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More noise than signal

> *The ongoing economic recovery—combined with supportive monetary and fiscal policies—continues to favor equities.*

The start of the year offered investors little respite. A barrage of breaking news had to be digested—from military action in Venezuela to tariff threats against European trade partners of the US. However, many investors have grown accustomed to the consistently high frequency of headlines and quickly returned to business as usual once initial signs of stabilization appeared. But in a volatile market environment, every new piece of information is scrutinized for clues about a lasting turning point in capital markets. This often produces more noise than genuine insight, pushing volatility higher. For long-term investors, however, the key is to identify and respond to signals that truly matter. Three themes will be central this year:

- Artificial intelligence (AI): Who will emerge as winners and losers?
- Will monetary policy remain supportive?
- Will the economy provide additional tailwinds for markets?

Artificial intelligence – winner or loser?

AI remains a major force in financial markets—with both positive and negative effects. Oracle's heavily oversubscribed USD 25 billion bond issuance highlights investors' ongoing willingness to fund the massive expansion of AI infrastructure. At the same time, share prices of major AI and cloud providers such as Amazon, Microsoft, and Alphabet have fallen following the announcement of further investment programs. Equity investors now seek greater clarity on how this infrastructure will be monetized. This will determine which companies ultimately emerge as winners or losers in the AI race. Recently, the launch of Anthropic's new AI agent triggered losses in the software segment. Many existing software applications face pressure as AI agents increasingly take over tasks directly. However, we believe a complete replacement of business software is unlikely. Instead, we expect greater differentiation within the sector: companies that successfully adapt their products will gain market share, while others will fall behind. For selective investors, the recent correction may thus offer buying opportunities.

On the hardware side, the memory-chip industry is benefiting from rising demand for AI inference. As only a handful of manufacturers worldwide can produce the required high-performance chips, their margins are improving significantly. At the same time, the strong surge in demand is putting pressure on hardware producers, who often struggle to secure components when competing with AI hyperscalers. Higher prices could prolong replacement cycles for end devices and dampen overall market growth. The broad AI-driven tailwind that once supported technology stocks is therefore a thing of the past. Periods of uncertainty naturally generate misleading signals, making it harder to clearly identify winners and losers across the value chain. Diversification and taking advantage of market overreactions on the downside remain essential for investing in fundamentally solid companies, including those in the tech sector.

Monetary Policy – hawkish or dovish?

The nomination of Kevin Warsh as President of the US Federal Reserve also triggered immediate market reactions. Many investors interpret him as a traditional policymaker with a strong focus on combating inflation. As a result, the US dollar strengthened, while gold—previously purchased as an inflation hedge—fell sharply. However, it is far from certain that Warsh would oppose further interest-rate cuts. He argues that productivity gains from AI could dampen inflation, giving the central bank additional room to maneuver. We therefore continue to expect at least two rate cuts this year. More interesting will be the question of whether the Federal Reserve begins to shrink its balance sheet by reducing bond holdings. Such a step could create market volatility and push up longer-term rates. Overall, though, monetary policy should remain supportive of equities, especially in the US. Therefore, we remain short USD vs. EUR.

Economy – up or down?

The economy also continues to provide tailwinds. The US performed more strongly last year than many expected, prompting upward revisions to growth forecasts. By contrast, Europe's recovery has so far been led by countries such as Spain and Greece, economies previously viewed as laggards. Germany's debt-financed spending program—initially received enthusiastically by markets—has not yet translated into solid economic data—but that is now starting to change. In December, German industrial orders rose by 7.8% month-on-month. The defense sector benefited in part from government contracts, but other industries also showed early signs of improvement. Exports also posted a surprisingly strong increase at year-end. These developments could help rekindle interest in European equities. Emerging markets remain key contributors to global growth. While cyclical value stocks have recently benefited from the recovery, our analysis suggests that growth stocks may now be next in line.

Conclusion

The ongoing economic recovery—combined with supportive monetary and fiscal policies—continues to favor equities. For bonds, we maintain a neutral duration stance and recommend shorter maturities in corporate bonds given the already tight spreads. In addition, we view the recent sell-off in commodities and gold as a buying opportunity. And watch out for the new trend: renewable energy is back on track…

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