The CEO Macro Briefing Book

12 questions ahead of 2025

UBS Chief Investment Office GWM
Paul Hsiao
Jason Draho, Ph.D.

December 2024

12 Questions Ahead for the New Year

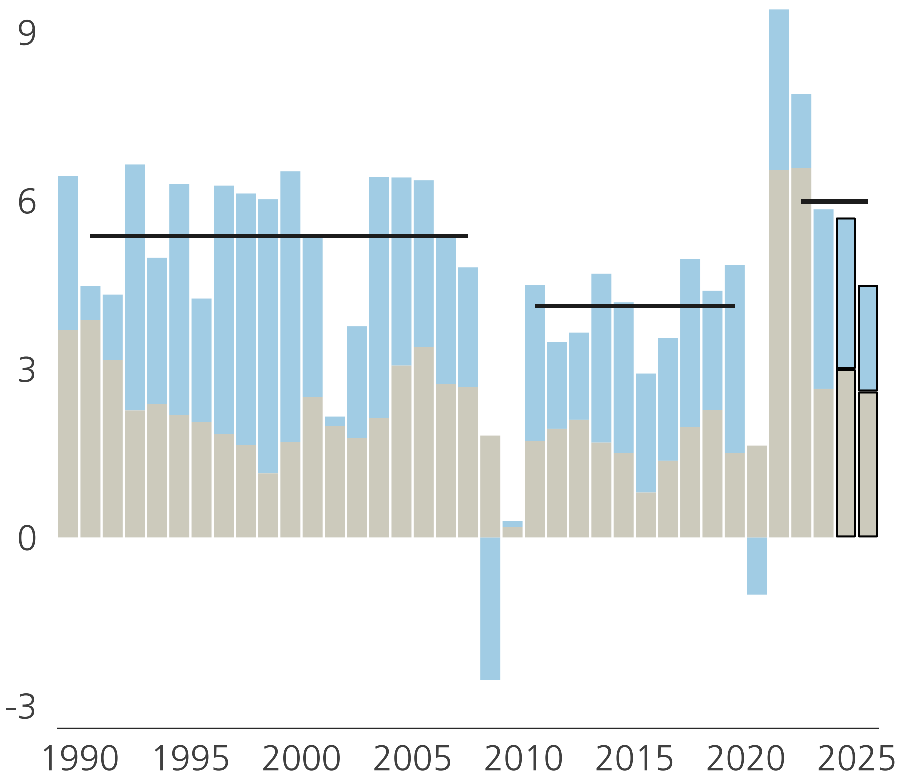
1. What kind of economy is Trump 2.0 inheriting?
2. Will US exceptionalism continue?
3. How many rate cuts to expect next year?
4. Can consumption continue to hold up?
5. Will hiring decline or pick up?
6. Will financing conditions ease for small businesses?
7. How much could the 30Y mortgage rate fall?
8. How could tariffs affect the economy?
9. How could Trump 2.0 fiscal policies affect the deficit?
10. How much can government spending be cut?
11. What to expect from major asset classes in 2025?
12. Will corporate transactions finally pick-up?

UBS

1 What kind of economy is Trump 2.0 inheriting?

Growth and inflation backdrop

Yearly change, %



Note: UBS CIO forecasts taken for 2024 and 2025

Source: BLS, UBS, as of 25 November 2024

UBS

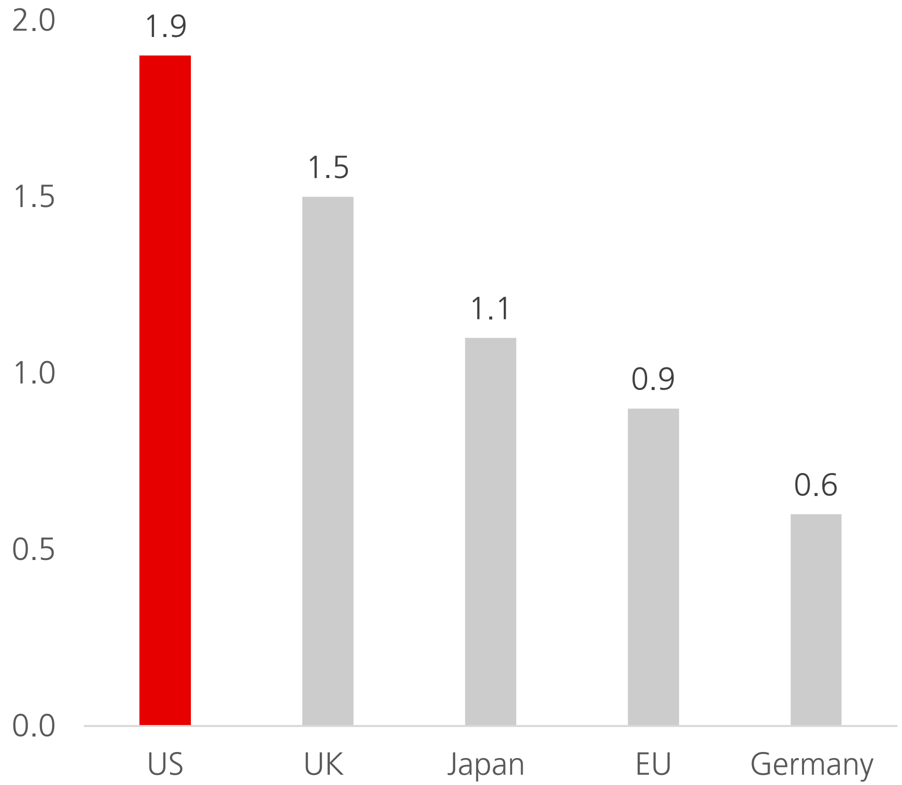
Trump 2.0 will inherit a ~5% "Roaring 20s" economy

- **Real GDP growth continues its above-trend pace.** Four years since the pandemic, the US economy has defied not only recession forecasts but also is running at a pace closer to the 1990s than the sluggish post-Global Financial Crisis period. Real GDP is expected to grow 2.6% in 2024, faster than the 1.8% pace many policymakers consider to be the "trend" growth rate. So far, higher growth (around 2.5%) and inflation around 2.5%) has resulted in a 5% nominal growth economy, much more akin to the late 1990s period than recovery preceding the pandemic.

