Wednesday, will be a key focus for markets ahead of next week's FOMC meeting. The consensus forecast is for a slight acceleration in headline CPI to 2.7% year over year from 2.6% in October. But we still expect the Fed to cut rates by 25bps this month, and at a more gradual once-per-quarter pace in 2025.

Will political uncertainty add to market volatility? Global markets have remained relatively calm in recent weeks despite political turbulence in several countries, including South Korea and France. Equity

exposure to further potential gains in stocks while reducing sensitivity to a correction. For example, an investor looking to shield a portfolio from short-term fluctuations in value can pursue a capital preservation strategy that locks in gains now or limits the magnitude of a potential loss.

Consider allocations to hedge funds for uncorrelated returns. We believe hedge funds are well positioned to navigate periods of potential volatility, as strategies like equity market neutral, global macro, and multi-strategy platforms could take advantage of market inefficiencies and macroeconomic shifts to generate additional returns above the market (alpha). With their strict risk limits, hedge funds' historically low correlation with equities and bonds can also provide stability when markets are under stress.

Investors should, however, be aware of the unique risks involved in structured and alternative investments, including illiquidity, leverage, and complexity.

markets have continued to advance amid optimism about the US economy and global rate cuts. Investors will be looking to see whether this can continue in the final weeks of the year.

Key Messages

US labor market data no barrier to further Fed rate cuts

US labor and inflation data for November remain critical in assessing whether the Federal Reserve will proceed with another rate cut at its 17-18 December meeting. While October inflation saw a slight uptick, recent jobs data, coupled with Fed officials' comments, suggest the central bank remains on track to bring monetary policy back toward neutral.

November's US labor data reinforced the picture of a jobs market that remains solid but is cooling. Nonfarm payrolls growth rebounded to 227,000 after an upwardly revised 36,000 in October, which was affected by hurricanes and labor strikes. But the unemployment rate increased slightly from 4.15% to 4.25%. The JOLTS report for October showed higher job openings and fewer layoffs, although weaker private payrolls and ISM services employment components highlight mixed signals.

Additionally, inflation remains manageable. October's personal consumption expenditures (PCE) price index increased 2.3% year over year, with core inflation at 2.8%, the highest since April, though both were in line with expectations. We expect inflation to moderate further toward the Fed's 2% target as shelter inflation slows, and potential tariff impacts are likely to cause a one-time increase that should not prevent the Fed from cutting rates.

Takeaway: With rate cuts set to continue, we advise investors to deploy excess cash into quality bonds, diversified fixed income, and equity income strategies as lower rates erode cash returns. We also see room for equities to rally further as Fed rate cuts in non-recessionary periods have historically been favorable for the stock market.

Tech shows resilience amid geopolitical risks

Recent headlines have kept tech investors on edge: The US announced new export controls to restrict China's access to semiconductor technologies, chipmaking equipment, and high-bandwidth memory (HBM) chips, while China retaliated by banning exports of critical minerals with semiconductor and military applications. Meanwhile, South Korean President Yoon Suk Yeol backtracked on a martial law declaration under pressure from lawmakers, and US President-elect Donald Trump's threats of tariffs on tech imports remain a concern.

Despite these risks, markets have shown resilience. The S&P 500 and Nasdaq Composite both posted fresh record highs last week, while South Korea's KOSPI index fell around 2%, with key tech companies outperforming. While we expect near-term volatility, particularly in the event of AI supply chain disruptions, sound fundamentals should continue to support the AI growth story.

Furthermore, the latest US tech restrictions are less severe than feared, and China's critical mineral bans are unlikely to significantly impact AI chip production, as the US predominantly relies on mainstream materials like silicon and copper. Additionally, the market impact of South Korea's political crisis appears short-lived, with past instances—such as the impeachment of Park Geun-hye in 2016—showing limited market impact, as equities rose 23% during the transition to new leadership.

AI demand remains robust, with recent tech earnings showing accelerating cloud revenue growth, and big tech continues to highlight increasing AI adoption.

Takeaway: Heightened volatility presents opportunities to build exposure in AI-linked technology stocks. We favor semiconductors for their capex exposure and software benefiting from AI monetization, while we remain cautious on traditional tech segments like smartphones and PCs.

Equities rise despite political turmoil

The collapse of the French government after a no-confidence vote adds to a string of political developments impacting market sentiment. French President Emmanuel Macron is now seeking a new prime minister to resolve the 2025 budget, following former Prime Minister Barnier's ousting by parliament. This followed South Korea's president briefly imposing martial law before rescinding the order under pressure from lawmakers. Meanwhile, Germany's three-party coalition breakdown last month has set the stage for new political leadership early next year.

But investors appeared to shrug off political turmoil. The S&P 500 hit its 57th all-time high this year on Friday, and Europe's STOXX 600 posted gains for seven consecutive sessions. Additionally, the MSCI Asia ex-Japan index slipped only slightly.

The favorable US macroeconomic backdrop continues to support equities. The Federal Reserve's latest Beige Book reported slight growth across most US regions, stable consumer spending, and low layoffs. Fed Chair Jerome Powell described the US economy as in "very good shape," with fading risks of a sharper-than-expected labor market slowing and growth that surpassed investors' expectations. Across the Atlantic, rate cuts from the European Central Bank are expected to provide additional support for European stocks amid challenging economic conditions in the Eurozone.

Takeaway: We expect global equities and US stocks to move higher in the year ahead. Within the US, we like technology, utilities, and financials. We also favor Eurozone small- and mid-caps and Swiss high-quality dividend stocks, while maintaining diversified exposure to Asia ex-Japan.

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

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