The CEO Macro Briefing Book

Politics heats up, the economy cools down

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Section 1

Insights in Brief

Executive Summary: Economy is landing softly, politics adding turbulence

Macroeconomic Outlook

- **A cooling growth environment…**Macro conditions have evolved into a very good environment for risk assets. Fast growth amid high inflation and a tight job market during the first half of the year sparked fears that policymakers will keep rates "higher for longer." But recent data indicates a decidedly cooler job market and solid disinflation trend while growth has held up. We expect growth and inflation to moderate to benign levels.
- **…setting the stage for rate cuts.** Considering better data, Fed officials have implicitly endorsed a September rate cut. However, markets may have run ahead of themselves by pricing in 65bp worth of rate cuts this year and more than 100bp in 2025 – an aggressive amount, especially if growth remains solid and inflation stays above 2%.

Operating Environment

- **Moderating consumption and labor markets are a positive for policymakers**. Consumer spending shows signs of moderation but not deterioration as it runs at a still-healthy trend, even as more cracks start showing for lower-income households. Various labor market indicators are back to pre-pandemic levels, easing inflationary pressure concerns for policymakers.
- **Higher chances of rate cuts easing financial conditions.** Financial conditions are generally easing, buoyed by strong equity market performance, tight spreads, and higher probability of rate cuts as Fed's SLOOS shows easing credit standards for firms. This will help the real estate market, but that may get worse before it gets better.

Markets & Deal Activity

- **After solid performance in 1H24, equity markets staged a stunning rotation in July.** The leaders in the first half of the year like tech are the relative laggards this month, while previous laggards like small-caps have gone on a tear. This rotation was triggered by increasing probability of imminent rate cuts, greatly amplified by positioning. The rotation's longevity is doubtful; data needs to be 'great' and not just 'good' for the recent rotation trade to persist.
- **Deal activity still waiting for rate cuts, and performance broadening out.** The expected pickup in corporate activity has yet to really occur. M&A activity is still sluggish but within pre-pandemic ranges, while IPO and VC deals are recovering from a very low base.

Politics

- **A Trump win is more likely than not, but an unusually volatile election season may have more surprises before 5 November.** Our probability of a 'Red Sweep' is 40%, with a 'Red Divided Government' at 15%. Kamala Harris likely replacing Joe Biden as the Democratic nominee has marginally increased the probability of a Blue win, with a 'Blue Sweep' scenario at 10% and a 'Blue Divided government' scenario at 35%.
- **'Trump Trade' effect not obvious yet.** The impact of the Trump trade on the market rotation is hard to isolate and may be even more so in light of President Biden ending his campaign, but it's likely limited overall and a distant third factor after economic data and Fed rate probability.

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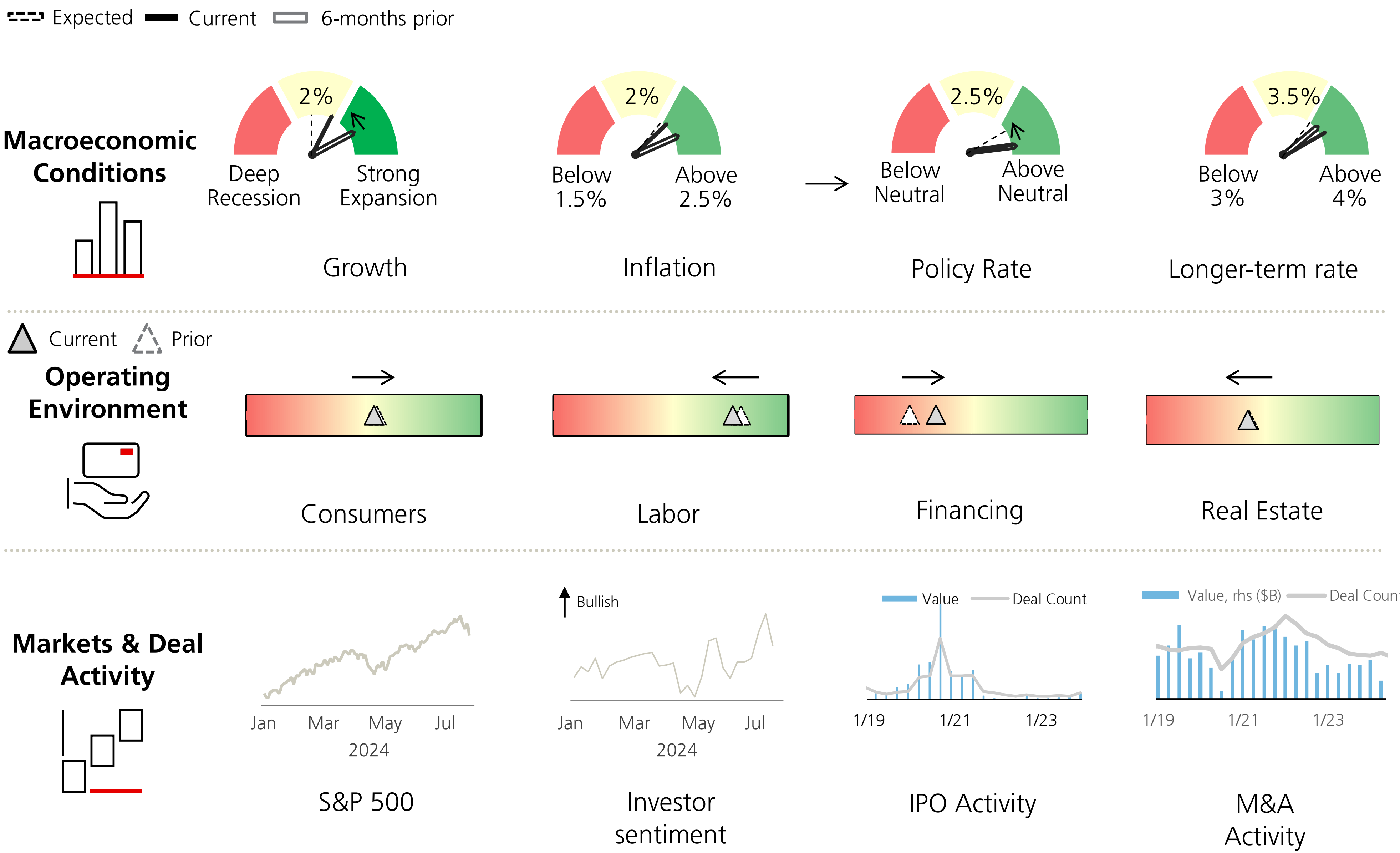
Dashboard Summary: Slowing growth and inflation, pending rate cuts



Source: Bloomberg, UBS, as of 25 July 2024

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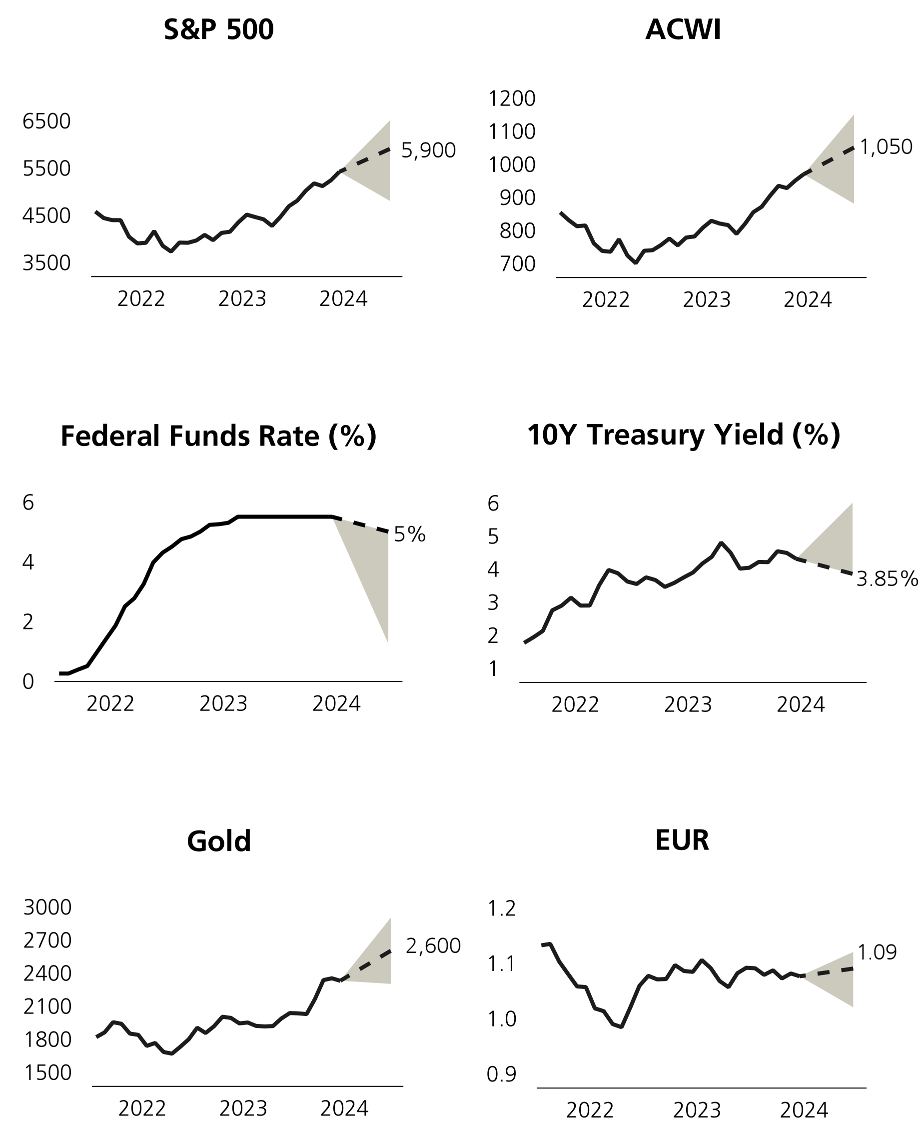
Markets Dashboard: 1H24 provided solid, if concentrated, performance

Performance	Latest	YTD	Q224	Q124	2023
S&P 500	5426	13.8%	3.9%	10.2%	24.2%
Large Cap Growth	3630	19.8%	9.4%	12.6%	28.3%
Large Cap Value	1840	7.1%	-2.7%	7.4%	19.8%
US Small Cap	2211	9.1%	-3.6%	4.8%	15.1%
Int'l Developed Markets	971	11.8%	2.8%	9.1%	19.5%
S&P 500 Sectors					
Energy	692	8.2%	-3.2%	12.7%	-4.8%
Materials	567	5.1%	-4.9%	8.4%	10.2%
Industrials	1051	8.9%	-3.3%	10.6%	16.0%
Consumer Discretionary	1459	2.9%	0.4%	4.8%	41.0%
Consumer Staples	842	10.5%	0.7%	6.8%	-2.2%
Healthcare	1757	10.5%	-1.4%	8.4%	0.3%
Financials	715	14.2%	-2.4%	12.0%	9.9%
IT	4125	21.4%	13.6%	12.5%	56.4%
Utilities	363	12.8%	3.9%	3.6%	-10.2%
Real Estate	256	1.9%	-2.8%	-1.4%	8.3%
US Gov't	2276	-0.1%	0.1%	-1.0%	4.1%
Munis	1326	0.3%	0.0%	-0.4%	6.4%
TIPS	343	1.2%	0.8%	-0.1%	3.9%
Agency	120	1.4%	0.6%	-0.3%	5.4%
US IG	3233	0.4%	-0.1%	-0.4%	8.5%
US HY	2584	4.2%	1.1%	1.5%	13.4%
Oil	76.7	7.0%	-2.0%	16.1%	-10.7%
Gold	2363	14.6%	4.3%	8.1%	13.1%
USD	104	3.0%	1.3%	3.1%	-2.1%
EUR	1.08	-1.8%	-0.7%	-2.3%	3.1%
JPY	154	8.9%	6.3%	7.3%	7.6%
EM FX	1723	-1.0%	-0.1%	-0.9%	4.8%

Source: Bloomberg, UBS, as of 25 July 2024

Negative Positive

2024 UBS CIO Forecasts



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Section 2

Macroeconomic Outlook

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Macro Key Points: A normalizing economy, with "Roaring '20s" upside

Increasing conviction in the soft-landing narrative. Recent economic data paints a picture of cooling economic activity, particularly in the labor market, which has rebalanced from its prior red-hot pace that was a concern to policymakers. While real growth expectations hold steady around the trend growth rate of 2% in Q2, job openings and wage growth are softer, setting a more benign macroeconomic environment compared to the beginning of the year.

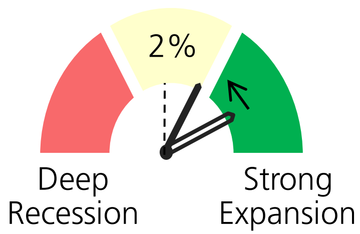
Inflation picture has improved… Stagflation concerns likely peaked in April after a hot Q1. Since then, inflation has surprised to the downside as consumers, especially in lower-income households, fight back against higher costs and prices of goods fall further into negative territory. Shelter costs remain elevated but are drifting lower, giving more confidence in continued disinflation.

…setting the stage for rate cuts. More confidence in cooling inflation has the market pricing a high likelihood of the first Fed rate cut in September (96% chance). Our expectation of two rate cuts this year starting in September has increased as inflation data reaffirms confidence in the "soft-landing" narrative. Fed could still stay on hold longer than our base case, but further rate hikes are increasingly unlikely.

'Roaring '20s' macro regime looks marginally more likely now. Robust growth, investment optimism, and adoption of AI are all drivers for a 'Roaring '20s' bull case, an economy with growth, inflation, and interest rates more akin to the mid to late 1990s than the 2010s. Developments this year in AI and investment have increased the probability of this bull case since 4Q23.

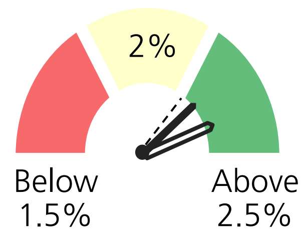
Macro Dashboard: A cooler backdrop sets the stage for rate cuts

Expected Current 6-months prior



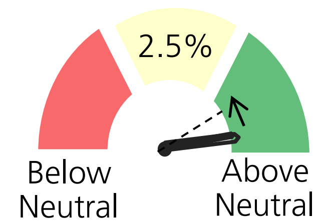
Growth

- Growth momentum has cooled from a hot second half of 2023 as consumption normalizes. Robust trend still intact.



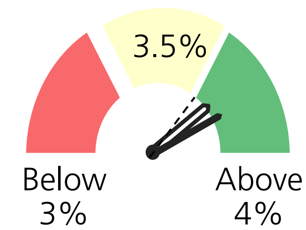
Inflation

- Better-than-expected June CPI print reinforces disinflation trend and soft-landing narrative. Shelter costs still high but cooling.



Fed funds rate

- Moderating growth momentum and softer inflation open the door for imminent rate cuts; market now pricing >2 in 2024 as policymakers starting to worry as much about growth as inflation.



10-year yield

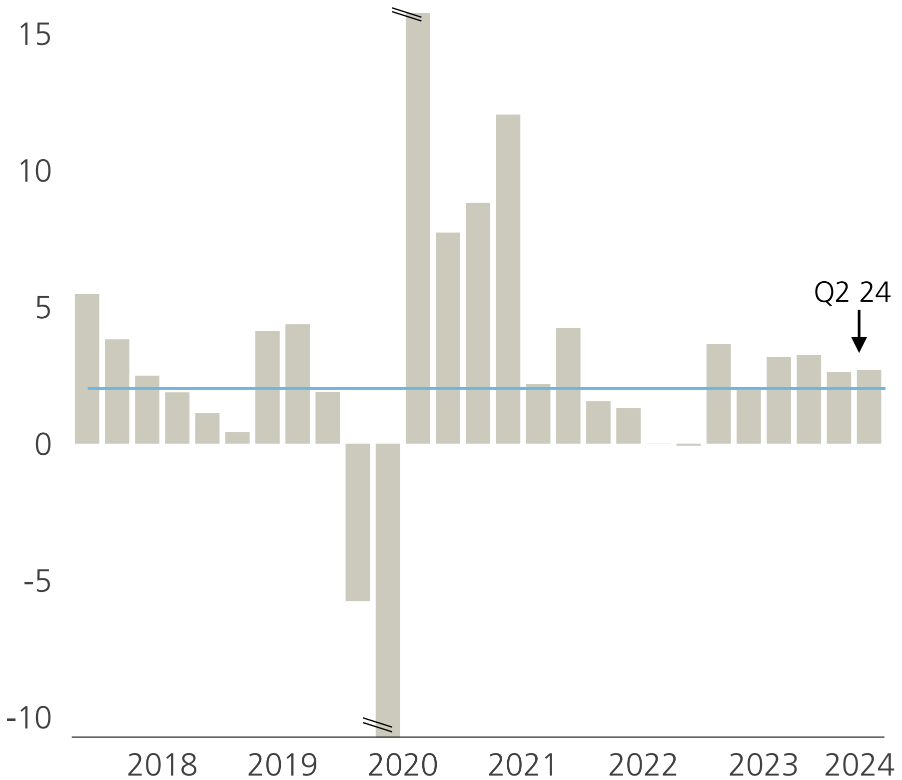
- 10-year yields have been range bound for most of the year; will likely move lower and benefit from bull steepening as rate cuts come into focus.

Source: Bloomberg, UBS, as of 25 July 2024

Growth: The economy is slowing back to the 2% trend rate

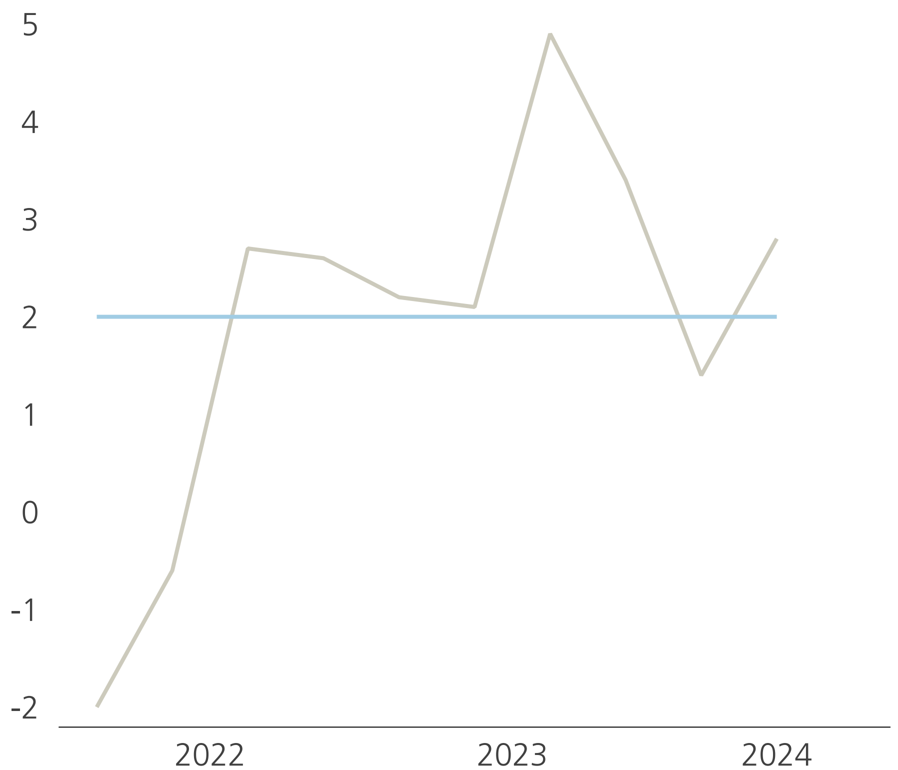
Growth shows signs of cooling, but private sector demand is still growing above 2%. Investors and the Fed are likely now more concerned about growth falling too fast than inflation staying too high.