- **A Roaring '20s so far.** Even with a modest slowdown in 2025, the US economy shows many aspects of a "Roaring 20s" economy with:
  - Real GDP growth running at an above-trend pace
  - Inflation trending quicker than the Fed's 2% target
  - Longer-term interest rates staying elevated around 4%

2 Will US exceptionalism continue?

The US leads its peers in 2025 growth expectations
2025 real GDP, y/y, %



Note: UBS CIO forecasts taken for 2024 and 2025
Source: BLS, UBS, as of 25 November 2024

UBS

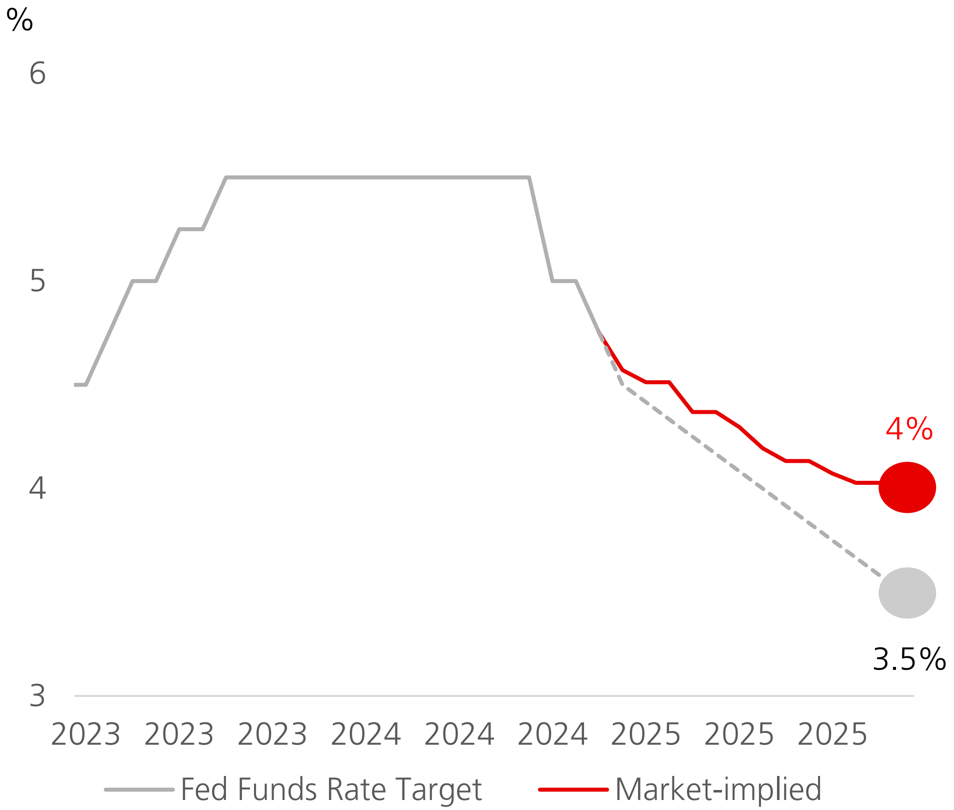
Yes, "Roaring 20s" mostly a US phenomenon

- **2025 US growth expectations higher than its DM peers.** Next year, the US is expected to have the fastest growth rate compared to its major economic developed market peers, growing more than twice as fast as the euro area. Higher productivity, less exposure to energy prices, and a resiliency to high interest rates have helped the US grow faster after the pandemic versus its peers.

- **Trump 2.0 policies have the potential to widen growth differential between the US and other nations**. While tariffs are stagflationary for the US, such a policy may have an outsized negative growth impact on net exporters, particularly in Europe and China, which are already on relatively weaker economic footing than the US.

