

Top 10 questions answered

UBS House View Briefcases

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What's next for US equities?

Key message

The equity bull market is now entering its fourth year and more investors are becoming concerned that tech stocks have become overvalued. But we expect further gains and have recently upgraded global equities to Attractive. Our confidence is based on evidence of fresh momentum behind AI, supportive US fiscal and monetary policy, and recent data showing US growth exceeding expectations.

House view

01 **Stocks are currently trading above historical valuations.**

- The MSCI All Country World Index of global equities has gained 17% so far in 2025 at the time of writing, adding to advances of 15.7% and 20.1% in 2024 and 2023, respectively.
- Current valuations are high compared to traditional measures' long-term averages. The S&P 500 forward price-to-earnings ratio and Shiller CAPE ratio are both in the 99th percentile over the past 20 years.
- The circularity of some AI investments prompting comparisons with the dotcom bubble.

02 **But we see reasons to believe the rally can go further.**

- Recent multi-billion-dollar partnerships between hyperscalers and AI chip firms have strengthened our confidence that AI-related capital expenditures will exceed expectations and remain robust for longer.
- The Federal Reserve resumed its rate-cutting cycle in September, and we see further cuts ahead.
- This week, Fed Chair Powell recognized this trend, stating that the US economy "may be on a somewhat firmer trajectory than expected" and that "people are spending."

03 **So we view global equities as attractive and recommend an exposure consistent with or modestly higher than strategic targets.**

- We have raised our US earnings growth expectations for 2025 and 2026: We now expect S&P 500 earnings per share of USD 275 in 2025 (10% y/y growth) and USD 295 in 2026 (7% y/y growth), both a USD 5 increase over our previous forecasts.
- If investors are currently underallocated to equities, we believe they should reallocate excess cash, bond, or high yield credit holdings toward stocks.

New this week

The S&P 500 rose 1.7% last week, and is up 13.3% so far in 2025. The MSCI All Country World Index gained 1.2% last week and is up 17% so far this year.

One liner

Global equities have come a long way. But given the tailwind from AI, supportive US policy, and resilient economic growth, we expect stocks to gain further.

Did you know?

- Price-to-earnings (P/E) ratios for today's tech giants are far lower than for the tech firms at the peak of the dotcom bubble. For example, if we look at dotcom era market leaders—Microsoft, Cisco, Lucent, Nortel, and AOL—their average forward P/E in 1999 was 82x, substantially higher than the Magnificent 7's 28x average forward P/E over the last 12 months.
- We think that over the medium term, even the almost USD 1 trillion of currently planned capex could still fall short of what appears to be needed. We therefore believe that investment growth is likely to continue over the next year.
- US fiscal policies—including measures such as capex and R&D expensing, cutting taxes on tips, and lighter regulation—should also provide a modest tailwind to cyclical sectors as we move into 2026.

Investment view

We view global equities as Attractive. We prefer areas that are exposed to secular growth, like the US and China, (particularly China's tech sector, which we rate among the Most Attractive sectors globally), as well as global technology, transformational innovations (AI, Power and resources, and Longevity), and pockets with clear catalysts that could drive earnings upgrades (Japan and global banks).

Can gold's rally continue?

Key message

Gold has been the best performing asset of 2025 so far, climbing around 60% and setting repeated record highs. The extent of the rally has raised questions about whether a reversal is likely. But while volatility is possible, we expect the precious metal to be supported by a combination of Fed easing, robust demand from both investors and central banks, along with worries over geopolitical risk and rising government debt. So we believe gold is well-supported, and even has the potential to rise to our upside case of USD 4,700 an ounce.

House view

01 The extent of the rally in gold has raised questions about whether a reversal is likely.

- Gold has rallied around 60% so far in 2025, and around 160% over the past three years.
- After hitting repeated record highs on a nominal basis, the recent rally has also taken it above an inflation-adjusted peak set more than 45 years ago.
- The precious metal has outperformed all major equity and bond indices this year.