Real private domestic demand stays solid growing >2% in Q2
Annualized quarterly change, %



Note: Real private sector final demand is consumption and investment less net exports and change in inventories. Axes have been truncated.
Source: BEA, Federal Reserve, UBS, as of 15 July 2024

Headline growth stays above trend for 7/8 past quarters
Real GDP q/q annualized growth rate, in %

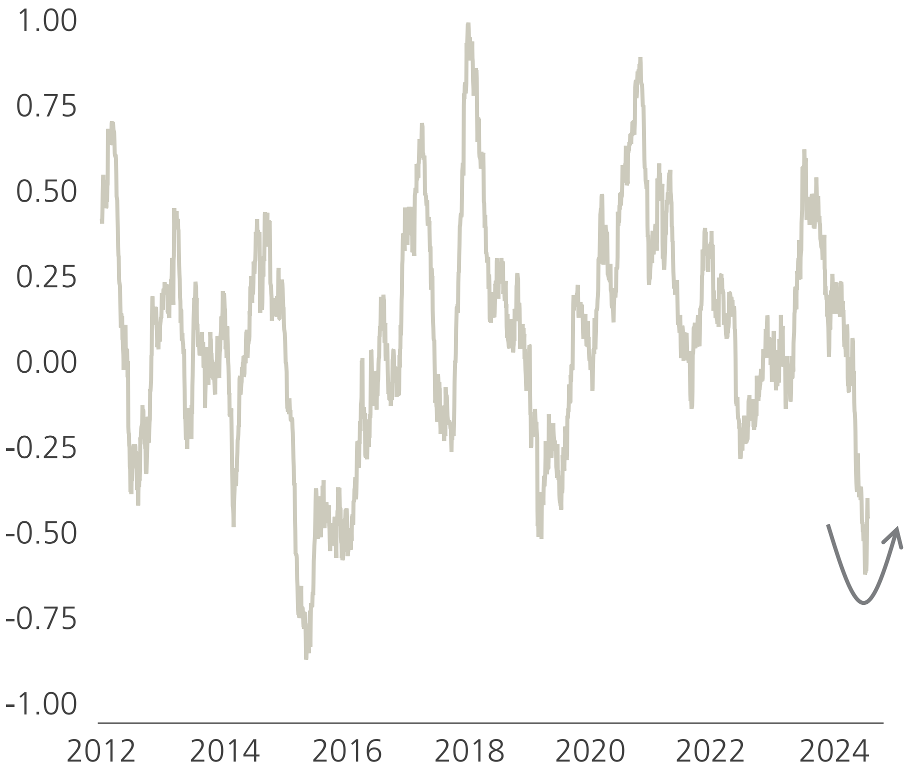


Source: BEA, Federal Reserve, UBS, as of 15 July 2024

Growth: Data fell below expectations, but now improving

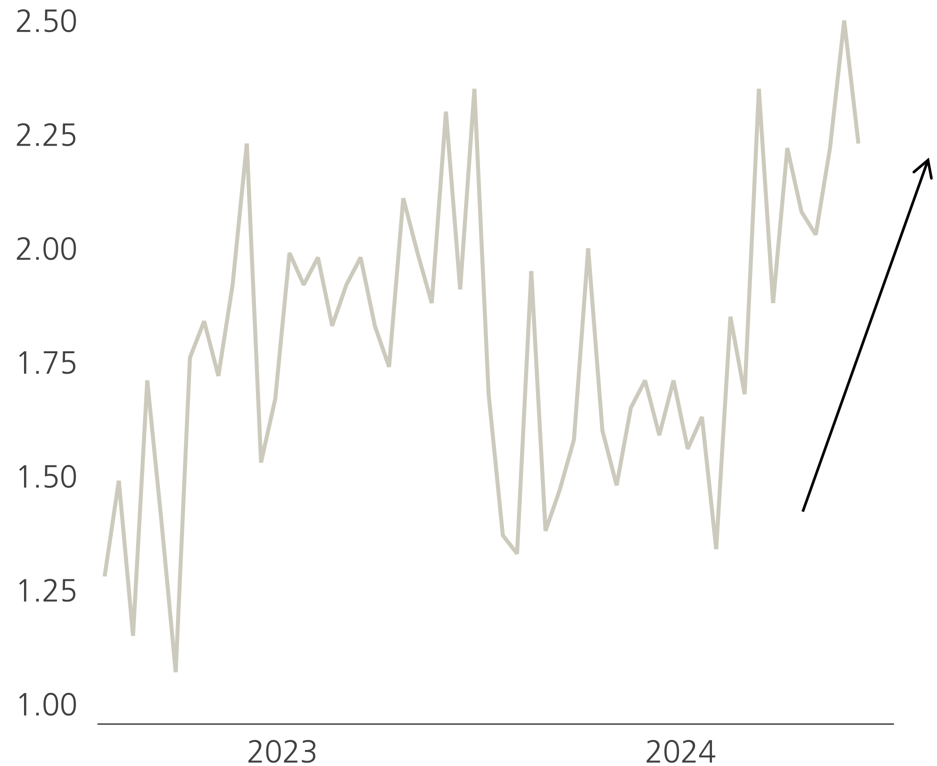
Data has been recently disappointing to the downside, especially from real estate and soft data; yet other indicators show a more resilient growth trend on track for a >2% annualized quarterly in Q2.

Bloomberg's ECO surprise index lowest in a decade
Z-score



Source: BEA, Federal Reserve, UBS, as of 15 July 2024

Dallas Fed weekly economic index surged starting late May
Real GDP q/q annualized growth rate, in %



Source: BEA, Federal Reserve Bank of Dallas, UBS, as of 15 July 2024

Growth: The global manufacturing cycle inflecting higher

Hard data shows industrial production finally expanding in the US, coinciding with a broader global manufacturing upswing.

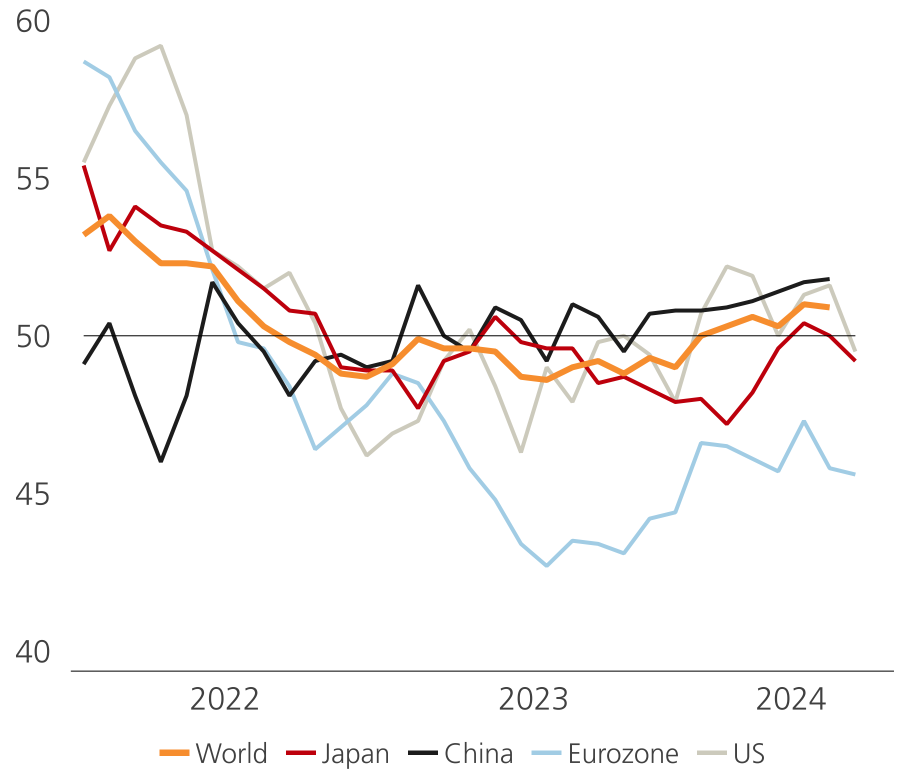
US industrial production back in expansion territory

year/year, %

Source: BEA, Macrobond, UBS, as of 15 July 2024

Global PMIs show acceleration from 2023 bottom

Index



Source: S&P, Macrobond, UBS, as of 15 July 2024

Growth: Sentiment data from households and small firms still soft

Soft data shows gloominess lingering for consumers and small businesses still reeling from hot inflation during the first half of the year; rate cuts should increase optimism.

High inflation likely weighed on consumer sentiment in Q2
University of Michigan Consumer Sentiment Index

Source: University of Michigan, Macrobond, UBS, as of 15 July 2024

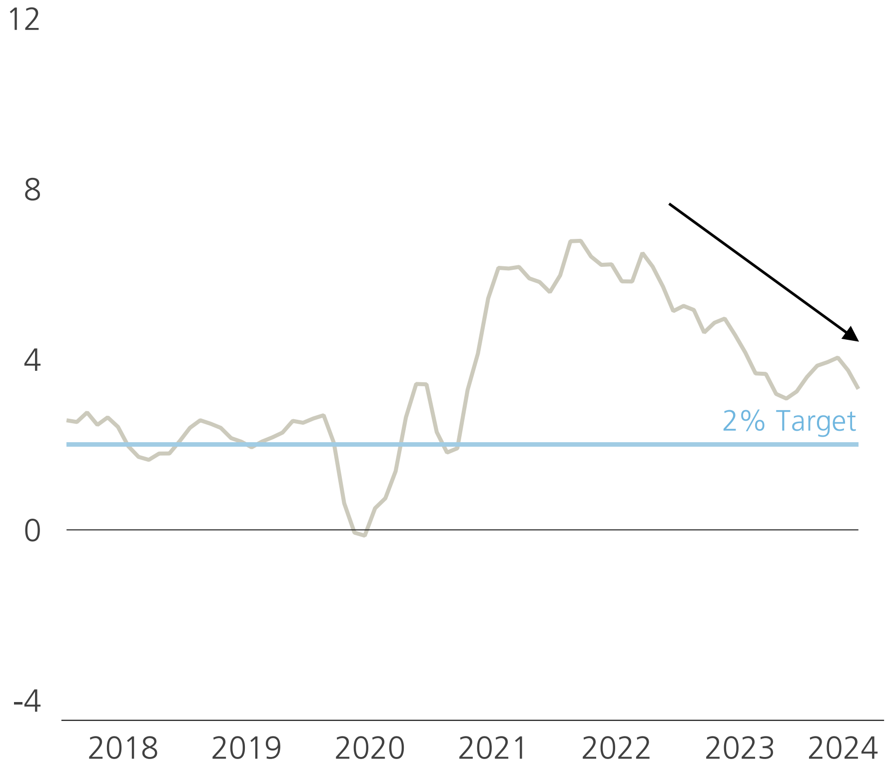
Small business optimism has risen, from a very low level
NFIB Small Business Optimism Index

Source: NFIB, Macrobond, UBS, as of 15 July 2024

Inflation: After a hot Q1, disinflation progress resumed in Q2

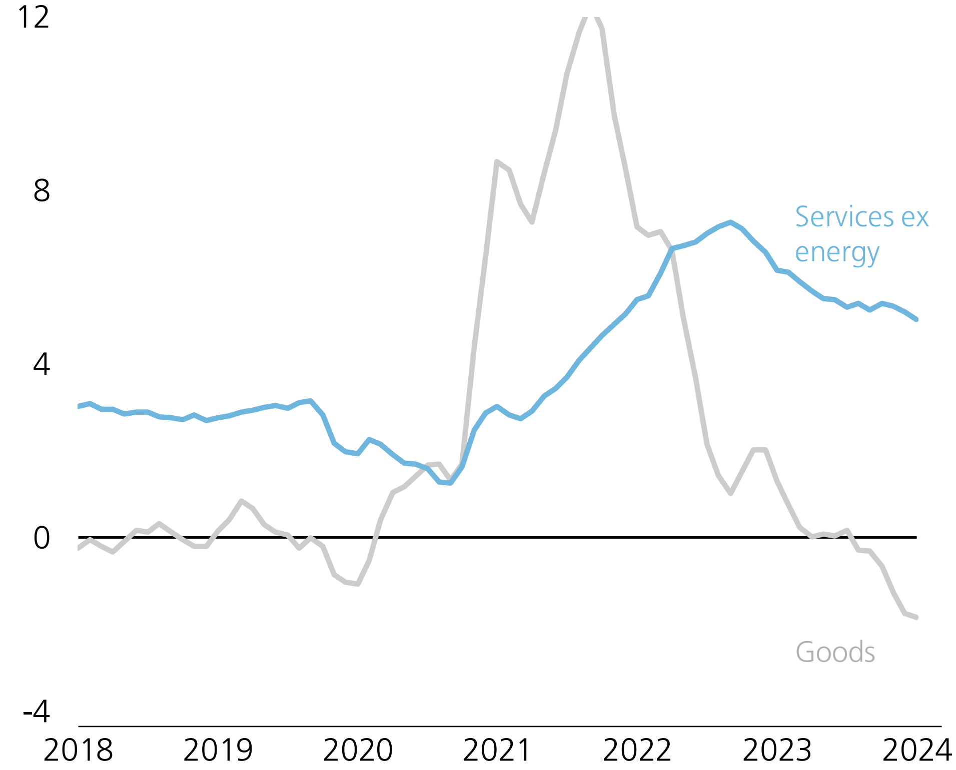
Core CPI less shelter getting back to the pre-pandemic range as the prices of goods moves into deflation territory; elevated shelter costs moving lower giving comfort to policymakers.

Core CPI moving closer and closer to target
CPI inflation, 6M annualized %



Source: BLS, Federal Reserve, UBS, as of 15 July 2024

Goods back in deflation as services inflation remains sticky
CPI inflation, y/y, %

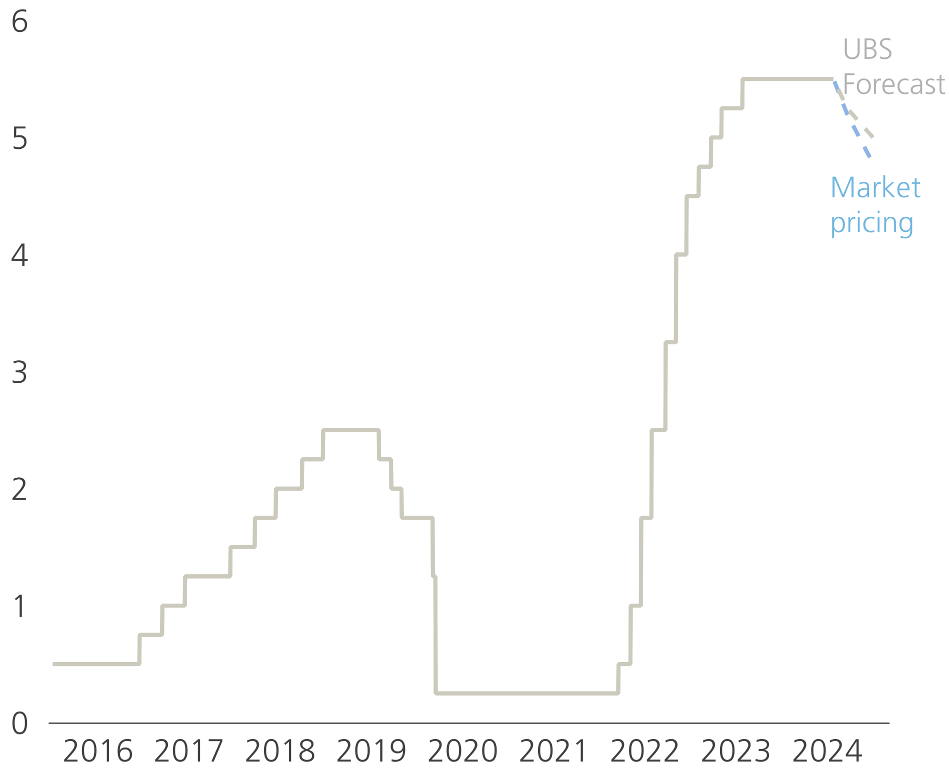


Source: BEA, Federal Reserve, UBS, as of 15 July 2024

Rates: Two rate cuts in 2024 look quite likely, but still far from neutral

We expect two rate cuts from the Fed later this year; even with a higher market-implied neutral policy rate (~3.5%) rates still likely restrictive through 2025.