3 How many rate cuts to expect next year?

Federal funds rate with forecast



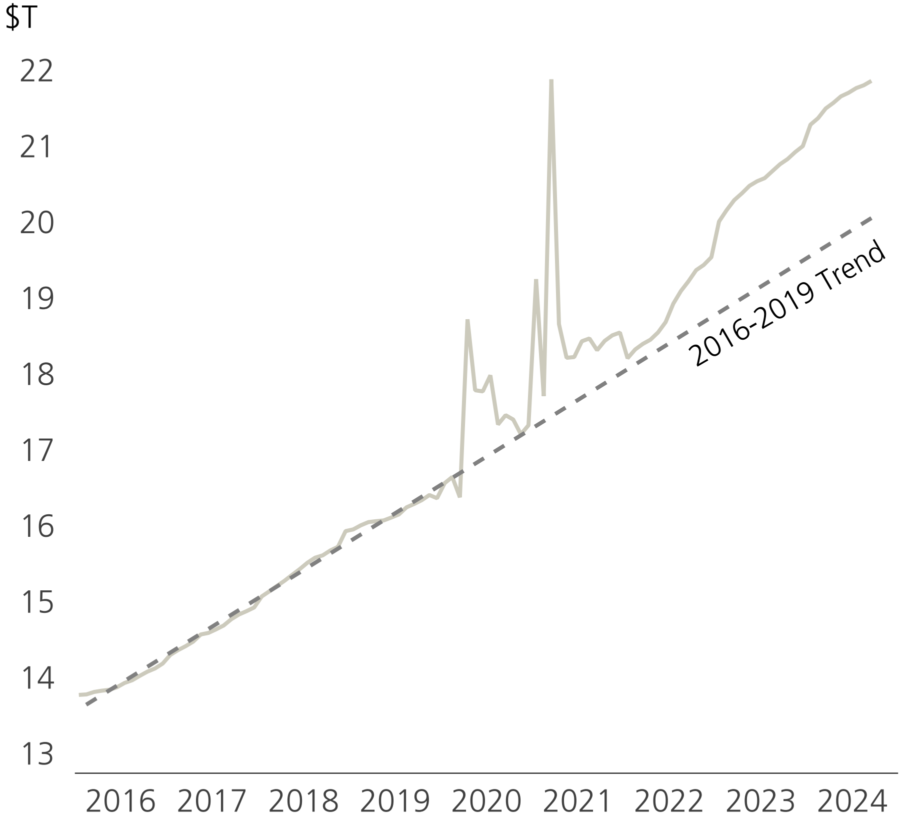
Source: Bloomberg, UBS, as of 25 November 2024

Expect 100bps of rate cuts in 2025

- **The direction of travel for policy rates is clear.** The Federal Reserve started its rate cut with a "jumbo" 50bps rate cut in September, when more evidence was gathering for sustained disinflation and various aspects of the labor market showed significant signs of cooling. For the rest of the year, the Fed has signaled a 25bps rate cut in December 2024 and 100bps in 2025—at a pace of one cut a quarter—to end 2025 at a rate of 3.5%.
- **The "red sweep" election increases odds of more inflationary pressure…**Trump's signature policies that he campaigned on—more tax cuts, tariffs, and deregulation—all should quicken inflation in an environment without a recession.
- **…limiting the amount of rate cuts to come.** Since the election, market expectations for more rate cuts in 2024 have diminished; now, investors expect only two rate cuts in 2025 compared to the four penciled in by the Federal Reserve in September.

4 Can consumption continue to hold up?

Disposable personal income is far above pre-pandemic trend



Source: BEA, UBS, as of 25 November 2024

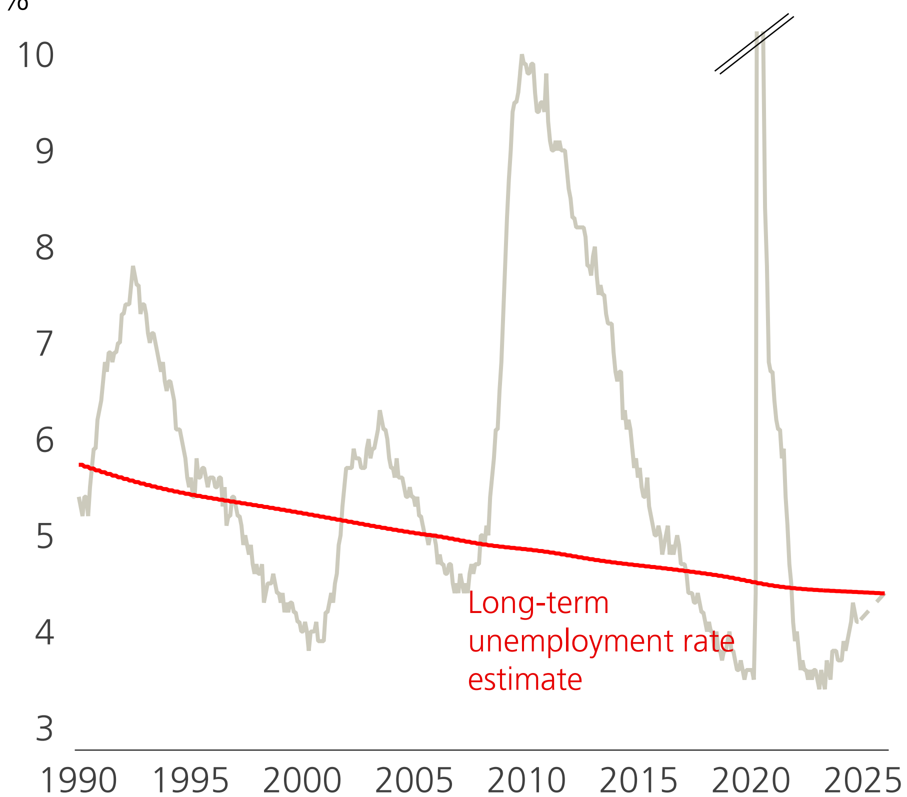
Yes, as disposable income growth continues above trend

- **Consumers have been powering the above-trend growth in the US.** Despite still-gloomy sentiment, US consumers have been the primary driver of US growth and there is reason to believe the strong trend can continue:
  - **Consumer balance sheets are very strong.** According to the Federal Reserve, Americans in the middle quintile of incomes saw their net worth increase around 50% compared to pre-pandemic levels. Revisions to the savings rate data made this year show a much healthier consumer than initially thought, with more room to run. Additionally, as home prices continue rising, some consumers are also starting to take out HELOCs, which is another tailwind for consumption.
  - **Real wage growth remains positive**. Wage growth currently trends around 4% outpacing inflation, providing a sustainable source of consumption growth for the intermediate future.
  - **Delinquencies rising but focused on lower-income households.** There are some cracks in the consumer story with one of the largest being a rise in credit card debt and delinquencies. A deeper dive into the data shows that delinquencies tend to be focused on lower-income consumers who have an undersized effect on overall consumption and may subside as interest rates continue to lower.