02 But while volatility is possible, we don't believe gold's rise has gone too far.

- The US real interest rate, the opportunity cost of holding non-yielding assets like gold, has dropped to its lowest level since mid-2022.
- Demand from both central banks and investors is still near to record highs.
- Geopolitical risks remain elevated, maintaining safe haven support for gold. Meanwhile, concerns over rising government debt in much of the world is also supportive.

03 So, we believe the precious metal can add resilience to a portfolio.

- We recommend a mid-single digit percentage allocation to gold, which has proven its value as a strategic diversifier and hedge against inflation and uncertainty.
- With equities at record highs, we also advocate for diversification through quality bonds and hedge funds to help manage risks.
- In our view, gold's store-of-value characteristics, liquidity, and ability to hedge against shocks justify a continued place in well-diversified portfolios.

New this week

Gold briefly rose above USD 4,300 an ounce last week for the first time.

One liner

Gold's rally has been swift and impressive so far this year, building on large gains in both 2023 and 2024. But despite the extent of the gains, we believe the precious metal is well-supported and further gains are possible.

Did you know?

- We expect central bank purchases to reach 900-950 metric tons this year, just below last year's historical peak. Retail demand has also been robust, with the Perth Mint reporting a 21% month-on-month jump in gold sales in September.
- Our forecast for global gold demand this year is around 4,850 metric tons, which would be the highest level since 2011.
- General government debt for advanced economies will reach around 110% of GDP this year—from closer to 75% two decades ago—with spikes higher following the 2008 financial crisis and the 2020 pandemic. This is on track to rise to 118% by the end of the decade, according to the International Monetary Fund, with notable upward pressure coming from aging populations, increased defence spending, and higher interest rates.

Investment view

Gold is trading close to our forecast for the rest of the year of USD 4,200 an ounce. However, lower real interest rates, a weaker dollar, and renewed concerns about rising government debt or geopolitical uncertainty could spur additional gains toward our upside case of USD 4,700/oz, making gold a valuable component of a resilient investment strategy.

Why invest in transformational themes now?

Key message

AI stocks have delivered exceptional returns, raising questions about a potential bubble. However, we believe that robust capex investment, accelerating strategic partnerships, and surging product launches both demonstrate and will drive sustained demand for AI compute. Beyond AI, we identify Power and resources and Longevity as key themes gaining momentum. Utilities and health care are likely to benefit from these trends as well. We think that investors who focus on transformational innovation should be well positioned to outperform broader markets in the years ahead.

House view

01 AI-linked stocks should remain a key driver of global equity performance.

- We believe agentic AI will be a key way that businesses use the technology, adding to compute demand.
- Physical AI (such as robots and autonomous vehicles) could spur even greater compute demand.
- We believe the monetization potential for AI is large, even compared to the substantial capex plans.

02 Rising data center demand is spurring record investment in grid infrastructure.

- NVIDIA has suggested that AI data center capital spending globally could reach USD 3-4tr annually by 2030, a roughly 38% growth rate from today's spending levels.
- This implies potential electricity demand growth of 170 gigawatts (GW) globally and 110 GW in the US. For context, the US installed power-generating capacity was about 1,000 GW in 2024.
- Over USD 400bn of infrastructure investment may be needed by 2030 to support new electricity demand, reinforcing the long-term investment opportunity in power and resources.

03 Companies offering products and services to extend healthy lifespans should continue to gain traction.

- We think the scale of opportunities to address chronic diseases is significant. For example, nearly a billion people worldwide are living with obesity.
- We expect oncology pharma sales to climb from USD 220bn in 2024 to nearly USD 320bn by 2028, with a rich pipeline of innovative treatments. Innovation in medical devices should also play a critical role in supporting longer, healthier lives.
- Some clarity has emerged for US drug pricing policy following the recent deal between Pfizer and US President Donald Trump.

New this week

OpenAI announced a partnership with Broadcom to produce its first in-house artificial intelligence processors, following earlier deals with AMD and NVIDIA. Assuming no overlaps, OpenAI now has 26 GW worth of chip supplies in the pipeline. The amount of electricity these chips would require is roughly equivalent to the needs of more than 20 million US households.