Federal Funds Rate with Forecast
%



Source: Bloomberg, UBS as of 15 July 2024

Market-implied neutral rate
10Y 1M OIS Forward, %

Source: Federal Reserve Bank of Richmond, UBS, as of 15 July 2024

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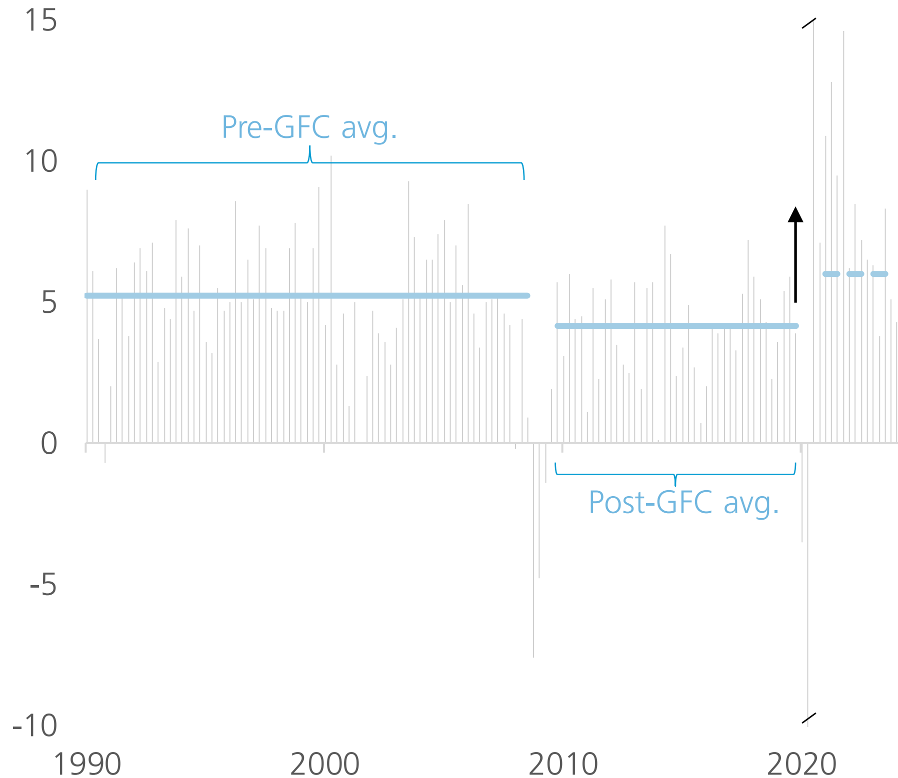
Roaring '20s: Growth slowing hasn't dampened the bull case

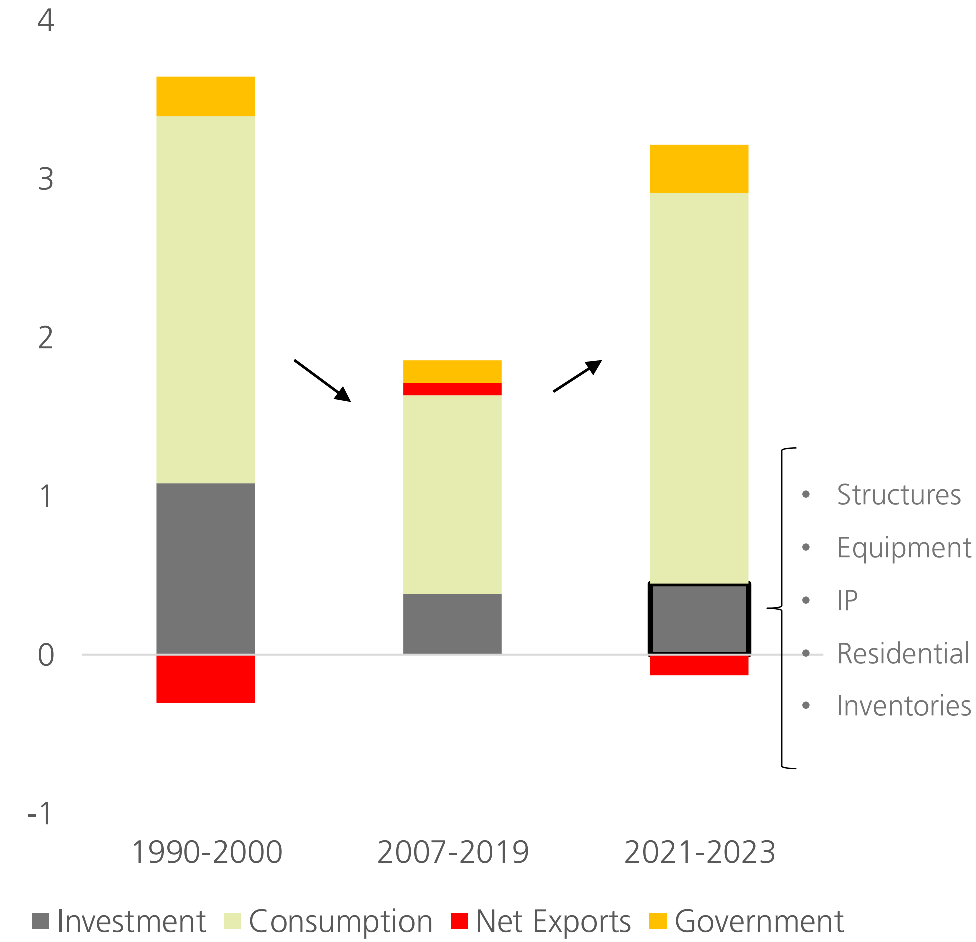
The current environment looks very much like a 'Roaring '20s' scenario of sustained higher growth, inflation, and rates; a step-up from the tepid GFC recovery thanks to higher productivity and investment.

~6% nominal GDP growth 1.5x fast as last cycle
Quarter-over-quarter (q/q) annualized rate, in %



Note: Axes have been truncated
Source: Bloomberg, BEA, UBS, as of 17 June 2024

Investment has scope to improve to sustain 'Roaring '20s'
% contribution to GDP



Source: BEA, UBS, as of 17 June 2024

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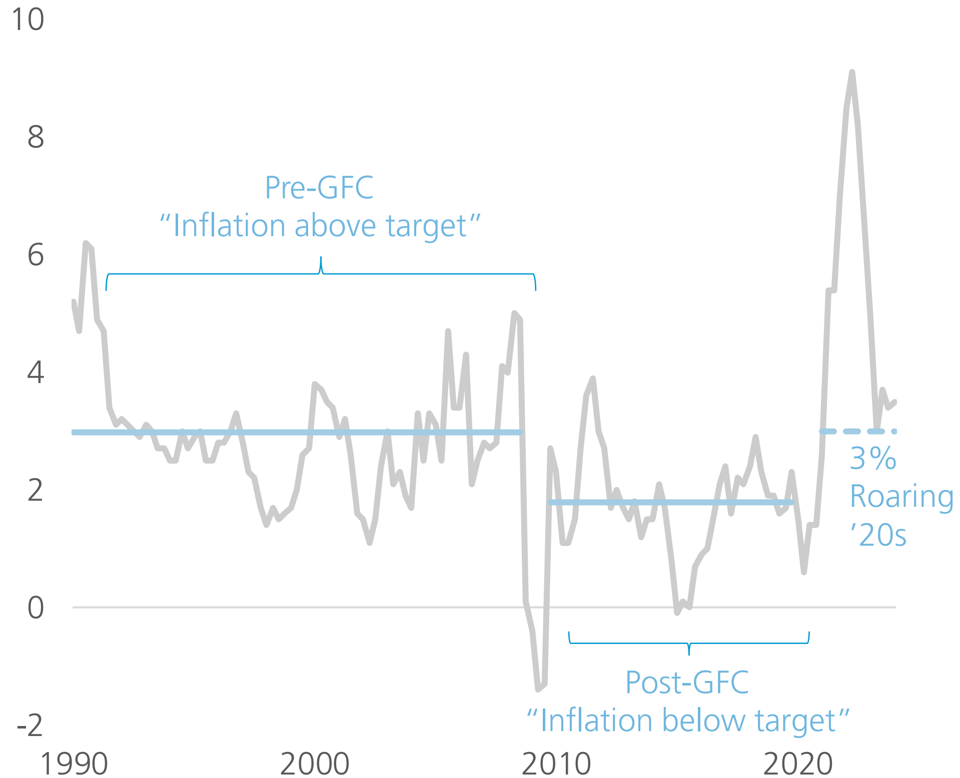
Roaring '20s: The economy looks more like the '90s than the 2010s

With inflation now slightly above target and interest rates elevated, the post-pandemic economy looks more like the robust expansion seen pre-GFC compared to the post-GFC sluggishness.

Headline CPI also running hotter close to 3% Roaring '20s
Year-over-year (y/y), in %



Note: Axes have been truncated
Source: Bloomberg, BLS, UBS, as of 17 July 2024

10-year Treasury yield is trading in a pre-GFC range
%

Source: Bloomberg, BLS, UBS, as of 17 July 2024

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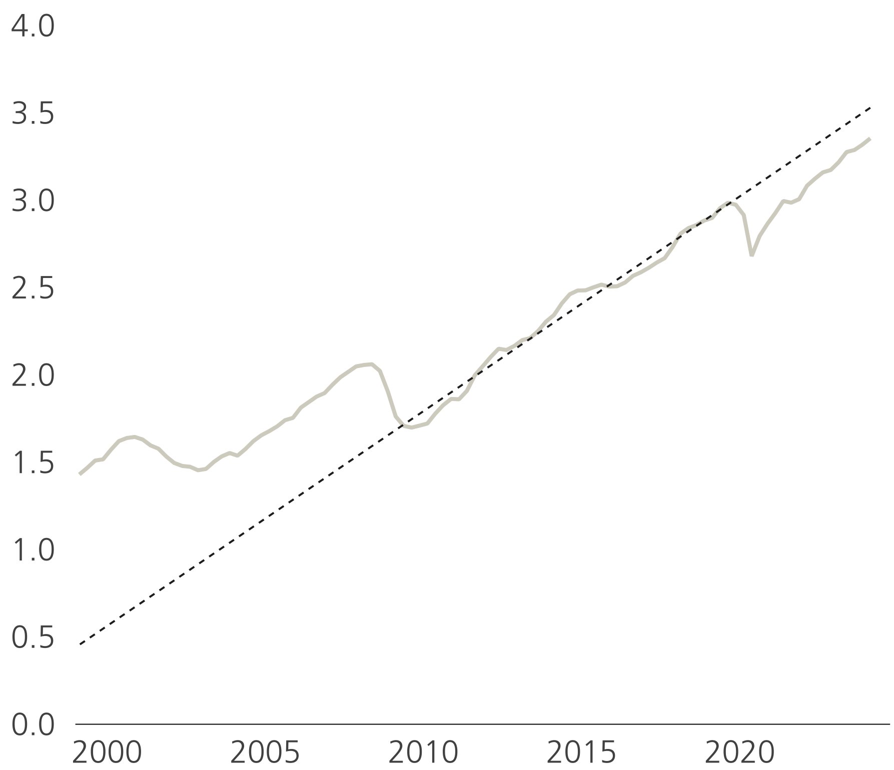
Roaring '20s: High rates has dampened overall investment…

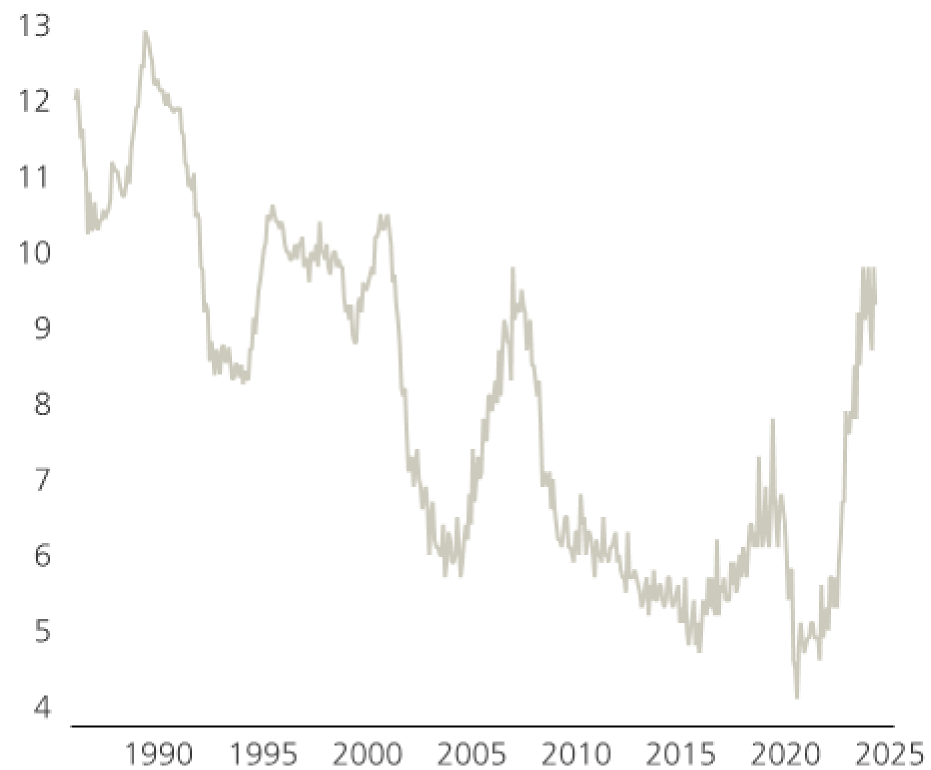
Large tech-firms are leading the capex cycle, while small firms are dealing with high borrowing costs and economic uncertainty, both deterrents to investment.

Investment still below previous cycle trend
Non-residential fixed investment, in 2017 $tr



Note: "Smaller firms" reading taken from NFIB survey; "Larger firm" reading taken from ISM Manufacturing PMI report
Source: NFIB, ISM, UBS, as of 17 June 2024

Cost of financing investment for small firms is challenging
NFIB Actual Interest rate on short-term loans, %



Source: NFIB, UBS, as of 17 June 2024

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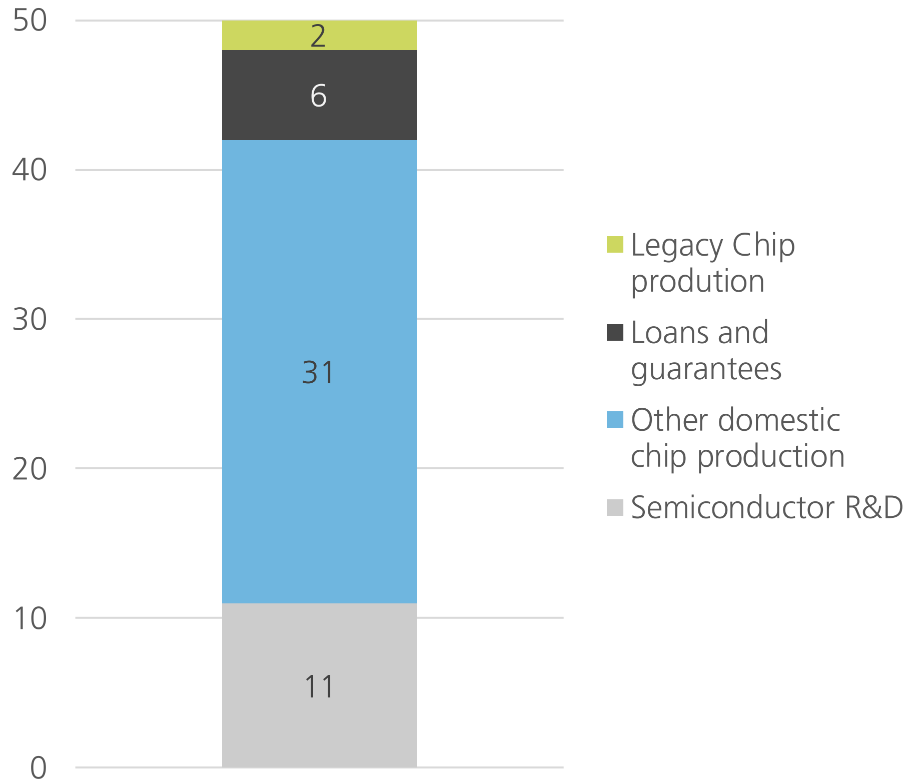
Roaring '20s: …but CHIPS Act has resulted in a manufacturing surge

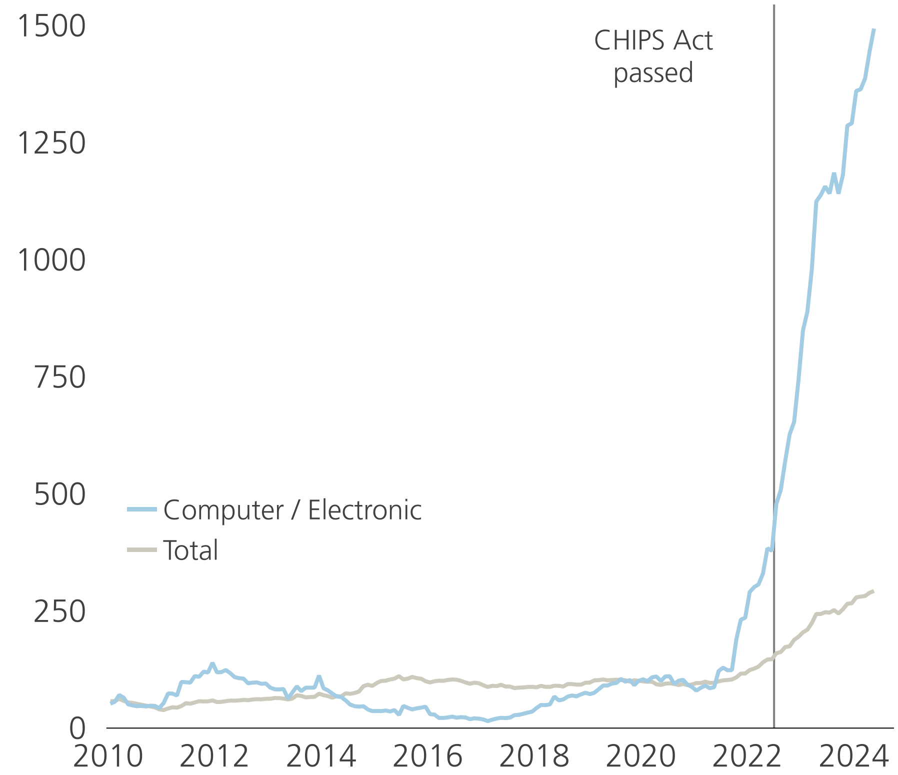
Nearly $139 billion of additional investment aimed at boosting domestic manufacturing of semiconductor chips has been announced since the passage of the CHIPS act in 2022.