UBS

5 Will hiring decline or pick up?

Unemployment rate may rise, but remain historically tight



Note: Axes have been truncated; UBS CIO forecasts taken for 2024 and 2025
Source: BLS, UBS, as of 25 November 2024

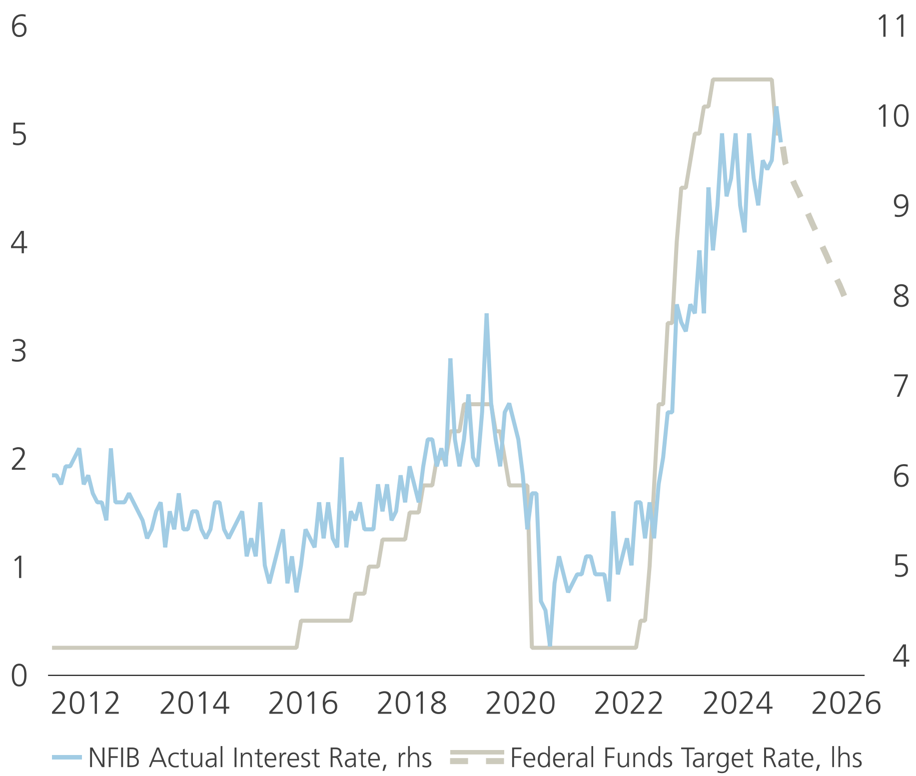
UBS

Labor market to remain healthy, if marginally softer

- **A once white-hot labor market is now more balanced and moderating.** After two years of labor shortages and employers struggling to keep up with rising wages, the labor market has shown more signs of cooling as the unemployment rate has risen from a post-pandemic low of 3.5% to around 4% in late 2024.
  - **Labor demand has softened…** Job openings decline from their record high levels to territory that's more in line with the still-healthy labor market of 2019. Premiums paid to hire job quitters have also narrowed, reinforcing other measures of labor demand. Hiring has also slowed significantly, with the Fed's Beige Book and household surveys similarly noting a hiring slowdown.
  - **…but layoffs aren't a concern yet.** While labor demand has cooled, both continuing claims and initial jobless claims, indicators of unemployment, remain very low and are not indicative of an imminent recession. Firms may be wary of hiring workers, but they are not letting go of workers in a robust economic environment.
  - **Immigration boost to slow or reverse under Trump 2.0.** Over the last few years, the labor supply has grown, driven mainly by the net positive flow of immigrant workers. Since limiting immigration has been a key campaign issue, immigrant hiring is likely to slow or even reverse under the new administration.

6 Will financing conditions ease for small businesses?

Growth and inflation backdrop
Yearly change, %



Note: UBS CIO forecasts taken for 2024 and 2025
Source: BLS, UBS, as of 25 November 2024

Credit conditions for smaller firms to ease with rate cuts

- **Compared to larger firms with broader access to a range of financing options, smaller firms have struggled for credit**. Both bank lending standards and interest rates, thanks to the Fed's policy, remain stubbornly restrictive, especially after the regional banking crisis that stressed smaller American banks in 2023. As rates decline and banks recover, credit conditions for smaller firms should ease, increasing the possibility of more capital investment and hiring.