One liner

Innovation remains a key driver of long-term equity performance and an important feature of enduring market leaders.

Did you know?

- While fear of investing at the wrong moment in a market bubble can be paralyzing, participation in transformative trends is often essential for long-term wealth preservation and appreciation, provided it aligns with risk tolerance and goals.
- In the context of the about USD 100 trillion global economy, if we assume that around one-third of tasks can be automated by AI, the labor share of those tasks (i.e., the portion of their economic value that is attributable to labor) is around half, and AI vendors are able to capture around 10% of the value, this makes for an annual AI revenue opportunity of around USD 1.5 trillion.
- Demand for new treatments in oncology, Alzheimer's, and cardiovascular disease is driving health care sector growth, which we believe could reach USD 2.2tr by 2030.

Investment view

Investors should consider diversified exposure to innovation leaders in AI, power infrastructure, and longevity. We see value in select technology, utilities, and health care stocks positioned to benefit from durable, secular growth trends.

Where can I find opportunities outside the US?

Key message

After a strong run-up in global equity markets, we continue to see further upside, not only from secular growth trends in the US, but also across a range of global markets. China is experiencing robust domestic tech momentum, while Japan's new government is expected to support growth. In Europe, we favor quality stocks and our "Six ways to invest in Europe" theme.

House view

01 Strong US equity performance should not keep investors from pursuing global diversification.

- Global equities have performed strongly this year, with the MSCI ACWI up 17% as of 20 October.
- A significant portion of this performance came from US equities, where robust earnings, resilient consumer spending, and AI-driven growth continue to deliver.
- However, we believe investors should also look to diversify beyond the US to capture additional opportunities.

02 Asia's equity story strengthening on China tech, supportive dynamics.

- Within China, we have raised the tech sector to Most Attractive, with a focus on high-quality leaders in cloud, e-commerce, AI, and digital infrastructure.
- We also upgraded China equities to Attractive, on tech momentum, robust policy support, and still-compelling valuations.
- Asia ex-Japan equities could see high-single-digit returns over the next 12 months, while Japan also looks attractive on fiscal spending and pro-growth politics.

03 European stocks supported by improving earnings outlook

- European equities are backed by reasonable valuations, supportive global policy, and an improving earnings outlook.
- After two years of stagnation, we see earnings growing 5% in 2026 and 15-20% in 2027, with room for profit margins to expand if top-line sales volumes pick up.
- We favor high-quality names across Europe, with a preference for the IT, industrial, utilities and real estate sectors, and suggest investors consider our "Six ways to invest in Europe" theme.

New this week

Japan's Nikkei 225 rose 3.37% on 20 October after weekend progress toward an LDP-Ishin coalition government that will likely result in more significant fiscal spending.

One liner

Investors should look for equity opportunities globally, not just in the US.

Did you know?

- Over the past 35 years, the MSCI Europe Quality index has outperformed the broader MSCI Europe index by an average of 2.0 percentage points per year, with lower volatility.
- In the context of the global economy of about USD 100 trillion, if we broadly assume that around one-third of tasks can be automated by AI, the labor share of those tasks is around half, and AI vendors are able to capture around 10% of the value, this makes for an annual AI revenue opportunity of around USD 1.5 trillion.

Investment view

We see select opportunities for investors looking to build exposure to areas of the equity market outside the US. In Asia, we like a number of markets, including Japanese, Chinese, Indian, and Singapore equities. We rate China's tech sector in particular as Most Attractive. In Europe, we favor quality stocks, Swiss high-quality dividend stocks, and our "Six ways to invest in Europe" theme.

What do Fed rate cuts mean for investors?

Key message

The Federal Reserve resumed its rate-cutting cycle in September and signaled more easing ahead. A cooling US labor market gives room for the Fed to cut rates further, despite lingering inflation concerns. We expect another 75bps of rate cuts between now and the first quarter of 2026, and with policy rates set to fall, we advise investors to put cash to work.

House view

01 The Fed resumed its rate-cutting cycle in September.

- The Fed cut policy rates by 25 basis points in September, its first reduction since 2024.
- Policymakers' median projection for the federal funds rate (the dot plot) now indicates two additional cuts are expected this year.
- The FOMC's latest economic projections show inflation near its target in 2027.