CHIPS Act Breakdown
Sub-title



Source: The White House, UBS, as of 17 June 2024

Manufacturing Construction for electronics surged after IRA
Rebased 12/31/2019=100



Source: BEA, UBS, as of 17 June 2024

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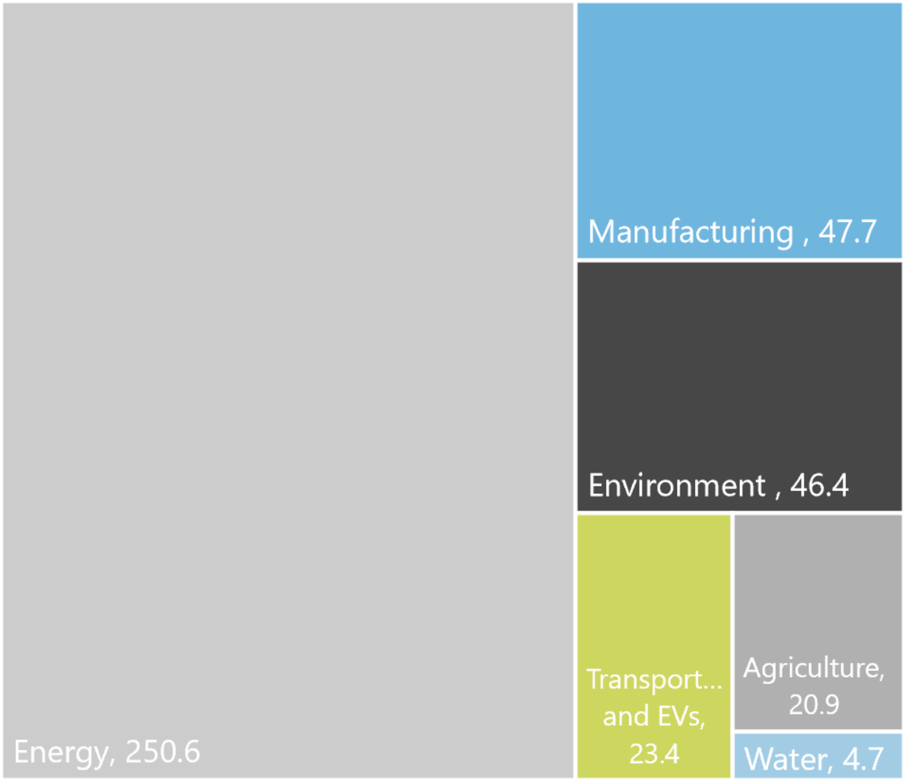
Roaring '20s: …and IRA already has impacted some sectors…

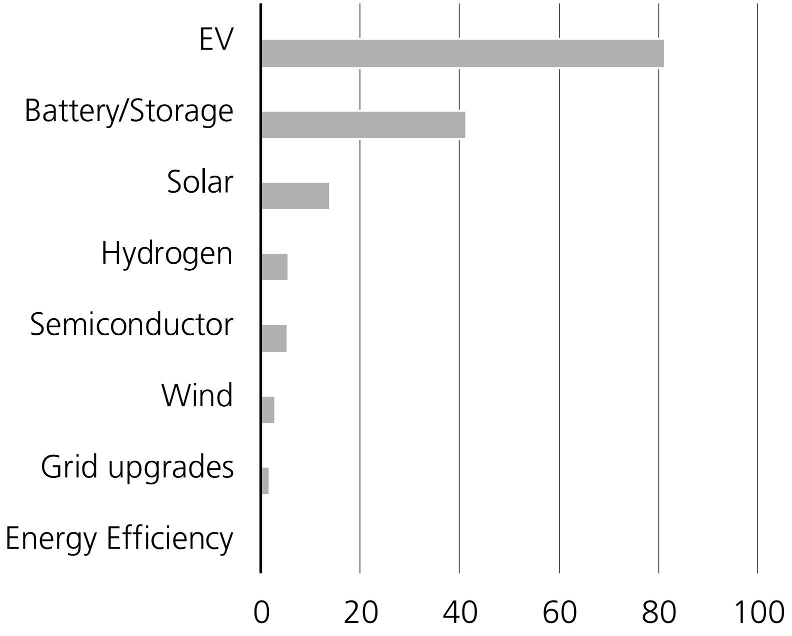
On its first anniversary, the IRA has led to nearly $132 billion in new investment and over 270 new clean energy projects nationwide.

Federal funding embedded in IRA totals ~$400 billion
$bn



Source: CBO, UBS, as of 17 June 2024

New clean energy projects announced since IRA passage
$bn

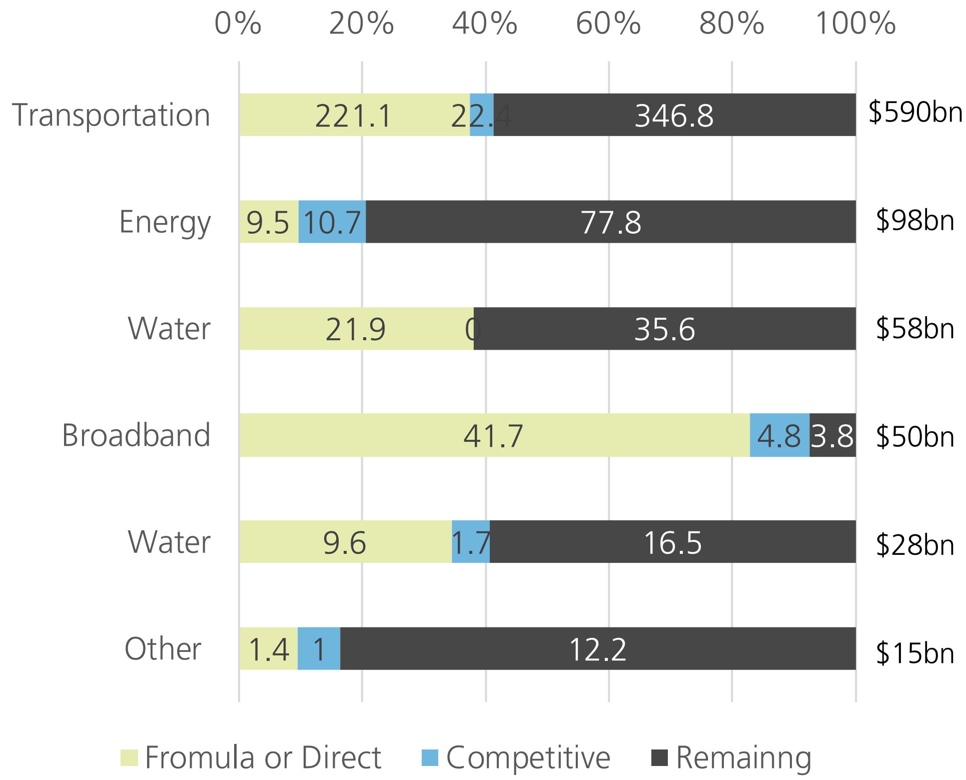


Source: E2, UBS, as of 17 June 2024

Roaring '20s: …and infrastructure has picked up, but more to go

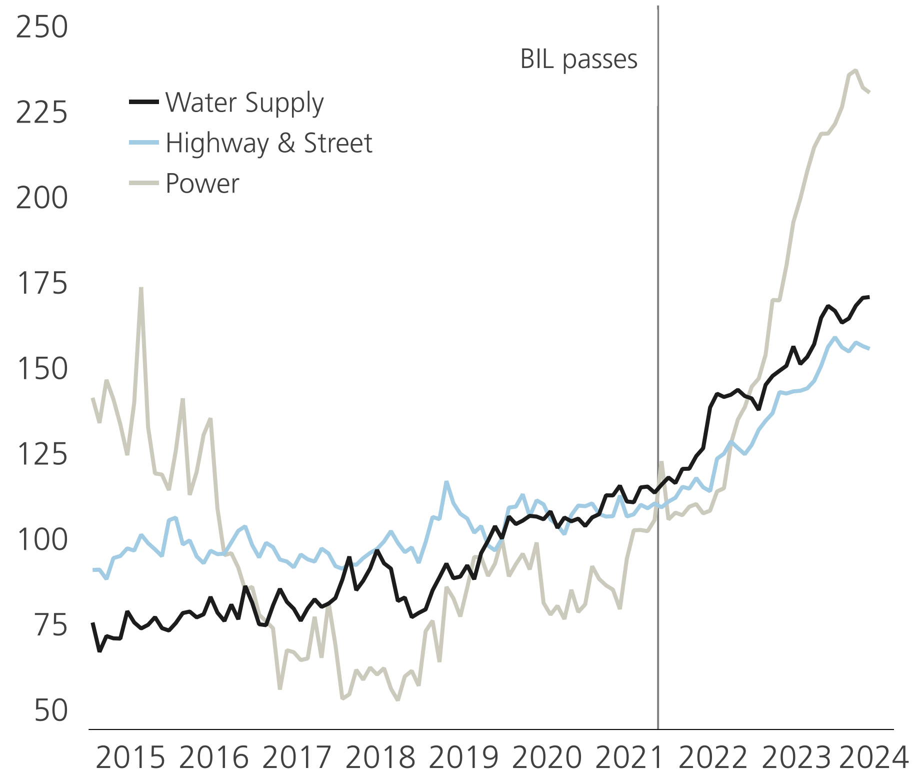
The Bipartisan Infrastructure Law (BIL) authorizes >$1 trillion in transportation and infrastructure spending with half going into "new" investment and projects. Nearly $500bn still yet to be spent.

Much of BIL still unspent and unawarded
$bn.



Source: Brookings Institute, UBS, as of 17 June 2024

Public construction on water, power, and transportation surged
Rebased 12/2019=100

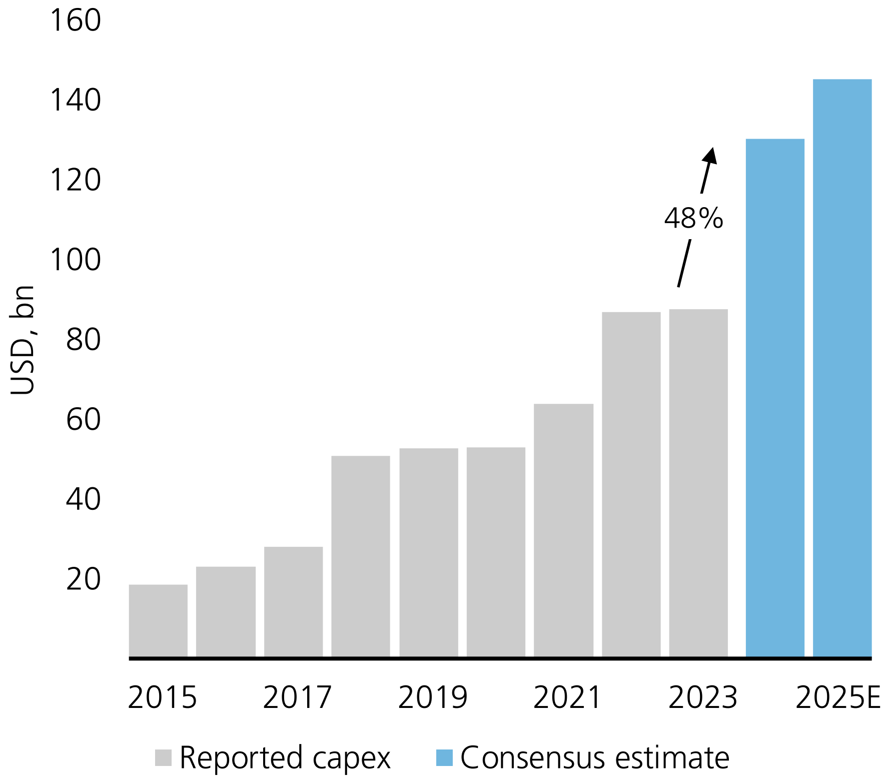


Source: BEA, UBS, as of 17 June 2024

Roaring '20s: AI investment is already large and set to accelerate

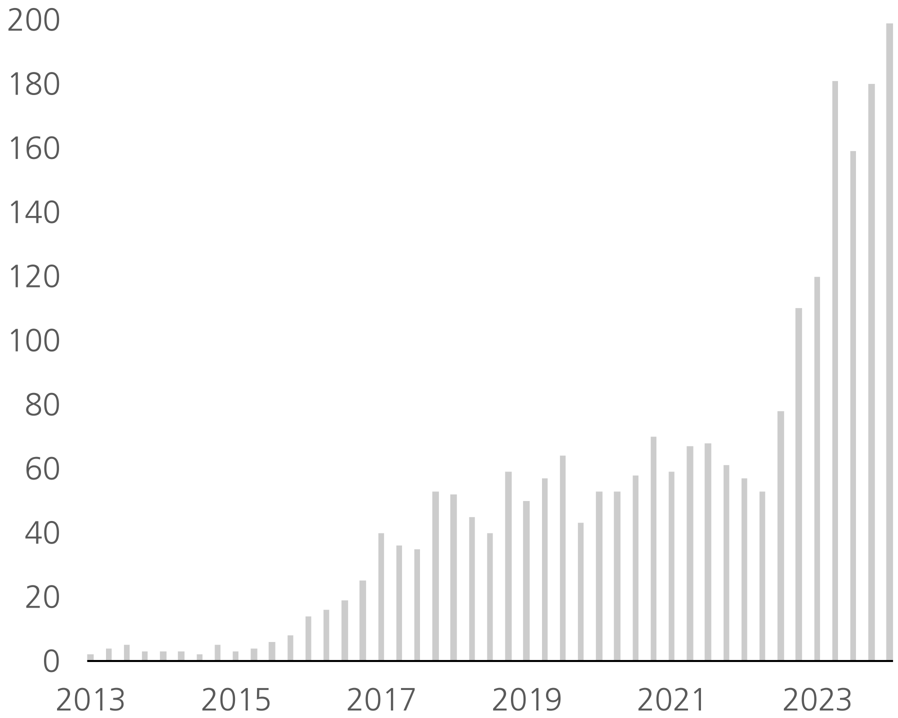
AI is one of the fastest growing segments in global tech and investment is expected to total around $200 billion by 2025 and peak at around 2% of GDP in the early 2030s.

Mega caps announce aggressive capex plans for data centers
Billions



Note: Capex data from Microsoft, Meta, and Google
Source: Bloomberg, UBS, as of 28 May 2024

Firms increasingly telling investors that AI is on their minds
AI mentions on S&P earnings calls, #



Source: Goldman Sachs Global Investment Research, UBS, as of 28 May 2024

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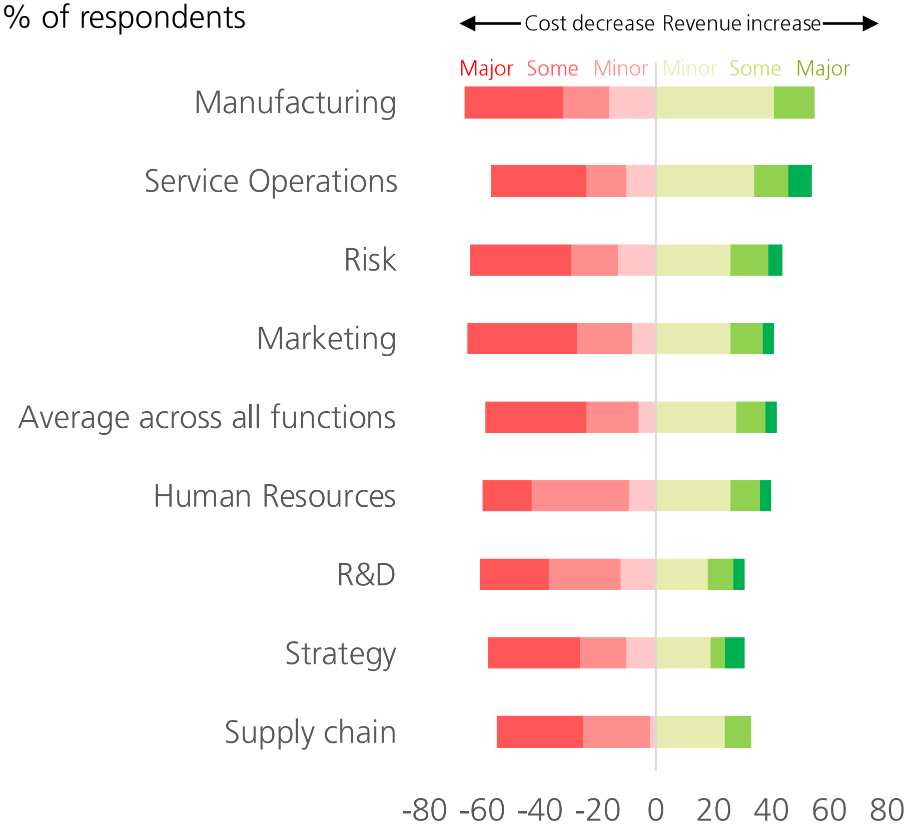
Roaring '20s: AI adoption benefits currently limited but may accelerate

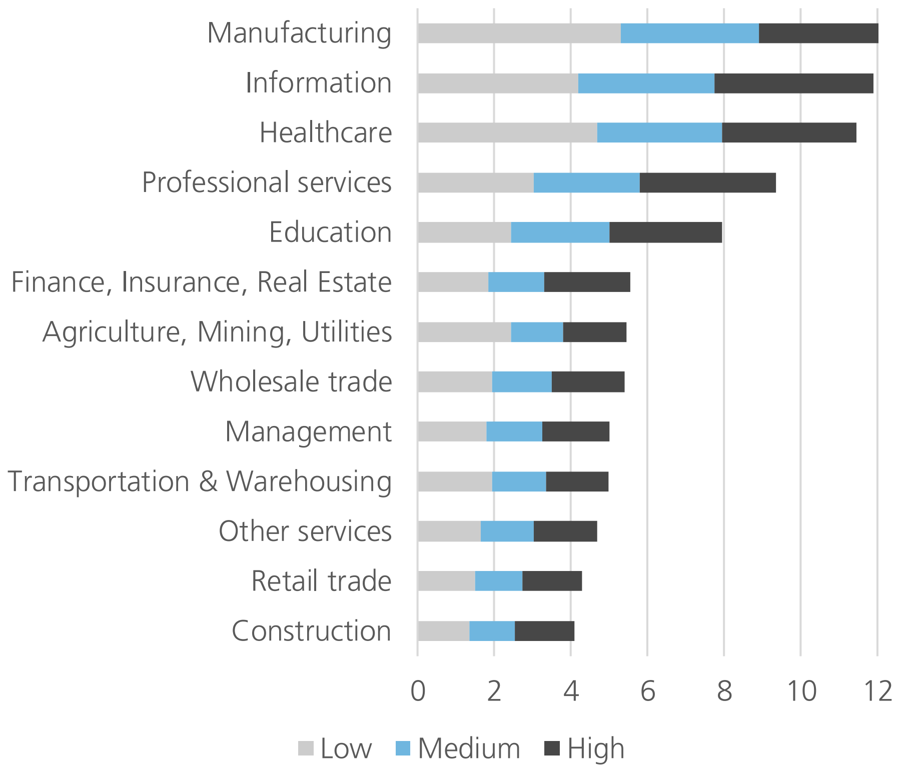
AI adoption is still slow and unequal, with manufacturing sector seeing the largest beneficial effects from AI adoption; the upside is that there is a lot of scope for gains.