7 How much could the 30Y mortgage rate fall?

It depends on the direction of the US 10-year yield

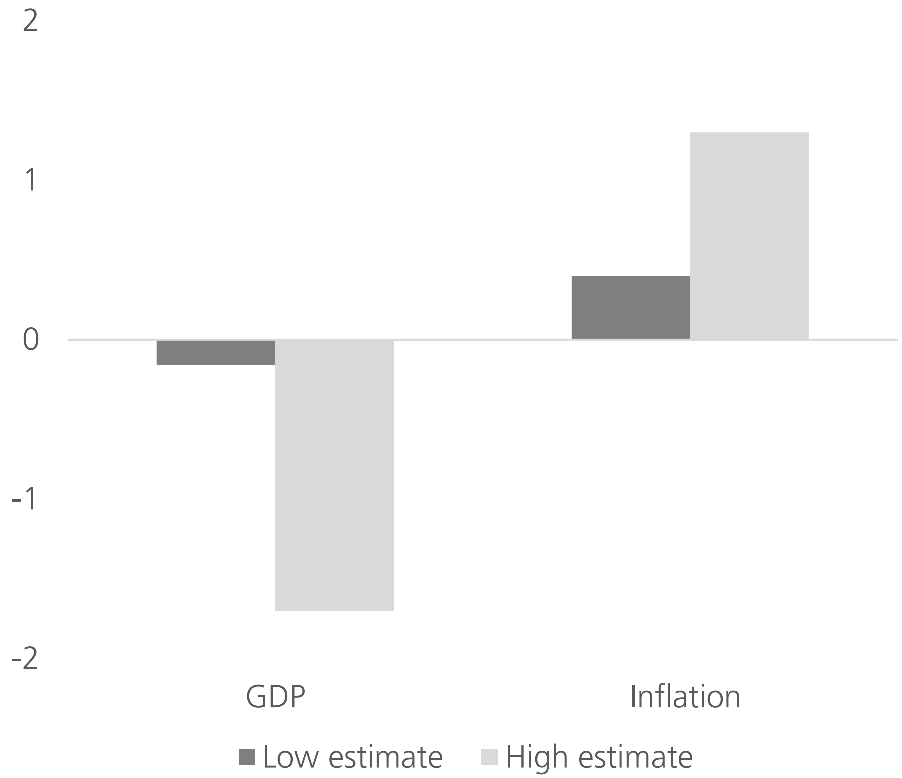
A lower 10Y Treasury yield should lead to lower mortgage rates
%

Note: UBS CIO forecasts taken for 2024 and 2025
Source: BLS, UBS, as of 25 November 2024

- **Residential housing still very unaffordable.** The National Association of Realtors' affordability index trends at the lowest levels in decades owing to a mix of high mortgage rates and high prices.
- **Mortgage rates likely to end 2025 >7%.** Mortgage rates have stayed above 7% for most of 2024, aside from a brief period in September where interest rates fell in anticipation of the start of the Fed's rate cuts.
- **72% of homeowners say 5.5% is the highest acceptable mortgage rate for a new home.** According to a survey from UBS, most new homeowners say that a sub-5.5% mortgage rate is the threshold at which they would consider buying a new home—a level consistent with the 10-year Treasury yield below 4%.

8 How could tariffs affect the economy?

Tariffs lead to weaker growth and higher inflation
% effect on GDP and CPI



Note: UBS CIO forecasts taken for 2024 and 2025
Source: BLS, UBS, as of 25 November 2024

Tariffs are stagflationary, with a wide range of outcomes

- **Tariffs should be a drag on growth…**At their most basic form, tariffs are a tax on imports. Universal tariffs of the kind that has been floated by the president-elect almost certainly will slow economic activity as demand falls.

- **…and a boost for inflation.** Given strong consumer demand, firms may pass on any tariff-related expenses to the consumer, resulting in an acute burst of inflation.

- **Timing and scope are also important.** Even as tariff discussion has increased, new tariffs are unlikely to be implemented until the second half of 2025 since additional tariffs may face congressional resistance as well as a review period. Tariffs may also have a wide range of outcomes depending on the timing, breadth of countries affected, and how onerous the new tariffs would be.

- **Tariff threats may keep market volatility elevated.** Since Trump's electoral win, markets have primarily focused on the incoming administration's pro-growth policies that already complement a robust growth backdrop. Yet increased discussion about tariffs may prompt investors to consider diverse outcomes for trade, including the potential for large, blanket tariffs imposed on imports from major trade partners. At a minimum, a return to US diplomacy by social media posts and tariffs suggests a new period of heightened cross-asset volatility may be ahead.

UBS

9

How could Trump 2.0 fiscal policies affect the deficit?

Spending Proposals	Amount ($T)
Extend Tax Cuts & Jobs Act	-5.4
Exempt overtime/tip income from taxes	-2.3
End taxation of Social Security Benefits	-1.3
Lower corp. tax rate for domestic manufacturers	-0.2
Secure Border and Deport Unauthorized Immigrants	-0.35
Other	-0.9
Additional Spending Total	**-10.45**
Revenue Proposals	Amount ($T)
Universal and higher marginal tariff policy	2.7
Reform energy policy, expand production	0.7
Reduce waste, fraud, abuse	0.1
End Dept. of Education	0.2
Additional Revenue Total	**3.7**
Interest Payments	1.05
Total Deficit Impact	**-7.75**

Note: Amount displayed reflects CFRFB's base case
Source: Committee for a Responsible Federal Budget, UBS, 25 November 2024