02 A softening labor market gives the Fed scope to continue easing.

- The FOMC's September statement said the committee "judges that downside risks to employment have risen."
- We believe concerns about a weakening labor market are likely to outweigh those about lingering inflation in the Fed's decision-making.
- Given the Fed's dual mandate, we expect rates to come down by a further 75 basis points by the end of the first quarter of 2026.

03 With policy rates set to fall further, investors should put cash to work now.

- We recommend that investors phase excess liquidity into diversified portfolios.
- To achieve alternative sources of portfolio income to cash, we see medium-duration quality bonds and equity income strategies as appealing.
- We also expect lower interest rates, robust corporate earnings, and AI tailwinds to support further gains for equity markets over the coming year.

New this week

Federal Reserve Chair Jerome Powell laid the ground for an October rate cut in remarks on 14 October, and surprised investors with a longer discussion about the US central bank's quantitative tightening (QT) policy, which may be coming to an end sooner than widely thought. Market participants interpreted these remarks as dovish, with equities rising intra-session on the headlines, both 10- and 30-year Treasury yields dipping to multi-month lows, and gold braking above USD 4,200/oz.

One liner

With the Fed likely to cut rates further, we recommend putting excess cash to work.

Did you know?

- Soft landing rate cuts have historically been positive for stocks, and the Fed's shift from restrictive to more neutral policy should help extend the bull market.
- In a downside scenario, if labor market weakness proves to be more severe or durable, we believe the Fed could cut rates by 200-300bps by mid-2026.
- Cash tends to underperform other assets over time: Stocks have outperformed cash in 86% of all 10-year periods and 100% of all 20-year periods since 1926, with cumulative returns more than 200 times higher than cash over the long term.

Investment view

We believe the resumption of the Fed's rate-cutting cycle increases the imperative for investors to put cash to work. We recommend phasing excess liquidity into diversified portfolios. We also continue to like quality bonds, which can offer a more durable source of income. Investors underallocated to equities should consider adding to stocks in CIO's preferred areas, including AI, Power and resources, and Longevity.

How can investors deal with geopolitical risks?

Key message

While fears of a global trade conflict have generated bouts of volatility, investors have largely looked through periods of geopolitical turmoil in 2025. That has included muted reactions to flare-ups in the Middle East and heightened tensions between Russia and NATO. But such risks have not gone away and still have the potential to generate volatility. Against this backdrop, we favor strategies that improve portfolio resilience while positioning for longer-term gains.

House view

01 **Except for trade tensions, markets have generally shrugged off geopolitical risks so far in 2025.**

- The S&P 500 had its worst day in six months on 10 October after US-China trade war risks resurfaced. Our view is that a full-scale and sustained conflict is unlikely.
- A US-brokered deal to end hostilities between the Israel and Hamas is progressing. However, we note geopolitical flare-ups have not tended to dent market sentiment.
- Recent Russian incursions into NATO airspace and the intensification of attacks on Ukraine haven't unsettled investors.

02 **This underscores our view that international tension is typically not a reason to exit equity positions.**

- The latest dispute between the US and China is a reminder of an underlying rivalry, with the potential to generate bouts of volatility.
- Oil prices have fallen to a five-month low near USD 60/bbl amid progress in the Middle East and US pressure on India and China to halt Russia oil purchases.
- The Russia-Ukraine conflict continues, but a second Trump-Putin meeting looks likely after a recent increase in US support for Ukraine.

03 **Against this backdrop, we favor adding portfolio stabilizers rather than exiting risk assets.**

- We continue to see gold as an effective hedge against geopolitical and inflation risks, while quality bonds offer an attractive risk-reward.
- Potential market dips could offer an opportunity for investors to build long-term exposure to stocks.
- Alternatives such as hedge funds can also be considered in a diversified portfolio, for risk-tolerant investors.

New this week

Gold hit a record intra-day high of USD 4,378 an ounce on 17 October, bringing its gains for 2025 to nearly 65%.