Already, firms see benefits from AI Adoption
% of respondents



Note: Revenue increase measured as Minor (<=5%), Some (6-10%), and Major (>10%). Cost decreases measured as Minor (<=10%), Some (10-19%), and Major (>20%).
Source: McKinsey, UBS, as of 28 May 2024

Adoption Intensity by sector
% of workers

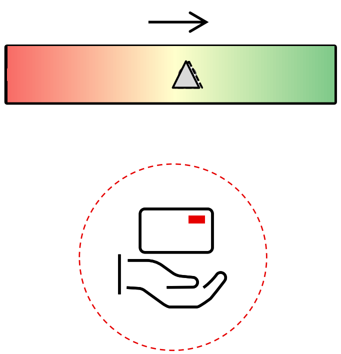


Note: Respondents were asked if they used the following technologies: Automated Guided Vehicles, Machine Learning, Machine Vision, Natural Language Processing, or Voice Automation. "High" refers to : more than 25% of production or service, "Medium" captures 5%-25% and "Low" refers to usage less than 5%.
Source: "AI Adoption in America: Who, What, and Where" (McElheran et al.) UBS, as of 6 November 2023

Section 3

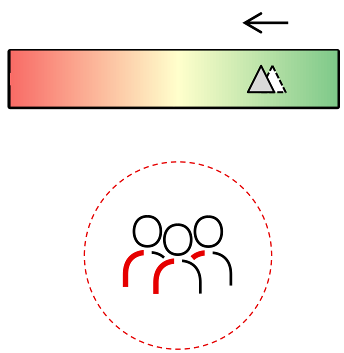
Operational considerations

Operating environment dashboard



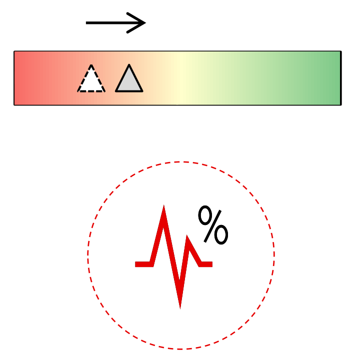
Consumers

- Consumer spending shows more signs of moderation, especially as cracks appear for lower-income households. Sentiment still very gloomy affected by fast inflation during the first half of the year.



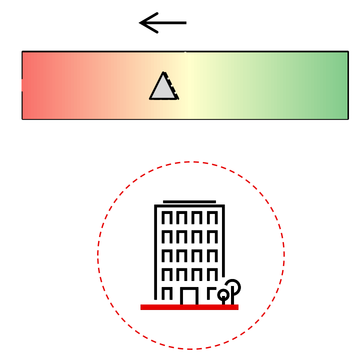
Labor

- Labor market softening from very strong levels; cooling wage growth is a particular good sign for policymakers keen on imminent rate cuts



Financing

- Financing conditions continue to improve as markets price in more rate cuts in 2024 and issuance remains robust



Real Estate

- Real estate sector still very sluggish, held in place by still-high interest rates.

Source: Bloomberg, UBS, as of 25 July 2024

Section 3.1

Consumer

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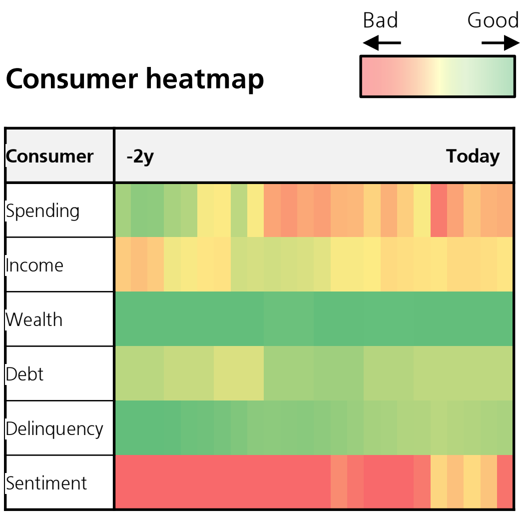
Consumer Key Points: Still spending on rising income and wealth

Consumer heatmap



Note: "Spending" is represented by change in retail sales; "Income" is represented by growth in personal income; "Wealth" is represented by household wealth as share of disposable income; "Debt" is represented level of debt service; "Delinquency" is represented by share of delinquent households; "Sentiment" is reflected by University of Michigan consumer sentiment index
Source: Bloomberg, BEA, Federal Reserve, University of Michigan, UBS, as of 15 July 2024

Consumer spending generally normalizing as pandemic era excess savings now depleted. Most recent retail sales report bucks slowing retail sales trend as consumption continues to normalize. Services spending continues to accelerate and almost closes gap with goods spending.

Spending increasingly K-shaped. Higher income households continue to weather the higher inflation, higher interest rate environment well, while lower income households show more signs of stress.

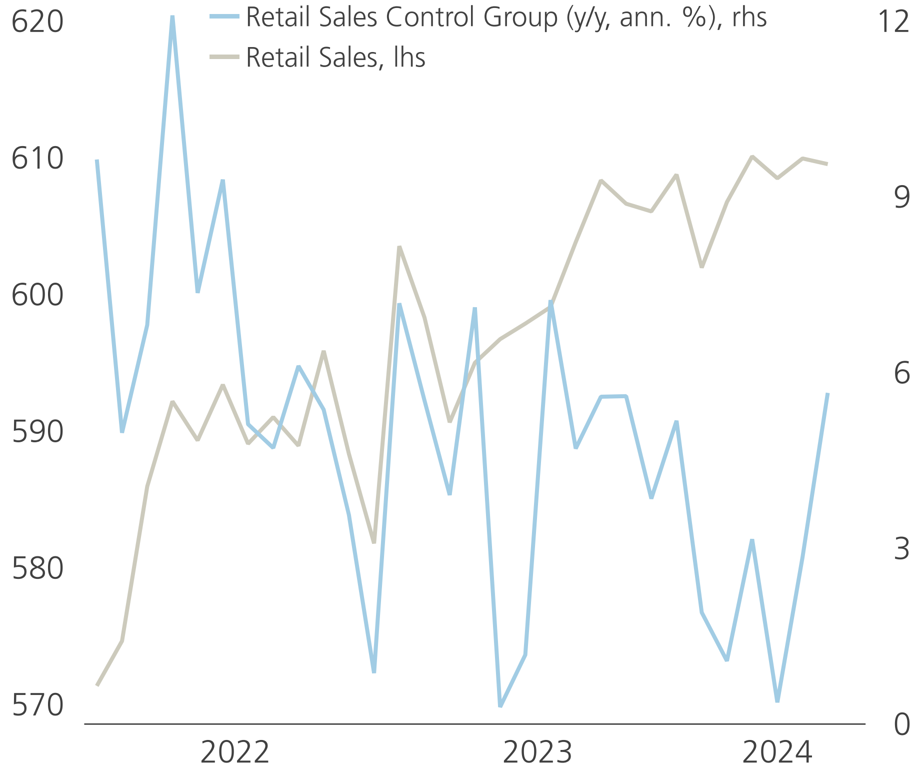
More cracks seen in consumer fundamentals. Credit card debt levels and delinquency rates starting to rise. Yet overall fundamentals still in good shape as debt service ratio levels still near historical lows.

Higher prices starting to bite. Consumers still believe inflation is the largest financial concern as CEOs report a more concerted effort to resist price increases.

Spending: Spending is slowing but still above trend

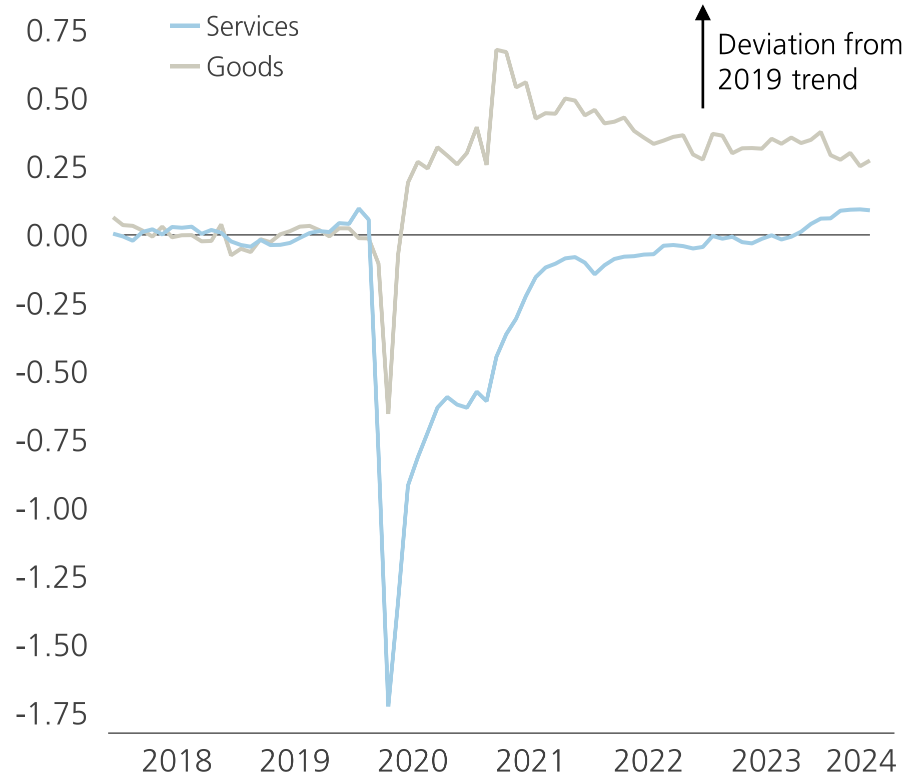
Retail sales staying healthy as consumers increasingly resist price hikes; aggregate spending still above trend with services narrowing gap with goods spending.

Retail sales growth rose to 5.6% annualized pace in June
Retail sales control group, in USD bn and y/y change in %



Note: Control group is measure as a 4 month annualized pace
Source: BEA, UBS, as of 15 July 2024

Both goods and consumption spending above trend
in 2017 US$ T



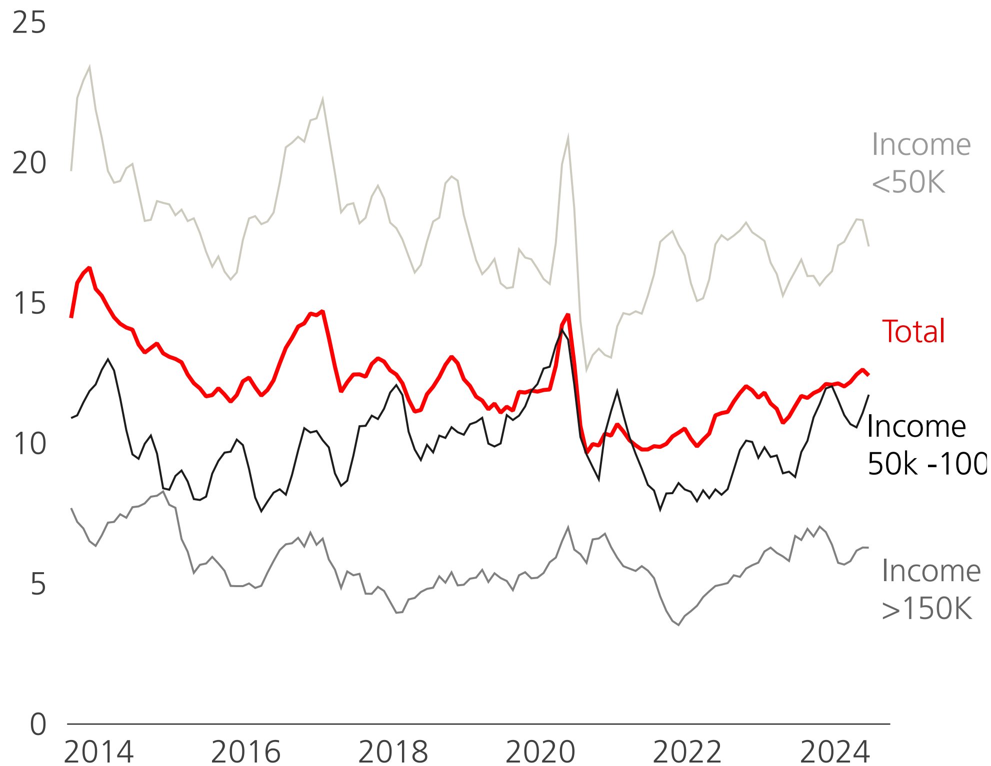
Source: BEA, UBS, as of 15 July 2024

UBS

Sentiment: Lower-income households showing more signs of stress

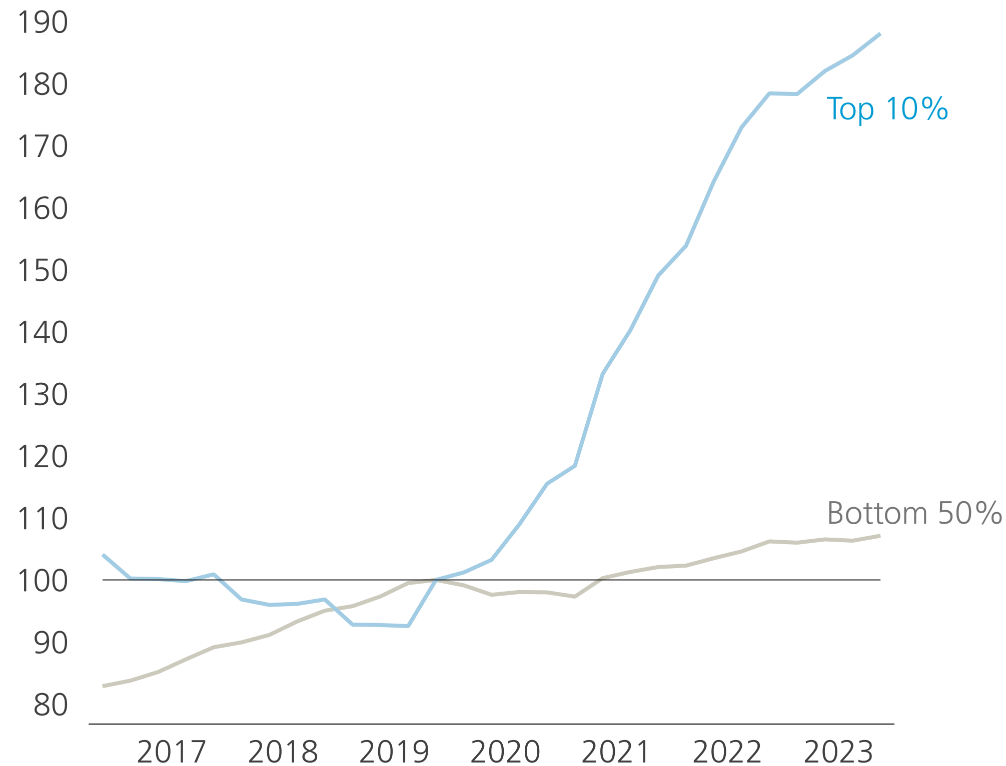
Higher interest rate environment may be producing a "K-shaped" spending trend benefiting higher-income earners due to higher interest income and asset prices, while hurting lower-income household.

Rising stress in credit card debt for lower incomes
Delinquency rate for consumers, %



Source: University of Michigan, UBS, as of 15 June 2024

Consumer credit, proxy for spending, looking K-shaped
Rebased 12/31/2019 = 100



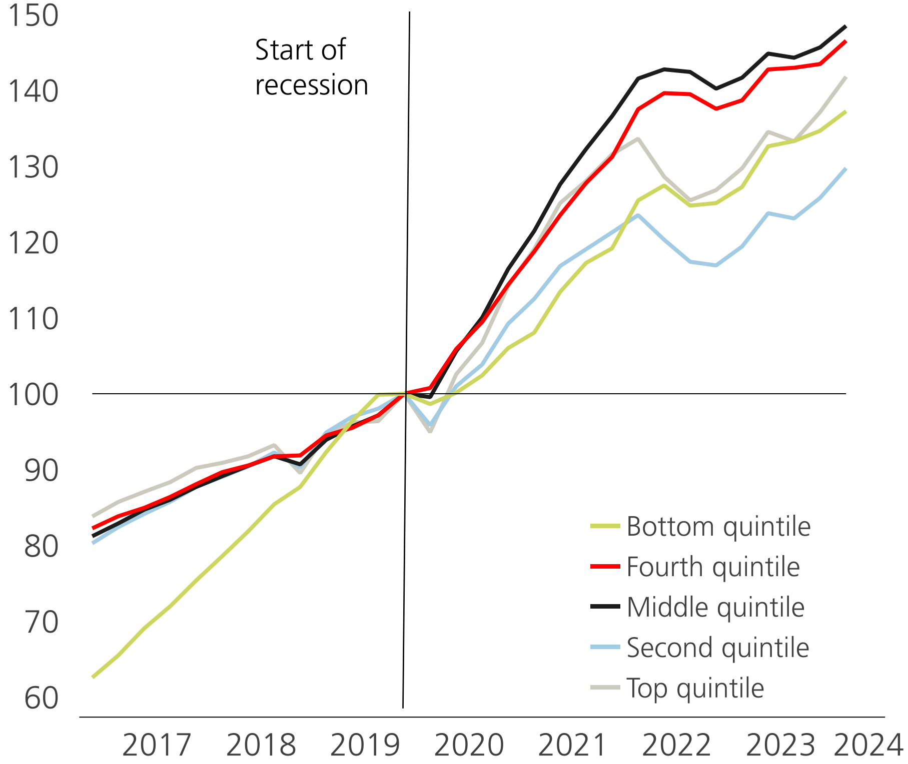
Source: Federal Reserve, UBS, as of 15 July 2024

Income: Consumer spending powered by stronger balance sheets

Households, especially in lower income, still buffered by healthy balance sheet; positive real income growth should support consumption going forward.