UBS

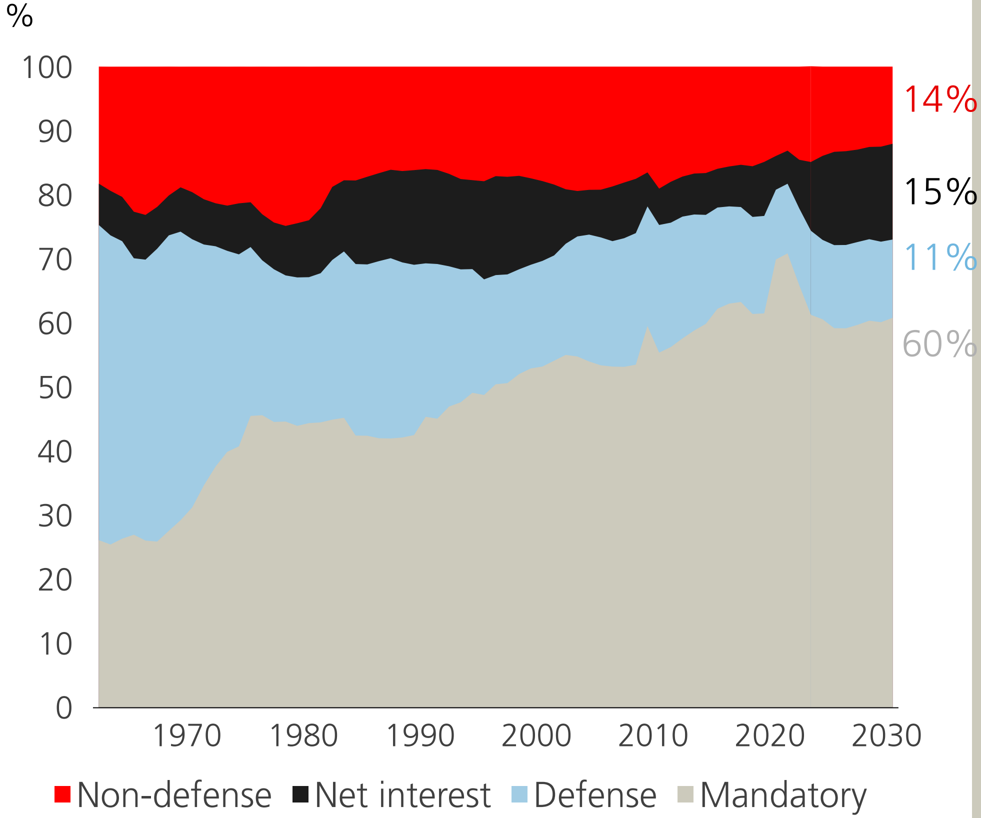
If passed, Trump's policies will widen the deficit

- **Trump 2.0 policies are designed to be pro-growth…** Trump's signature campaign promises of tax cuts and exempting some income (overtime/tip and social security benefits) should produce a sizeable tailwind for consumers as the labor market continues to cool and may offset some growth concerns stemming from any additional tariffs.
- **…at the cost of widening the deficit**. Even with some offsets in the form of tariffs and improvements to government efficiency, Trump's initial set of proposals is estimated to add nearly $8 trillion to overall debt levels over the next decade and widen the deficit.

10

How much can government spending be cut?

Tariffs lead to weaker growth and higher inflation



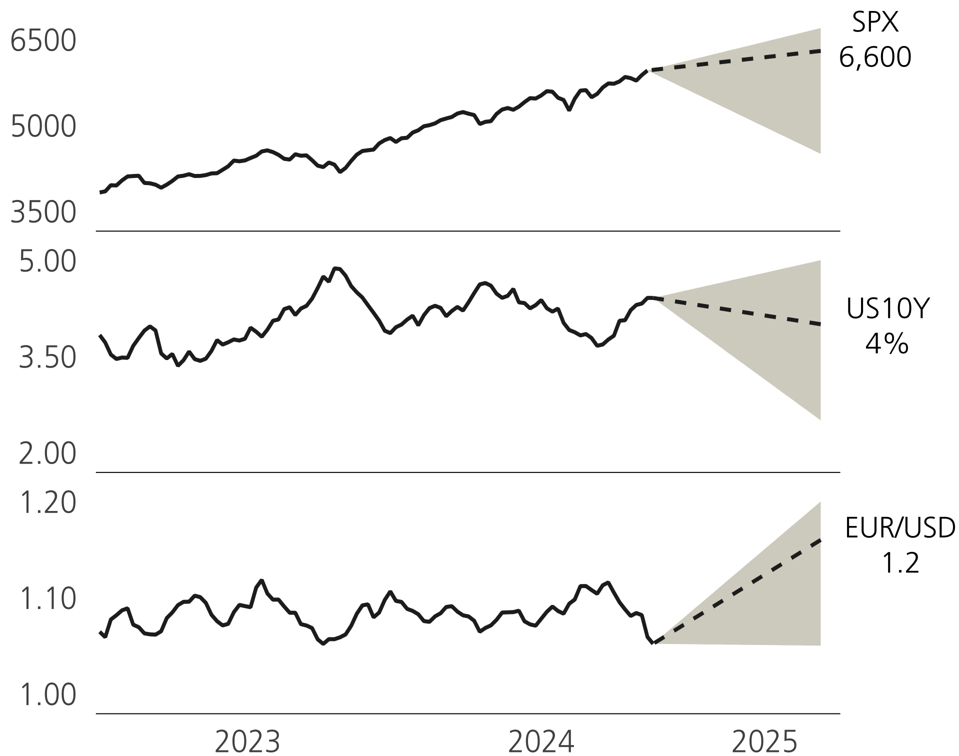
Source: CBO, UBS, 25 November 2024

Not that much, since most government spending is mandatory

- **The federal budget already has relatively little "fat" to cut from.** Summing up mandatory spending (think programs like Social Security, Medicare/Medicaid), defense spending, and net interest payments, budget hawks only have around 14% of discretionary non-defense spending to cut from, which already looks modest relative to its own history.
- **Rising net interest payments are a growing concern.** Net interest payments are estimated to rise ~$1 trillion for FY24, making it the second largest government expense after Social Security. Especially given the bloated size of the debt, higher longer-term interest rates, a precursor to higher interest rate payments, will likely provide resistance to the incoming president's pro-growth and spending plans.