One liner

Investors should consider ways to enhance the resilience of their portfolios to navigate geopolitical risks.

Did you know?

- During the last 11 major geopolitical events, the S&P 500 was on average just 0.3% lower one week after the event and 7.7% higher 12 months later.
- Economic, geopolitical, and policy uncertainties will likely spur more inflows into gold, potentially opening the door toward our upside case of USD 4,700/oz.
- We believe an allocation to gold remains an effective hedge against residual geopolitical and political uncertainty.

Investment view

Exiting markets in response to immediate geopolitical uncertainty tends to be counterproductive. Instead, we see ways investors can consider improving the resilience of portfolios, such as proper diversification, including an allocation to hedge funds and exposure to gold. Investors considering alternative assets should be aware of the unique risks, including illiquidity, complexity, and lower transparency.

Does borrowing make sense in 2025?

Key message

The Federal Reserve is likely to cut policy rates further in the coming months, and rates are already low in much of Europe. Lower borrowing costs may raise the appeal of borrowing strategies as a tool to manage liquidity, diversify, boost returns, and avert ill-timed asset sales. Borrowing can form part of a prudent financial plan, although the risks should be carefully considered.

House view

01 The global easing cycle from central banks has continued, raising the appeal of borrowing strategies.

- Evidence of a weakening labor market led the Federal Reserve to cut rates by 25bps in September, with projections for a further 50bps of rate cuts by the end of this year.
- The Swiss National Bank has already brought its policy rate down to zero.
- The European Central Bank has cut its deposit rate eight times in total since June 2024, bringing it to 2%.

02 Against this backdrop, prudent borrowing can play multiple roles that support financial goals.

- It may provide immediate funds without selling assets, avoiding taxable gains and transaction costs.
- Investors looking to fund new private market investments may find it more efficient to borrow against diversified bond portfolios rather than hold excess cash to meet capital calls.
- Borrowing to invest can yield higher long-term returns if expected returns exceed borrowing costs.

03 With the right risk management, borrowing strategies may grow in appeal this year.

- Borrowing comes with risks that investors must be willing and able to bear. Investors should compare loan interest rates with expected returns; if returns are lower, borrowing may not be viable.
- A borrowing strategy's robustness must be assessed against market risks and spending plans. Key factors in choosing a borrowing strategy include loan duration, refinancing potential, and interest rate expectations.

New this week

Fed Governor Christopher Waller said he was in favor of a further 25-basis-point rate cut in October given signs of a softening US labor market.

One liner

Subject to careful planning and risk management, borrowing may help manage liquidity, improve portfolio diversification, help navigate currency swings, and boost return potential in the year ahead.

Did you know?

- Historical analysis, while no guarantee of future performance, suggests borrowing to invest in diversified portfolios may bear fruit. CIO analysis of 24-month rolling returns for a 60/40 portfolio of US stocks (S&P 500) and US government bonds between 1998 and August 2024 finds such a portfolio would have generated returns ahead of US dollar borrowing costs on nearly 75% of occasions (and by an average 3.4% each year).

Investment view

We believe a falling-rate environment in 2025 may accommodate proactive borrowing approaches, with judicious use of debt as a tool for achieving financial goals. By leveraging debt wisely, investors have the potential to enhance portfolios, manage risks, and improve the likelihood of achieving long-term financial goals.

How to diversify (with)in alternatives in 2025?

Key message

We believe building portfolios for opportunity and resilience can be enhanced by adding alternative investment levers. We believe that including an allocation to alternatives can improve the diversification, growth potential, and insulation against market declines. Investors should be aware of the various risks and drawbacks when investing in alternatives, including illiquidity, limited transparency, and the use of leverage.

House view

01 Hedge funds can help steady portfolio swings.

- Hedge funds' flexible approach—using long and short positions, active bottom-up selection, and adaptable risk management—can help capture opportunities and manage risks that long-only strategies may miss.
- We like merger arbitrage for steady, resilient carry; discretionary macro to navigate policy divergence, shifting rate paths, and FX repricing; equity market-neutral strategies for low-correlation, dispersion-driven returns; and multi-strategy platforms for their agility.