The median American's net worth +46% since 2019

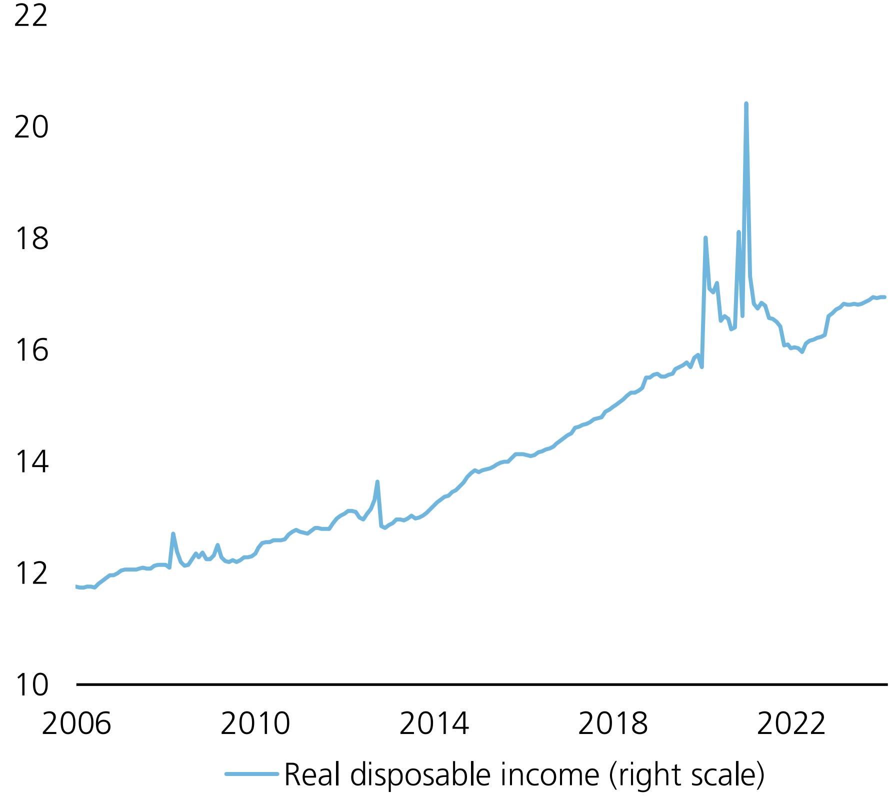
Net worth by quintile, 12/31/2019=100



Source: Federal Reserve Bank, UBS, as of 25 July 2024

Rising income should support consumption growth

Real disposable income in USD $T



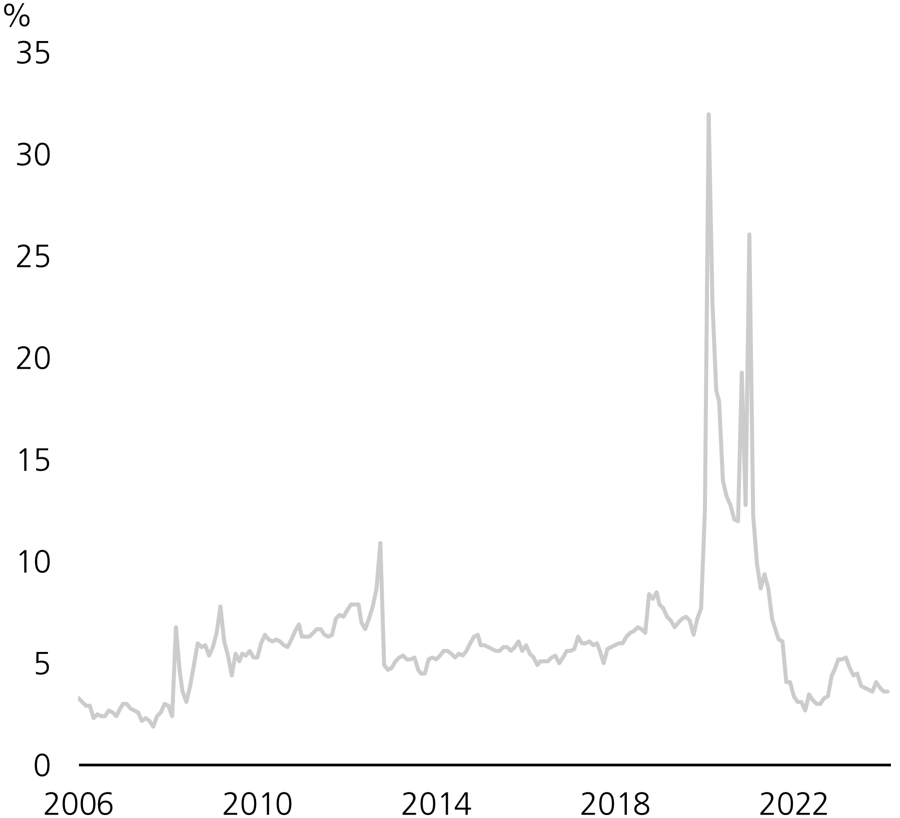
Source: Federal Reserve Bank of San Francisco, UBS, as of 15 July 2024

UBS

Balance Sheets: Some cracks are showing in consumer fundamentals

Savings rate remain amongst the lowest levels in recent memory while delinquency rate on credit cards rising, especially for lower incomes.

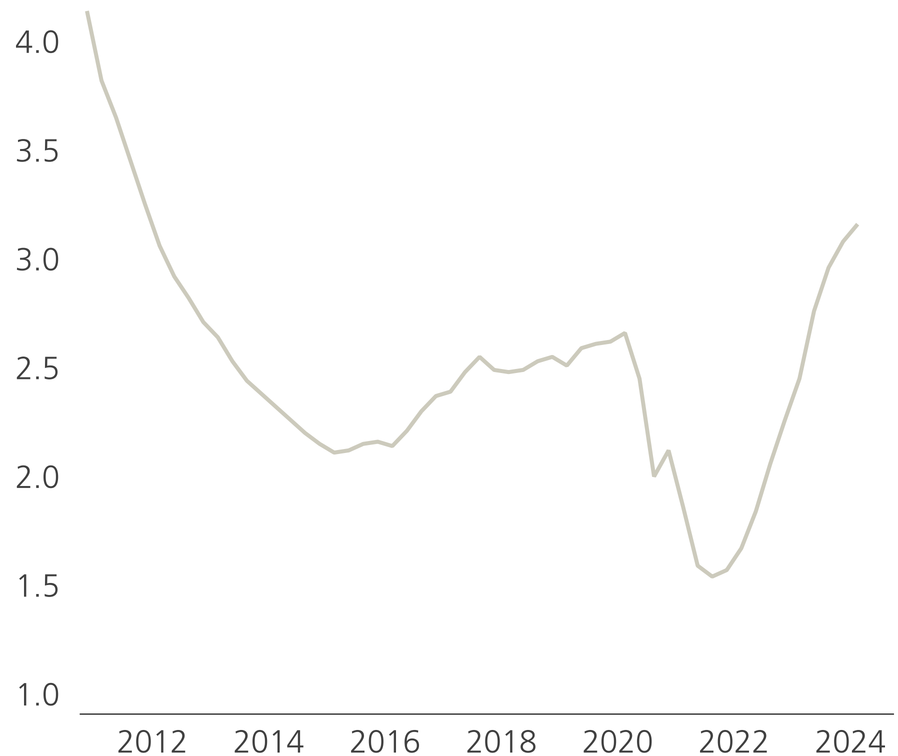
Low-savings rate limits defense against next downturn



Source: BEA, UBS, as of 25 July 2024

And credit card delinquency rates are the highest in a decade

Credit card delinquency rate for consumers, %

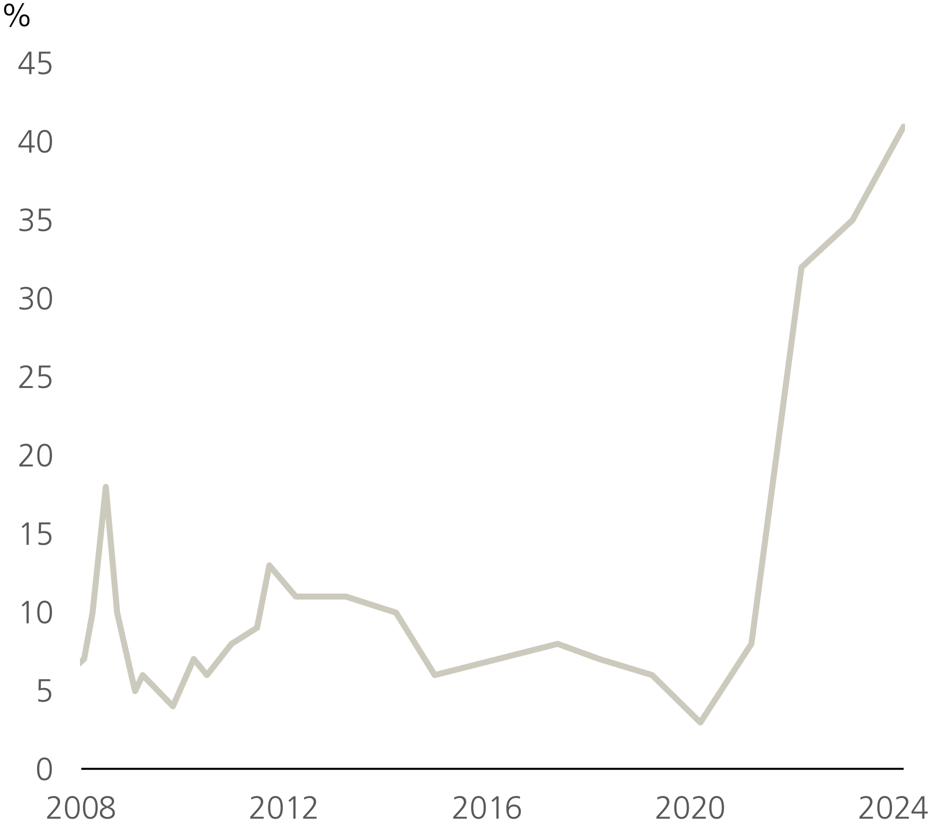


Source: Federal Reserve Bank, UBS, as of 25 July 2024

Inflation: High prices still weigh on households, even with disinflation

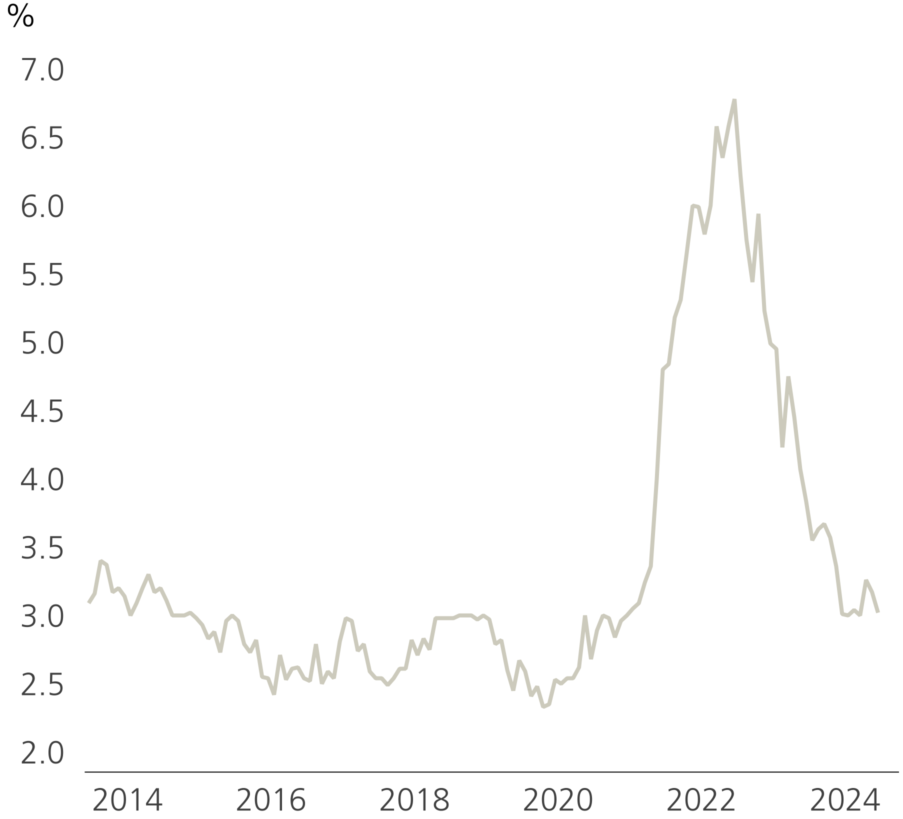
Inflation continues to weigh on the mind of more Americans as earnings reports detail more resistance to rising prices, even though inflation expectations essentially back to pre-pandemic level.

“Inflation” as largest financial concern



Source: Gallup, UBS, as of 15 July 2024

Fed’s consumer 1-year ahead inflation expectations



Source: Federal Reserve, UBS, as of 15 July 2024

UBS

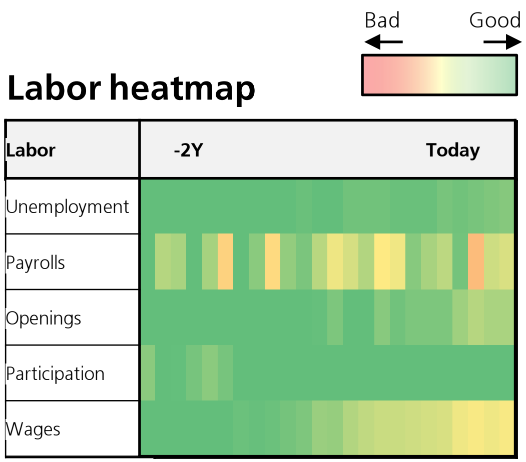
Section 3.2

Labor

UBS

Labor Key Points: Still healthy and normalizing from very tight levels

Labor heatmap



Note: "Unemployment" is represented by the unemployment rate; "Payrolls" is represented by 1-month change of non-farm payrolls; "Openings" is represented by share of job openings relative to employment; "Participation" is represented level of prime age (25-55) labor force participation; "Wages" is represented by the average of the yearly change in hourly earnings, employment cost index, Atlanta Fed median wage tracker and its z-score is taken from 2019 onwards.
Source: Bloomberg, BLS, Federal Reserve, UBS, as of 15 July 2024

Cooling labor market reinforces "soft-landing narrative". Various parts of the labor market – non-farm payrolls, job openings – show more concrete signs of slowing to pre-pandemic level, a welcome sign for policymakers.

Immigration a (temporary) boon for labor supply. Low labor force growth ameliorated by surprise recent immigration surge, which has boosted job growth while dragging down wage growth. Looking forward, such gains may be limited since immigration is increasingly a political issue.

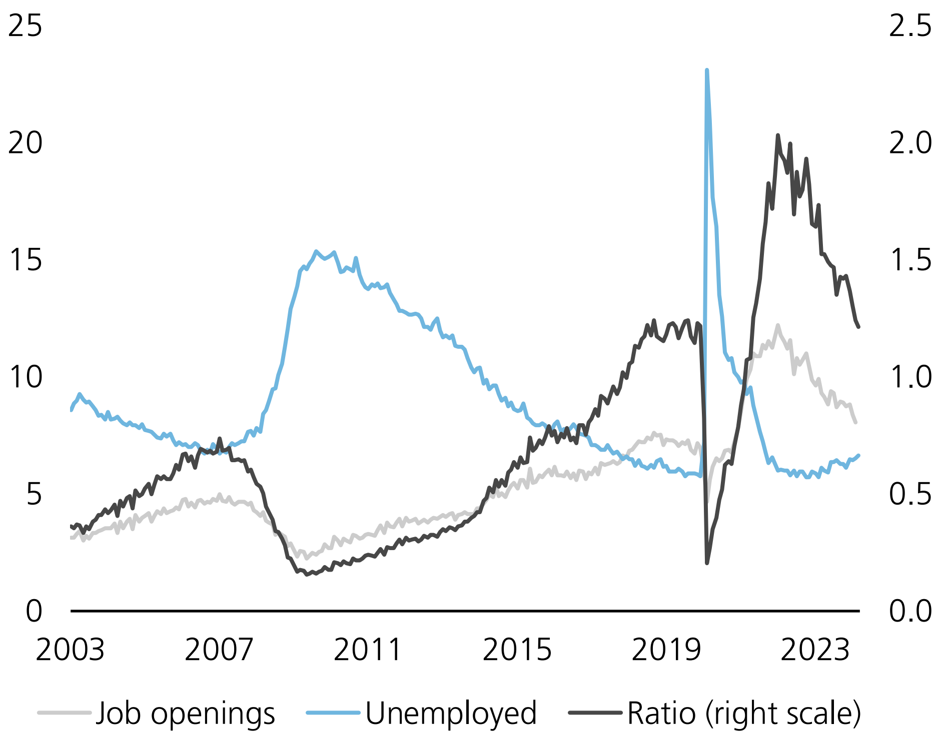
Layoffs still limited. While layoff announcements have picked up from recent lows, actual job layoffs and count of unemployed still at or near historical lows. Companies still unwilling to let go of workers, even in a softer economic environment.

Wage growth is easing. Immigration boon and less labor market demand also contributing to wage disinflation; another good sign for 'soft landing' and imminent rate cuts.

Labor Demand: Moderating to still-healthy levels

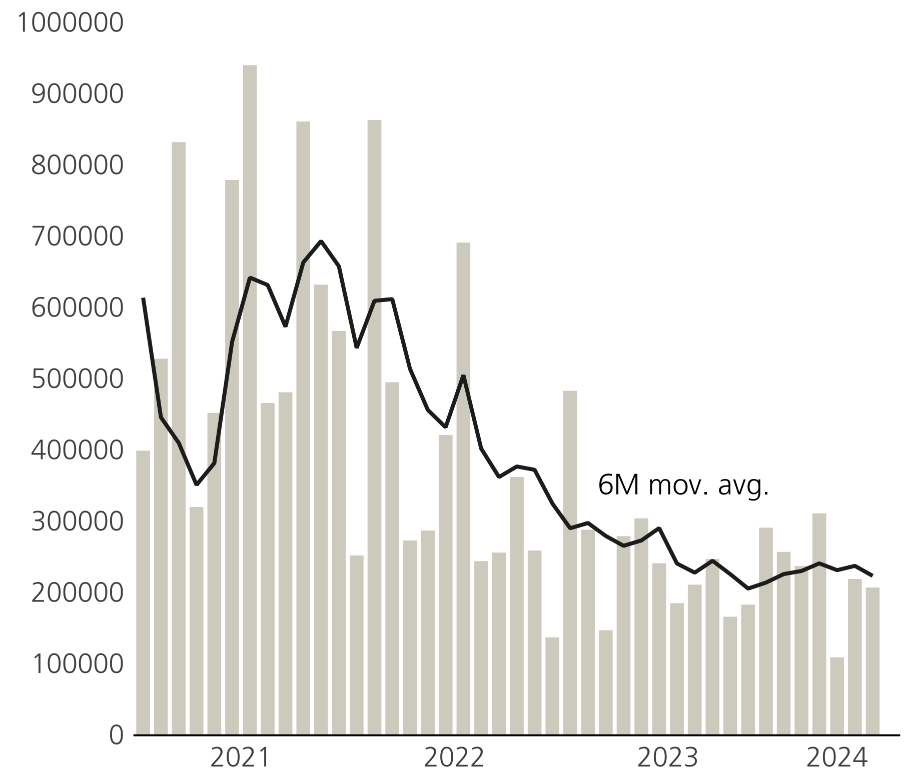
Job openings to unemployed ratio return to pre-pandemic levels as job growth continues to show moderation to a healthy monthly 150-200k pace.