11 What to expect from major asset classes in 2025?

UBS CIO Asset Class Expectations
Yearly change, %



Note: UBS CIO forecasts taken for 2024 and 2025
Source: BLS, UBS, as of 25 November 2024

Expect higher stocks, lower yields, and a weaker USD

- **Equities.** In the US, we anticipate the S&P 500 reaching 6,600 by the end of 2025, driven by benign growth, lower interest rates, and AI advancements. Potential tax cuts and deregulation under a Trump administration could further support markets. Our preferred sectors include technology, utilities, and financials. While tariffs may affect tech earnings, AI infrastructure spending remains robust. Utilities may face headwinds from less government support for renewables, but demand for AI data centers should drive power demand. We expect the financial sector to benefit from deregulation.

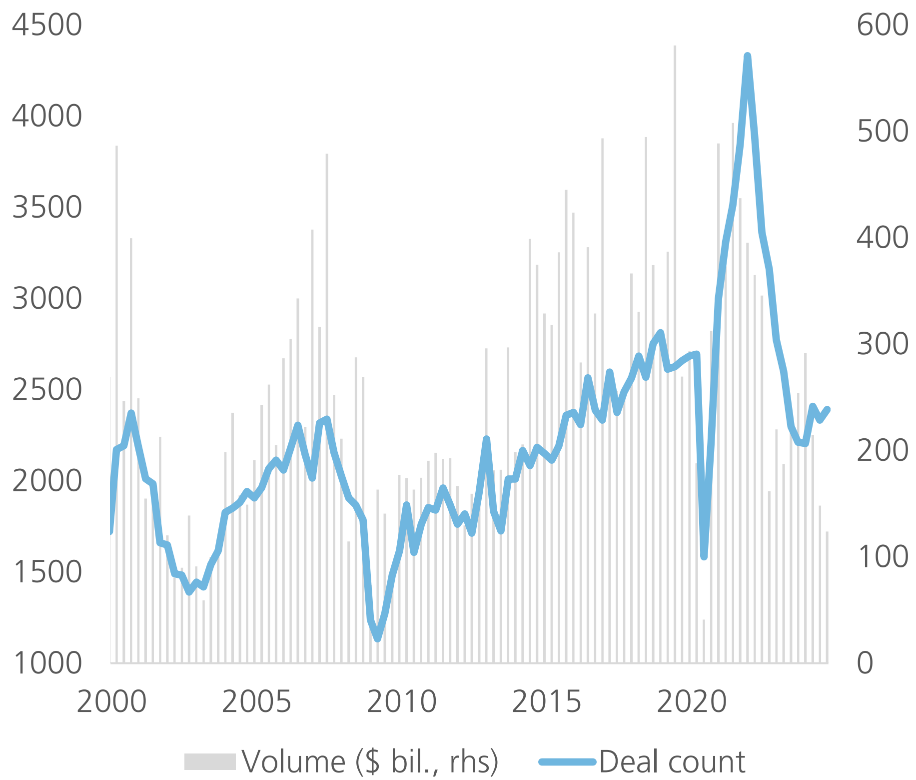
- **Rates.** The yield on the benchmark US 10-year Treasury has spent 2024 mostly above 4%, with a recent surge in the weeks leading up to the election. We believe yields are likely to fall in the year ahead since the Federal Reserve is on track to cut short-term rates and campaign promises meet fiscal reality.

- **Currency.** The US Dollar Index has strengthened on confirmation of a Trump presidency, driven in part by market repricing of fewer rate cuts than initially thought and heightened geopolitical uncertainty. While the US dollar may remain strong in the short term, we believe that the dollar is now overvalued and overstretched at current levels and will modestly depreciate against the euro in 2025.

12

Will corporate transactions finally pick up?

US M&A activity showing modest green shoots



Source: Bloomberg, UBS, as of 25 November 2024

UBS

Expect higher stocks, lower yields, and a weaker USD

- **We expect corporate activity to pick up next year.** Corporate transactions enjoyed a boom in 2021 and 2022, followed by a sharp slowdown in 2023 and 2024. 2025 will likely see a broad improvement in corporate activity:
  - **IPOs:** A stronger environment than 2024, but IPO activity has been hampered by firms choosing alternative sources of capital while the tepid post-IPO performance of some stocks has deterred more companies from listing.
  - **M&A:** Dealmaking recovery to continue improving in 2025 with lower rates ahead and election-related anxiety now in the rear window.
  - **VC:** Venture capital market remains sluggish, buoyed by a few large deals in the AI sector; fundraising remains low amid a lack of exits.
  - **PE:** Despite having returns that lag public markets, private equity transaction activity is improving, and exits are gaining traction amid higher valuations.

- **Election is a risk-clearing event.** Feedback from clients suggest that the US election was a risk-clearing event, and the anticipated deregulatory impulse from a Trump 2.0 administration is ultimately conducive to corporate activity, particularly M&A.

Risk information (Eng 1/2)

UBS Chief Investment Office's ("CIO") investment views are prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland) or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. Additional disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.
The investment views have been prepared in accordance with legal requirements designed to promote the **independence of investment research**.