02 Private markets still offer opportunities for diversification, return generation, and income.

- CIO retains a positive view on private equity in the current environment and believes certain strategies, like secondaries, can benefit from institutional outflows when they occur.
- The risk-reward outlook for private credit is more balanced given a two-tier market, tight spreads, and further expected Fed rate cuts. Underallocated investors, however, can still generate better yields and diversification versus public bonds in high-quality segments.
- We like private market tools to offer access to real assets. These vehicles tend to target stable, inflation-linked cash flows and value creation through active management.

03 We see numerous paths to invest in alternatives, subject to careful risk management.

- Investors may blend liquid and less liquid strategies, using hedge funds for diversification and private markets for long-term returns.
- Following a disciplined process around timing, liquidity management, and risk controls may balance capturing opportunities and limiting portfolio losses.

New this month

A 19 October report from Hedge Fund Research showed an acceleration in new hedge fund launches in the second half of 2025, while liquidations fell to a two-decade low. Roughly 140 new funds were launched in the second quarter, for a first-half tally of 262. Only 65 funds closed in 2Q25, bringing the first half total to 138 and on track to undershoot the estimated 406 liquidations in 2024, the lowest level since 2004. Total hedge fund industry capital stood at an estimated USD 4.7 trillion at the halfway mark of 2025, a new record.

One liner

We believe that investors with longer-term investment horizons can enhance portfolios by replacing parts of their public market exposure with alternatives, depending on their tolerance for illiquidity and other risks.

Did you know?

All major hedge fund strategies delivered gains in September, with HFRI Fund Weighted increasing 2.4%. The top-performing strategies were global macro, up 3.4%, and equity hedge, which rose 2.6%. Event-driven funds posted positive returns (1.2%) while relative value strategies advanced 0.8% for the month.

Investment view

Incorporating alternatives into a diversified portfolio may enhance returns, reduce volatility, and generate income. Alternatives such as hedge funds and private markets can provide unique return streams that complement traditional assets. Investors should be willing and able to bear the unique risks of alternative investments, including illiquidity, strategy complexity, and potential lock-up periods on invested capital.

What should I do with my dollar exposure?

Key message

We expect the US dollar to weaken in the months ahead, as the Fed is set to cut interest rates more quickly than other regions, the US faces high levels of unhedged overseas investment, and given its current account and fiscal deficits. Tactically, we prefer the euro, Australian dollar, and Norwegian krone. While dollar weakness may be limited by stronger US growth and continued leadership in AI, we recommend investors review currency allocations to ensure they match future liabilities and spending needs.

House view

01 The recent rebound in the US dollar has lost steam.

- The Federal Reserve's signal that quantitative tightening could end this year, coupled with indications of potential rate cuts, has undermined support for the USD.
- The narrative of US real rates becoming less positive, and potentially going negative, should continue to weigh on the dollar.
- The widely anticipated 25bp Fed rate cut at the end of October should underpin this trend.

02 We expect the USD weakness to continue, and investors should review their currency allocations.

- The US's twin current and fiscal deficits mean that the path of least resistance for the dollar is lower. A longer government shutdown would also weigh on the dollar.
- The euro has started to recover as France's political risks recede. Divergence in October manufacturing PMI readings between the US and the euro area, due to renewed softness in US manufacturing, may provide additional support for the euro.
- Investors should align their US dollar holdings with liabilities or spending plans for today, their lifetimes, and beyond.

03 In addition to the euro, we also like the Australian dollar and the Norwegian krone.

- While Australia's latest jobs data came in softer than expected, a domestic growth recovery remains under way.
- The Norwegian krone is one of Europe's most growth-sensitive currencies and should benefit from any acceleration in European activity spurred by front-loaded fiscal expenditures in Germany and joint European defense spending.
- Investors can also consider putting money to work into balanced portfolios of stocks, bonds, and alternative assets that are hedged in their desired currencies.

New this week

Fed Chair Jerome Powell last week suggested that the US central bank remains on track to cut interest rates further. While he noted the resilience of the economy, Powell pointed to the low pace of hiring and falling household perceptions of job availability, highlighting the risks of a softening labor market.