Job Openings / Unemployed ratio back to pre-pandemic range
In millions



Source: BLS, Macrobond,, as of 15 July 2024

Non-Farm payrolls moderate to ~200k average
1M change

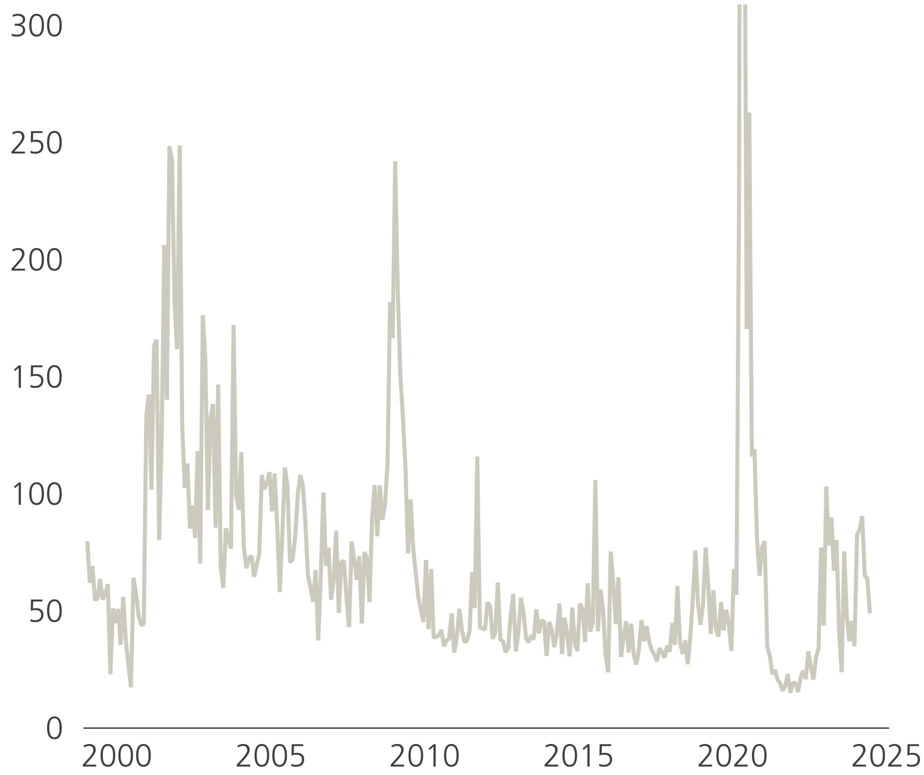


Source: BLS, Macrobond,, as of 15 July 2024

Labor Demand: Very few actual layoffs despite demand cooling

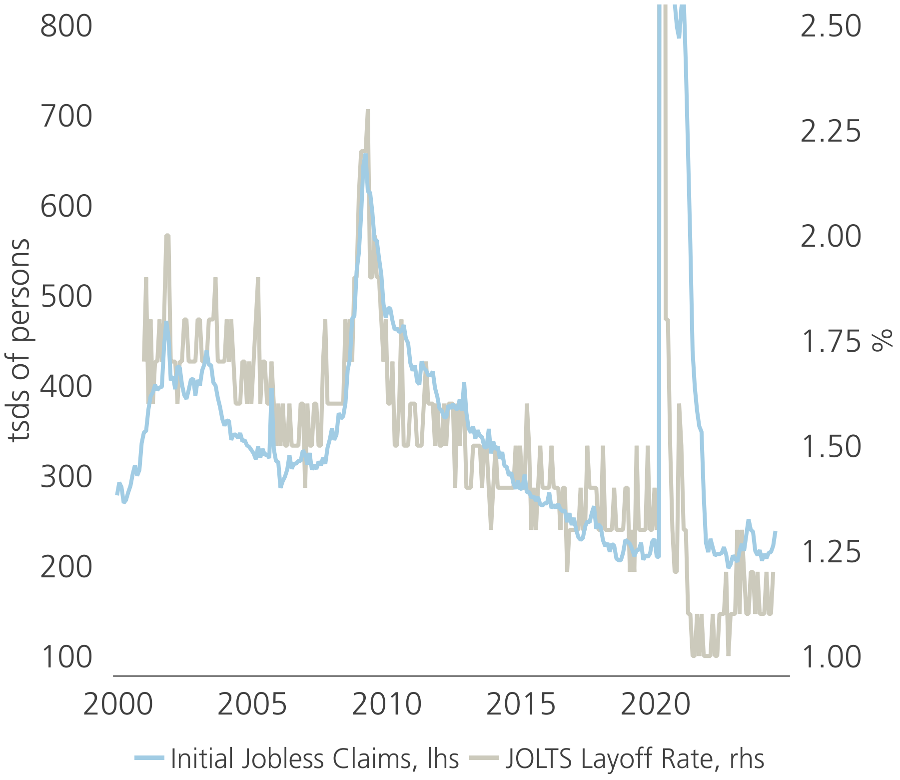
Even with a slightly higher unemployment rate, layoffs and jobless claims still at historical lows indicating that companies still reluctant to let go of workers.

Job cuts announcements volatile but not spiking
in '000s



Source: Challenger, Gray, and Christmas, UBS, as of 15 July 2024

Layoffs still at very low levels
Jobless claims & Layoff rate



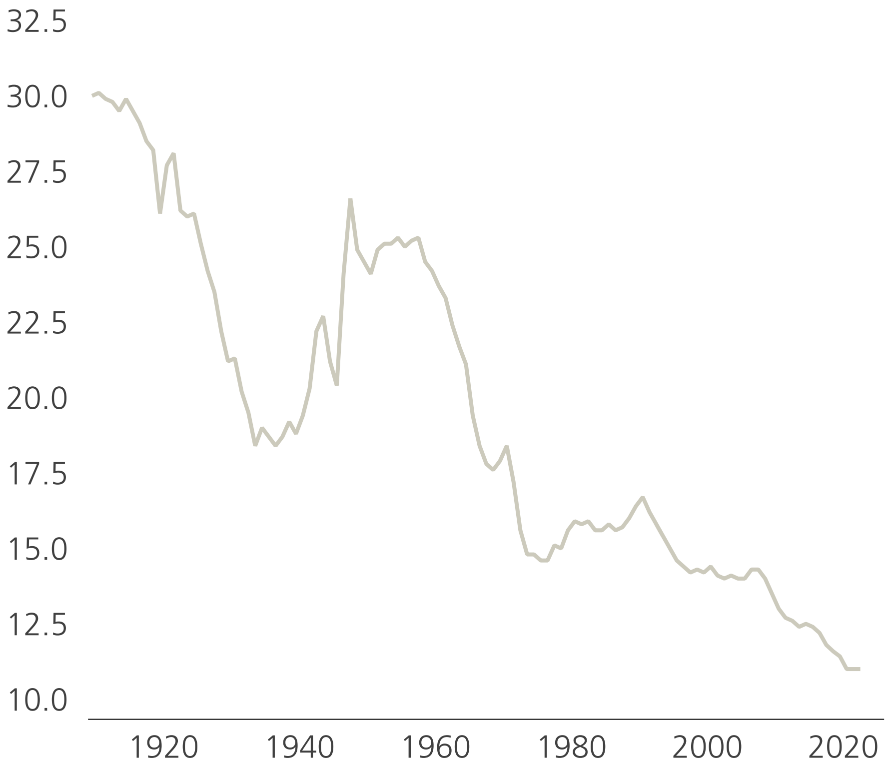
Note: Axes have been truncated
Source: BLS, UBS, as of 15 July 2024

UBS

Labor Supply: Low birth rate dragging down labor force growth

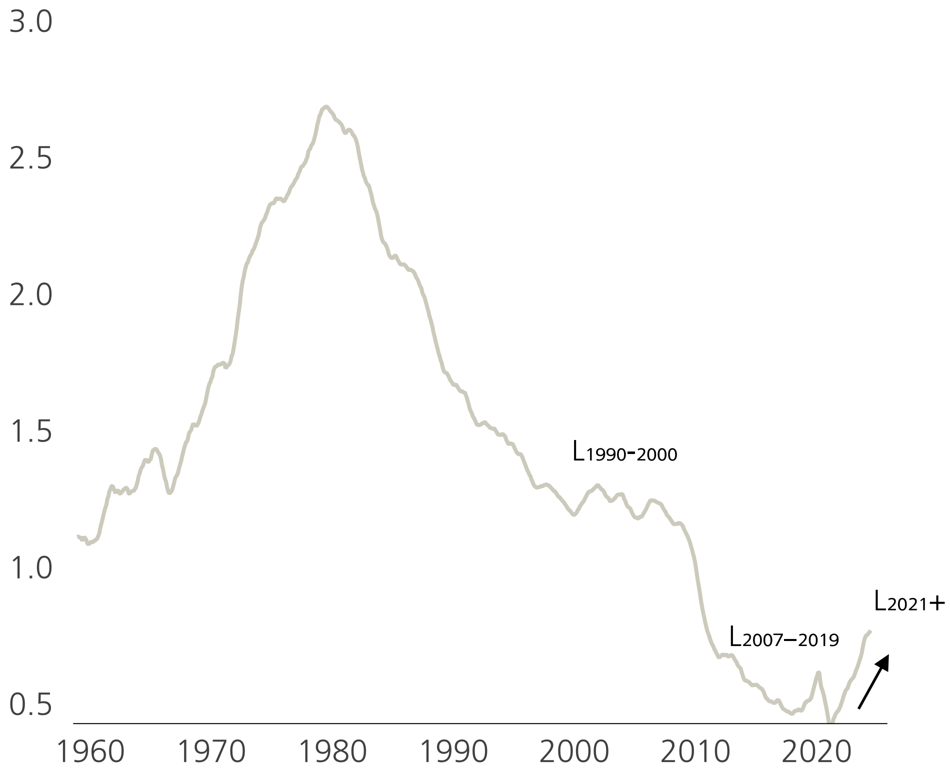
Demographics imply only very modest growth in the labor force unless much stronger immigration policies take effect.

Birth rates plumet to an all-time low
US birth rate, %



. Source: CBO, UBS, as of 17 June 2024

Downward labor force growth reversing trend thanks to immigration
y/y, 10Y mov. Avg., %



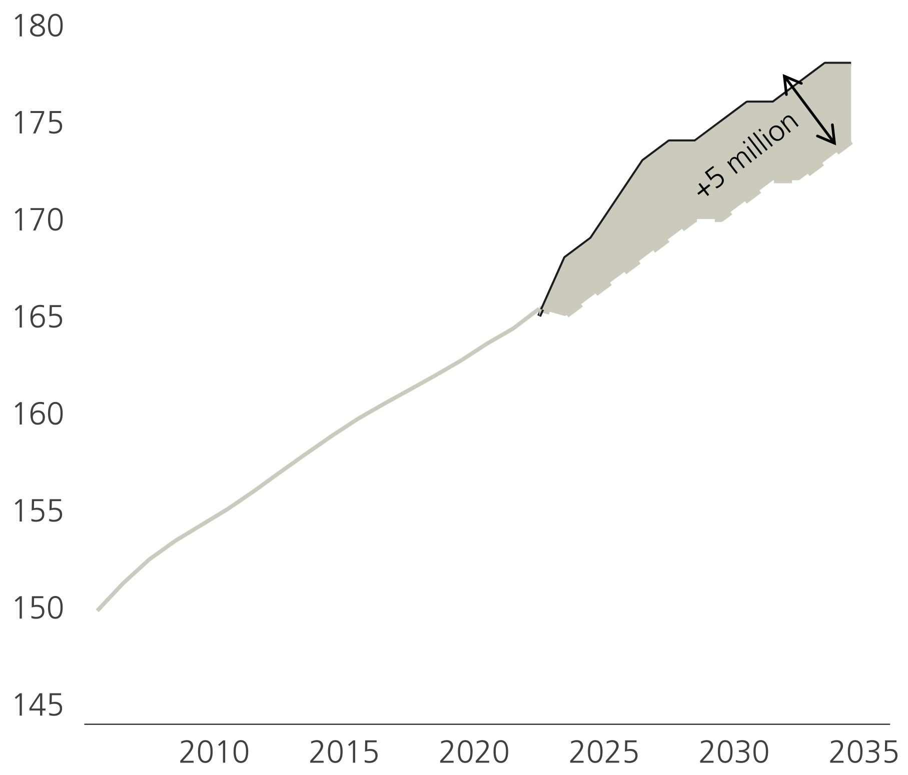
Note: The placement of "L" is illustrative only.
Source: CBO, UBS, as of 17 June 2024

UBS

Labor Supply: The immigration surge boosted labor force prospects

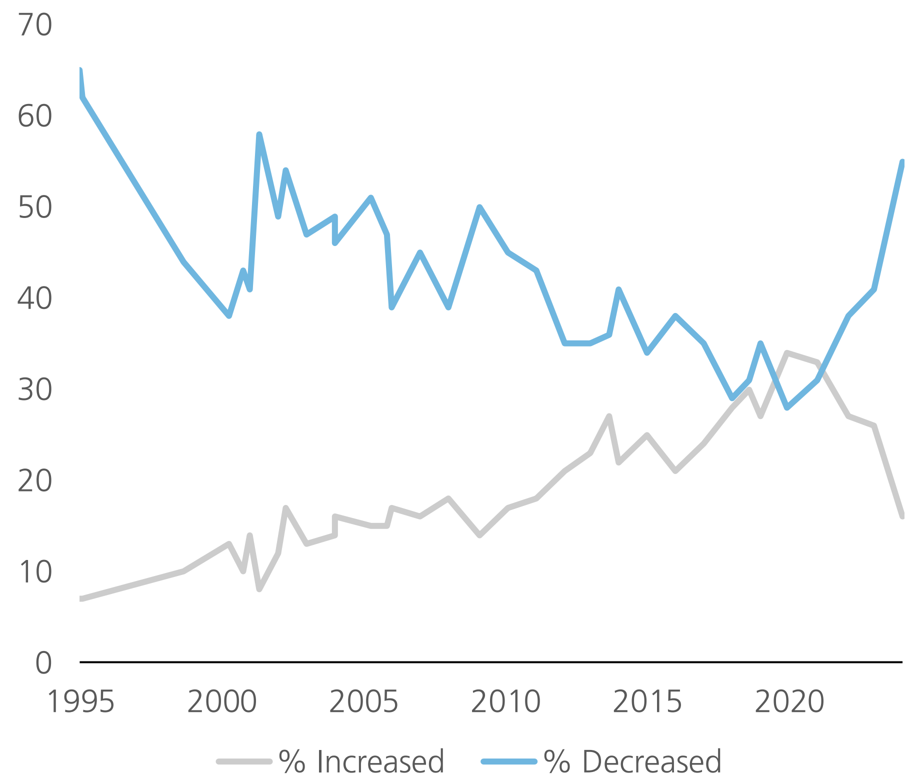
The growth benefit of an immigration surge is that it supplies more workers in a tight labor market, lifting US potential output, while also cooling wage growth.

A surge in immigration could add 5 million workers by 2030
in mil.



Source: CBO, UBS estimates, as of 15 July 2024

Negative views on immigration a powerful political driver
% of Americans who have a positive view of immigration



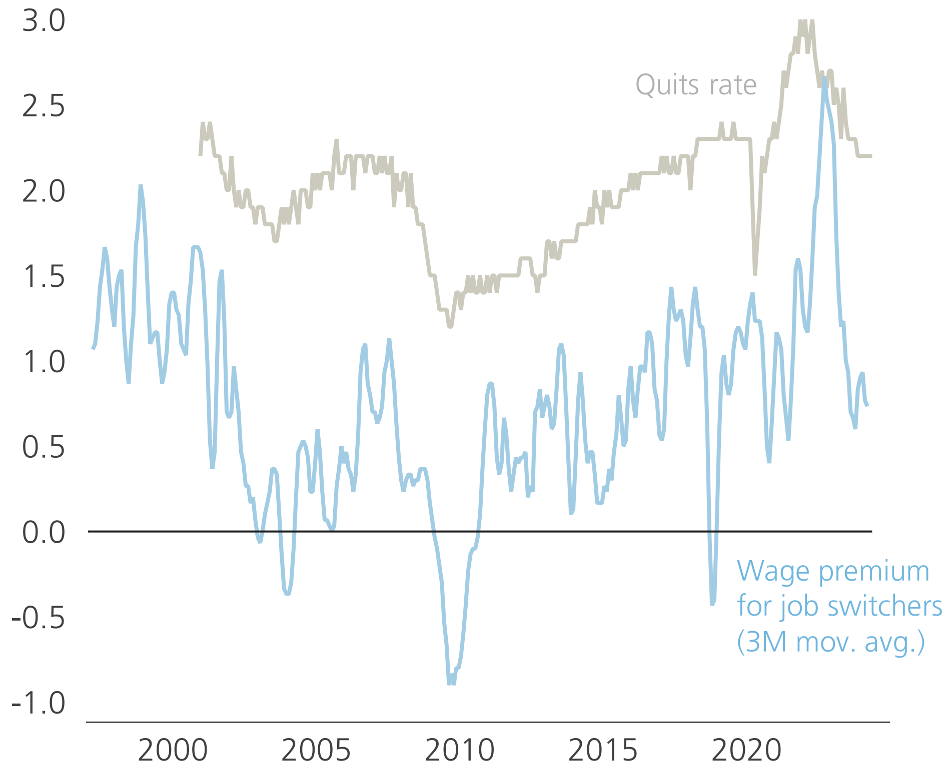
Source: BLS, UBS, as of 15 July 2024

Labor Supply: Fewer people quitting, part-time demand still strong

Part of the cooling labor demand is economic – the wage premium for job switchers has sharply declined limiting the quits rate; part time wage growth still hot thanks to higher demand from companies.

