CIO View Special

10 themes for the year ahead

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Marketing material

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In what is now the third edition of our "10 Themes for the Coming Year," we aim to focus mostly on what we believe is likely to happen rather than on what might happen: the themes that investors are almost certain to face, even if their implications for individual asset classes are open for debate. But the boundary between the likely base case and the less likely risk scenario has been blurring. The world's largest economy is being governed in an ever more unorthodox way.

A year ago it might not have seemed likely that the U.S. administration would seek to influence the U.S. Federal Reserve more openly, or that the state would take stakes in U.S. companies. The scope and the details of import tariffs were certainly surprising, including their punitive nature even on long-standing allies. The unexpected happened and is shaping the global economy. These, moreover, are only some of the policy shocks the U.S. sprung on the world in the past year.

That politics can lend markets lasting momentum, positive or negative, has also been evident elsewhere in the world. Argentina is undergoing a so far successful radical economic cure under Javier Milei. Germany's pivot on the highly restrictive debt brake has encouraged investors. Europe's push for strategic autonomy, no longer dependent on Russia for oil and the U.S. for its defense is another important driver.

Roughly half of our themes this year therefore have a political imprint–sometimes as directly as in Europe's two flagship projects: building out analog and digital **infrastructure**, and the effort to restore its own **defense** capability.

Politics also plays a role in the long-running issue of **retirement provision** in aging societies, as well as in the question of how far the benefits of **globalization** will be sacrificed as governments act unilaterally to try to gain an economic advantage. Related to the threats to global trade is the question of **dollar dominance**. The greenback has looked sickly this year. The question, and topic of another theme, is whether this has been brought about deliberately by the U.S. government or is simply a reflection of investors voting with their feet: shifting out of dollar assets because they are concerned about the prospects for the U.S. economy. It is also true that both these influences could be in play in the dollar's trajectory. The lack of good alternatives to the dollar, on the other hand, continues to be seen as a reason why its primacy appears set to last. But the push for alternatives is growing, as we examine. Do digital assets offer a viable alternative?

Digital currencies use similar chips to **artificial intelligence (AI)** and also tend to consume vast amounts of electricity. How the availability of cheap electricity is once again becoming a locational advantage–and how it can be provided sustainably –is another of our ten themes. As is AI. Who will be its beneficiaries in the coming year? And where are wishful thinking and reality beginning to visibly diverge among its pioneers?

Although many of the topics mentioned are global, we will devote special attention to Asia's **emerging markets**. China, with its two-speed economy, is provoking skepticism, and it is true the country faces challenges, but it may also present some potential investment opportunities, in our view, as we discuss.

How investors can bring the different themes, regions, and asset classes under one roof–to potentially help navigate the risks posed by erratic political decisions–is the focus of the tenth of our ten themes in which we look at the world from a **multi-asset** perspective.

We conclude by showing how **unlikely events** can affect the capital markets and, rather than producing the impact that might have been expected, bring about quite unexpected moves. We did this last year and our more speculative thoughts on the future scored quite a few hits. Our aim, however, is less to be right than to make our readers think about the unexpected. We map the surprisingly wide spectrum of the possible. As asset managers we constantly do that. We invite you to share in our thinking. And we wish you an enjoyable, entertaining and, we hope, enlightening read.

Vincenzo Vedda
Global Chief Investment Officer

Glossary

Artificial intelligence is the theory and development of computer systems able to perform tasks normally requiring human intelligence

A crypto asset is the digital representation of a value or contractual right that is created, transferred, and stored using distributed ledger technology (blockchain) and authenticated through cryptography.

The debt brake limits the German federal government to new borrowing of no more than 0.35% of gross domestic product.

Emerging markets (EM) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

Greenback is a commonly used expression for the U.S. dollar.

Multi asset determines investing in more than one asset class, thus creating a group or portfolio of assets with varying weights and types of classes. The diversification of an overall portfolio is thus increased, and risk (volatility) reduced.

A tariff is a tax imposed by one country on the goods and services imported from another country.

A two-speed economy is a situation where different sectors or segments of an economy experience significantly different rates of growth, with one growing rapidly while another stagnates or declines.

The U.S. Federal Reserve, often referred to as "the Fed," is the central bank of the United States.

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