One liner

We believe that investors should consider diversifying excess US dollar holdings, particularly as the Fed cuts rates.

Did you know?

- Global central banks are diversifying away from the US dollar, a structural trend that is likely to weaken the dollar as demand for alternative currencies grows.
- Many investors have accumulated more US dollar exposure than needed, driven by attractive opportunities in US capital markets, relatively higher interest rates, and the dollar's reputation as a "safe haven." Currently, G10 foreign investors hold an estimated USD 14 trillion in unhedged dollar positions.
- Currency hedging overseas equity exposures can also help close currency gaps. For sophisticated investors, currency forwards, options, and structured solutions can provide flexible exposure, though these instruments introduce additional risks such as leverage and margin calls.

Investment view

With the Fed set to cut interest rates more quickly than other central banks, a high outstanding volume of unhedged overseas investment in the US, and still-significant current and fiscal deficits, we believe the path of least resistance for the greenback is lower. Tactically, we prefer the euro, the Australian dollar, and the Norwegian krone. Strategically, we believe investors should review their currency allocations to ensure they match future liabilities and spending needs.

How should investors put cash to work?

Key message

The Fed has resumed its rate-cutting cycle, and rates are already low in much of Europe. This increases the imperative to put cash to work, and we believe investors should limit cash holdings to those needed for near-term expected portfolio withdrawals. Investors can potentially improve upon cash returns by phasing excess liquidity into diversified portfolios to participate in long-term market gains. We also see quality bonds, select credit opportunities, and equity income or yield-generating structured strategies as potential ways to enhance portfolio income.

House view

01 Cash has historically underperformed, and the Fed is likely to continue easing.

- Historically, stocks beat cash in 86% and 100% of all 10- and 20-year holding periods, respectively, and by more than 200x overall in terms of returns since 1926.
- The probability of bonds outperforming cash rises with longer holding periods—from 65% over 12 months to 82%, 85%, and 90% over five, 10, and 20 years, respectively.
- The Fed cut rates by 25 basis points in September, and we expect a further 75bps of cuts by the end of the first quarter of 2026.

02 Quality bonds offer attractive risk-reward as an alternative source of portfolio income.

- High-quality fixed income offers the opportunity to lock in a durable source of portfolio income, with the additional benefit of potential capital gains if the Fed needs to cut more aggressively.
- By diversifying portfolios with select medium-tenor quality corporate bonds, investors can lessen the impact of potential market swings in riskier assets on overall performance.
- We also see select credit opportunities in Europe and Asia, including local currency bonds.

03 Equity income strategies and annuities can also be considered.

- We think Swiss dividend-paying equities are attractive, while Southeast Asian markets stand out for investors focused on income for portfolio resilience.
- Annuities can help investors manage the risks of a market decline or overspending that impairs retirement assets and of investors outliving their wealth.
- In addition, systematically phasing cash into diversified portfolios, including through building-block approaches, can help average costs, buy markets on dips, and build long-term positions.

New this week

Federal Reserve Chair Jerome Powell said that “downside risks to employment appear to have risen,” adding to market confidence that the US central bank will cut rates again at its meeting later this month.

One liner

With the Fed set to cut interest rates further, investors should consider alternative ways to earn portfolio income.

Did you know?

- In Europe, we recommend a selective approach, focusing first on building a “core” allocation to more defensive and domestically oriented issuers with an average duration of around 3-7 years.
- In Asia, investment grade credit stands out, supported by yields around 5% and tailwinds from declining interest rates.
- Phasing into diversified portfolios over time may help manage the risk of poor timing, reduce the influence of emotion, and provide more opportunities to benefit from market dips and rebounds, in our view.

Investment view

The Fed resumed its rate-cutting cycle in September, and rates in much of Europe are already low. We believe this increases the imperative for investors to put excess cash to work, including by phasing into diversified portfolios. Investors seeking to enhance portfolio income can also consider quality bonds, select credit opportunities, equity income strategies, and yield-generating structured investments.

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.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

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