Generic investment research – Risk information:
This publication is **for your information only** and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein does not constitute a personal recommendation or take into account the particular investment objectives, investment strategies, financial situation and needs of any specific recipient. It is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS). All information and opinions as well as any forecasts, estimates and market prices indicated are current as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria.

In no circumstances may this document or any of the information (including any forecast, value, index or other calculated amount ("Values")) be used for any of the following purposes (i) valuation or accounting purposes; (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or (iii) to measure the performance of any financial instrument including, without limitation, for the purpose of tracking the return or performance of any Value or of defining the asset allocation of portfolio or of computing performance fees. By receiving this document and the information you will be deemed to represent and warrant to UBS that you will not use this document or otherwise rely on any of the information for any of the above purposes. UBS and any of its directors or employees may be entitled at any time to hold long or short positions in investment instruments referred to herein, carry out transactions involving relevant investment instruments in the capacity of principal or agent, or provide any other services or have officers, who serve as directors, either to/for the issuer, the investment instrument itself or to/for any company commercially or financially affiliated to such issuers. At any time, investment decisions (including whether to buy, sell or hold securities) made by UBS and its employees may differ from or be contrary to the opinions expressed in UBS research publications. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, divisions or affiliates of UBS. Futures and options trading is not suitable for every investor as there is a substantial risk of loss, and losses in excess of an initial investment may occur. Past performance of an investment is no guarantee for its future performance. Additional information will be made available upon request. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information.

Different areas, groups, and personnel within UBS Group may produce and distribute separate research products **independently of each other**. For example, research publications from **CIO** are produced by UBS Global Wealth Management. **UBS Global Research** is produced by UBS Investment Bank. **Research methodologies and rating systems of each separate research organization may differ**, for example, in terms of investment recommendations, investment horizon, model assumptions, and valuation methods. As a consequence, except for certain economic forecasts (for which UBS CIO and UBS Global Research may collaborate), investment recommendations, ratings, price targets, and valuations provided by each of the separate research organizations may be different, or inconsistent. You should refer to each relevant research product for the details as to their methodologies and rating system. Not all clients may have access to all products from every organization. Each research product is subject to the policies and procedures of the organization that produces it.
The compensation of the analyst(s) who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking, sales and trading or principal trading revenues, however, compensation may relate to the revenues of UBS Group as a whole, of which investment banking, sales and trading and principal trading are a part.

Tax treatment depends on the individual circumstances and may be subject to change in the future. UBS does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon both in general or with reference to specific client's circumstances and needs. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein.

Risk information (Eng 2/2)

This material may not be reproduced or copies circulated without prior authority of UBS. Unless otherwise agreed in writing UBS expressly prohibits the distribution and transfer of this material to third parties for any reason. UBS accepts no liability whatsoever for any claims or lawsuits from any third parties arising from the use or distribution of this material. This report is for distribution only under such circumstances as may be permitted by applicable law. For information on the ways in which CIO manages conflicts and maintains independence of its investment views and publication offering, and research and rating methodologies, please visit www.ubs.com/research-methodology. Additional information on the relevant authors of this publication and other CIO publication(s) referenced in this report; and copies of any past reports on this topic; are available upon request from your client advisor.

Important Information About Sustainable Investing Strategies: Sustainable investing strategies aim to consider and incorporate environmental, social and governance (ESG) factors into investment process and portfolio construction. Strategies across geographies approach ESG analysis and incorporate the findings in a variety of ways. Incorporating ESG factors or Sustainable Investing considerations may inhibit UBS's ability to participate in or to advise on certain investment opportunities that otherwise would be consistent with the Client's investment objectives. The returns on a portfolio incorporating ESG factors or Sustainable Investing considerations may be lower or higher than portfolios where ESG factors, exclusions, or other sustainability issues are not considered by UBS, and the investment opportunities available to such portfolios may differ.

External Asset Managers / External Financial Consultants: In case this research or publication is provided to an External Asset Manager or an External Financial Consultant, UBS expressly prohibits that it is redistributed by the External Asset Manager or the External Financial Consultant and is made available to their clients and/or third parties.

USA: Distributed to US persons only by UBS Financial Services Inc. or UBS Securities LLC, subsidiaries of UBS AG. UBS Switzerland AG, UBS Europe SE, UBS Bank, S.A., UBS Brasil Administradora de Valores Mobiliarios Ltda, UBS Asesores Mexico, S.A. de C.V., UBS SuMi TRUST Wealth Management Co., Ltd., UBS Wealth Management Israel Ltd and UBS Menkul Degerler AS are affiliates of UBS AG. **UBS Financial Services Inc. accepts responsibility for the content of a report prepared by a non-US affiliate when it distributes reports to US persons. All transactions by a US person in the securities mentioned in this report should be effected through a US-registered broker dealer affiliated with UBS, and not through a non-US affiliate. The contents of this report have not been and will not be approved by any securities or investment authority in the United States or elsewhere. UBS Financial Services Inc. is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule.**

For country information, please visit ubs.com/cio-country-disclaimer-gr or ask your client advisor for the full disclaimer.

Additional Disclaimer relevant to Credit Suisse Wealth Management

You receive this document in your capacity as a client of Credit Suisse Wealth Management. Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website https://www.credit-suisse.com. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.

Except as otherwise specified herein and/or depending on the local Credit Suisse entity from which you are receiving this report, this report is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

Version C/2024. CIO82652744