Wage premium for switching jobs is declining

%



Source: BLS, UBS, as of 15 July 2024

Part-time wage growth still running hot

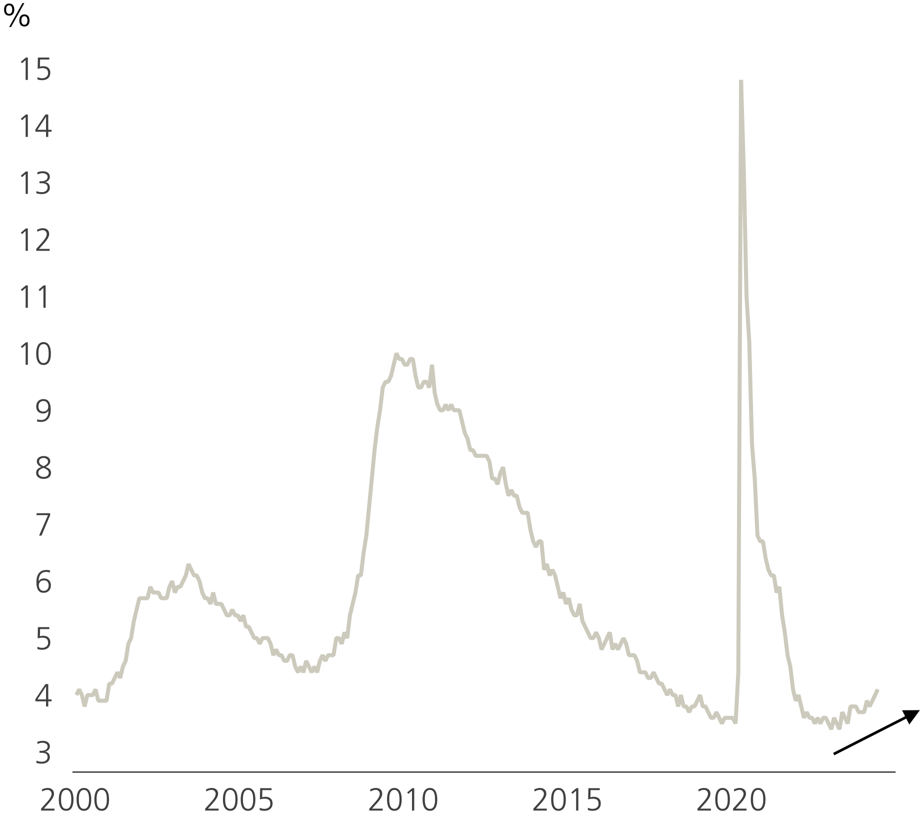
year/year, %

Source: Federal Reserve Bank of Atlanta , UBS, as of 15 July 2024

Unemployment: Modestly higher unemployment rate not worrisome

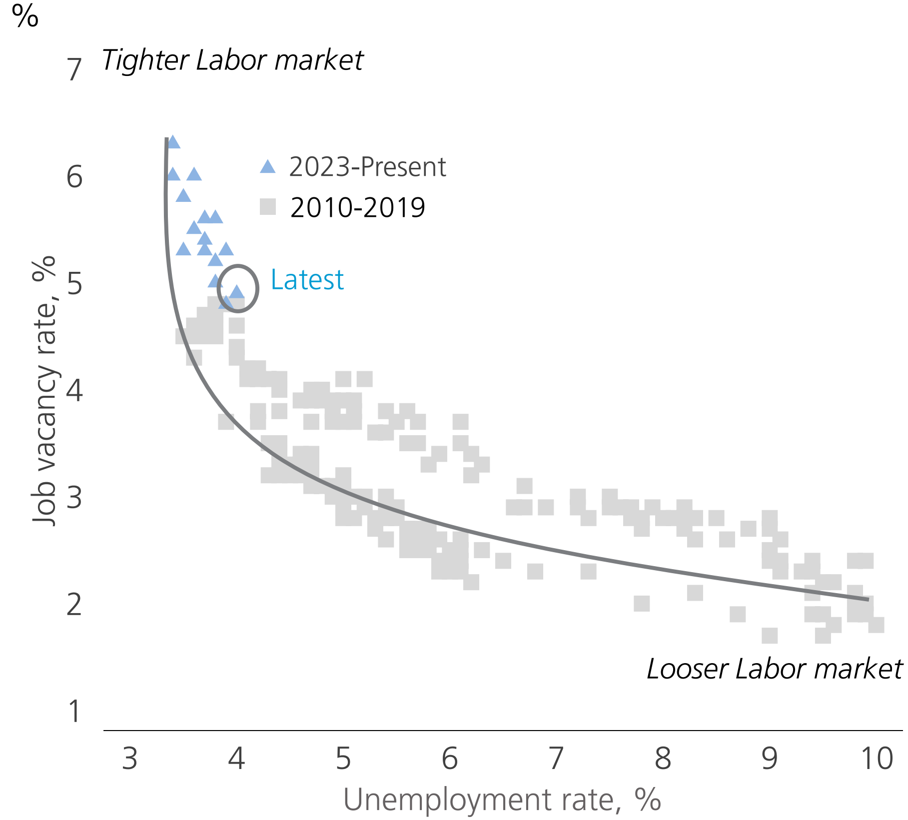
The unemployment rate has modestly risen from historically low levels, but indicators like Beverage curve (the relationship between job openings and unemployment rate) show still-healthy labor market.

Unemployment rate modestly higher



Source: BLS, Macrobond, UBS, as of 15 July 2024

Beveridge Curve shows labor market still in healthy place



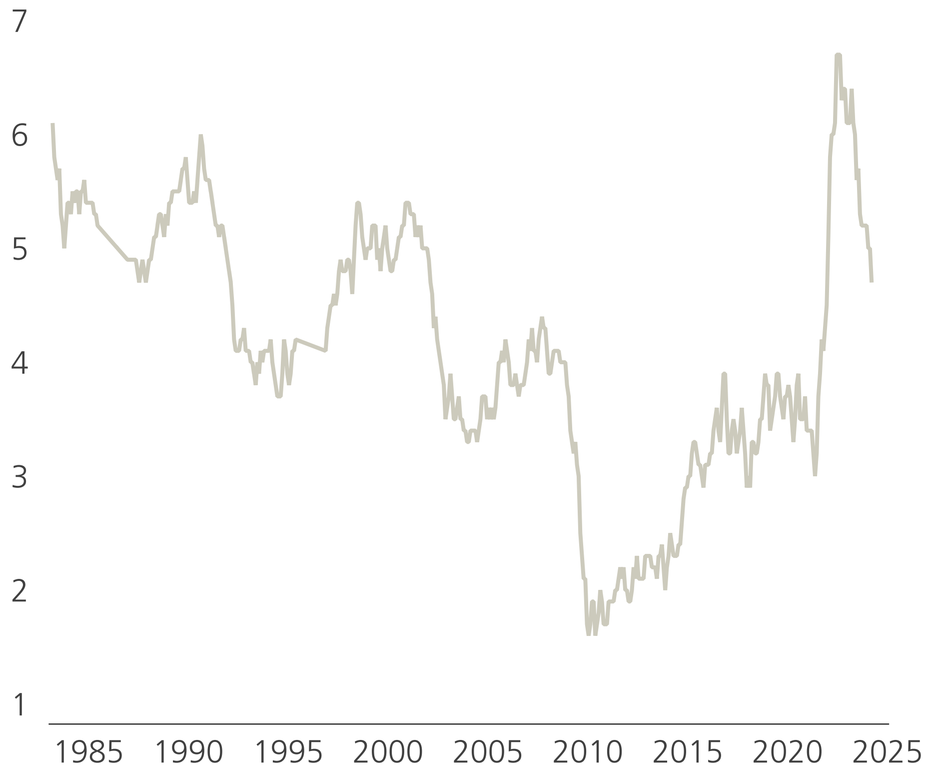
Source: BLS, Macrobond, UBS, as of 15 July 2024

UBS

Wages: Slowing wage growth paves way for rate cuts

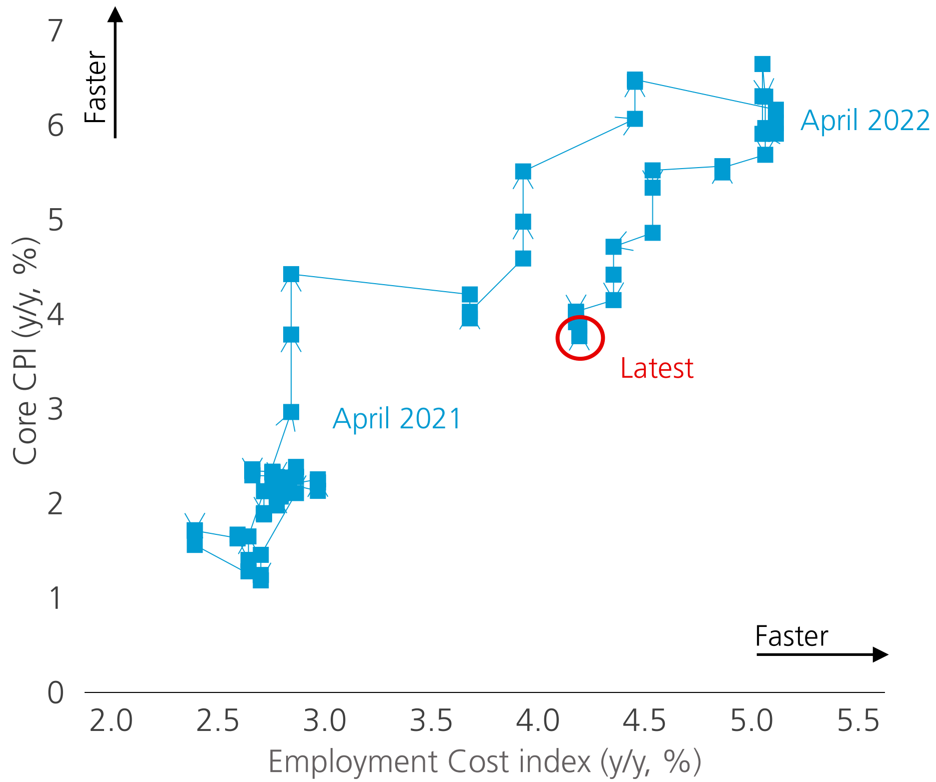
After peaking in the summer of 2022 wage growth is clearly slowing, which is a likely precursor to a sustained slowdown in core CPI and opens the door for rate cuts.

Atlanta Fed Median Wage Tracker
year/year, %



Source: Federal Reserve Bank of Atlanta, UBS as of 15 July 2024

Slower wage growth consistent with further disinflation
year/year, % 2017-Present



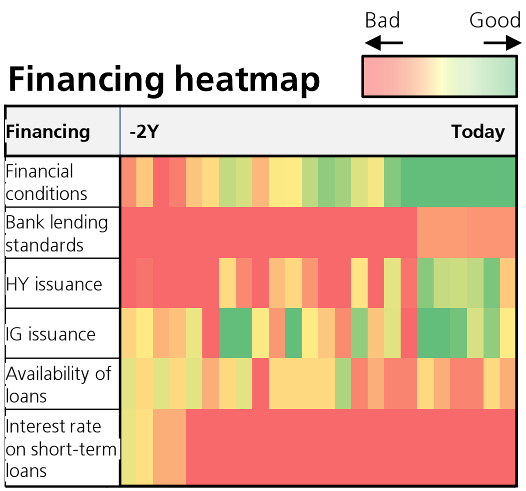
Source: BLS, UBS as of 15 July 2024

Section 3.3

Financing

Financing Key Points: Conditions to ease, but not uniformly for all

Financing heatmap



Note: Financial conditions refers to the Bloomberg Financial Conditions index; Lending standards refers to the quarterly change in standards of Federal Reserve Senior Loan Officer Survey; HY and IG issuance are measured on a quarterly moving average of monthly issuance data; Availability of Borrowing Costs refers to "Interest Rate on short-term loans" component in the NFIB survey
Source: Bloomberg, NFIB, SIFMA, Goldman Sachs, Federal Reserve, UBS, as of 15 July 2024

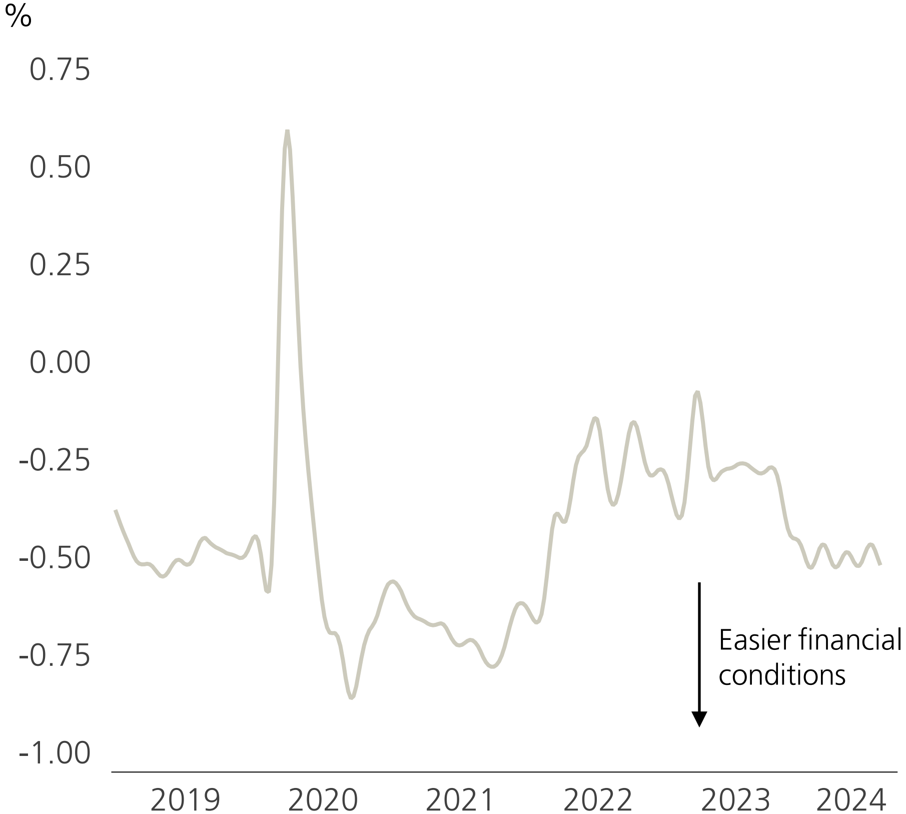
Financial conditions improve with higher rate-cut probabilities. A broadening equity rally and increasing chances of imminent rate cuts ease financial conditions. Federal Reserve loan officer survey returning to pre-pandemic levels, easing stress particularly for smaller firms.

Corporate bond issuance accelerates. Both investment grade and high yield spreads remain tight, buoyed by strong investor demand ahead of likely rate cuts.

Financial Conditions: Easing in anticipation of lower rates

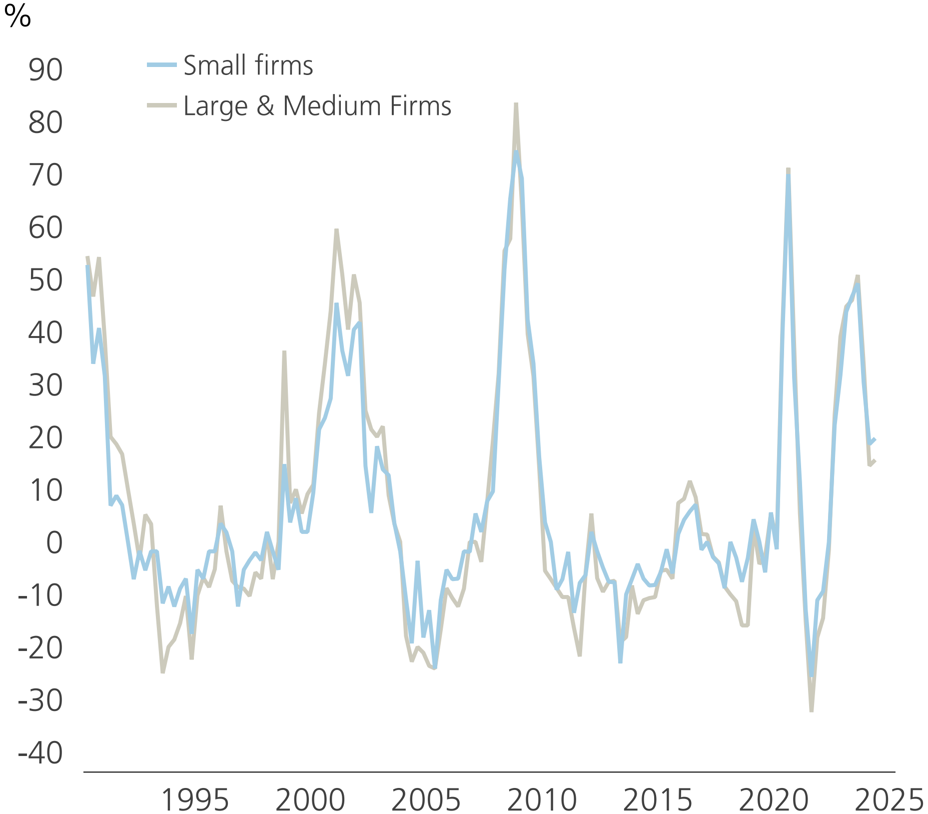
Financial conditions have eased back to pre-pandemic levels while lending standards have loosened from very tight levels, giving breathing room for some firms.

Chicago Fed National Financial Conditions index



Source: Federal Reserve, Macrobond, UBS, as of 15 July 2024

Federal Reserve Senior Loan Officer Survey – Tighter standards



Source: Federal Reserve, Macrobond, UBS, as of 15 July 2024

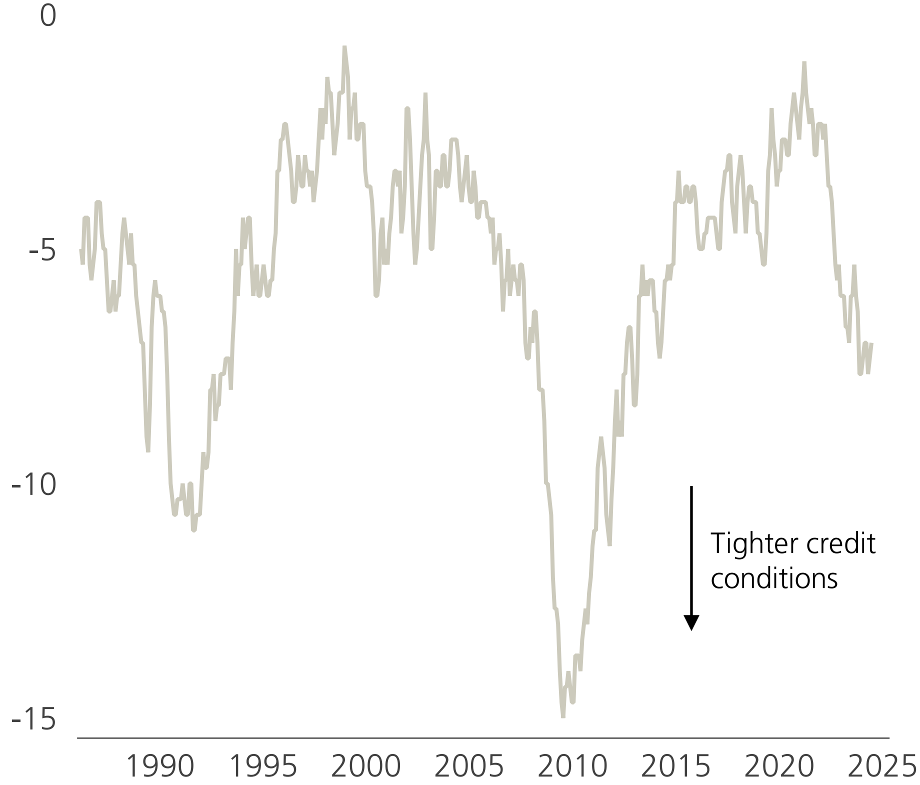
UBS

Financial Conditions: Small businesses still face tight conditions

Larger firms tend to have more cash on hand and access to capital markets; meanwhile, small businesses still complain of very tight credit conditions and high cost of borrowing.

Credit Availability for Small Businesses very tight

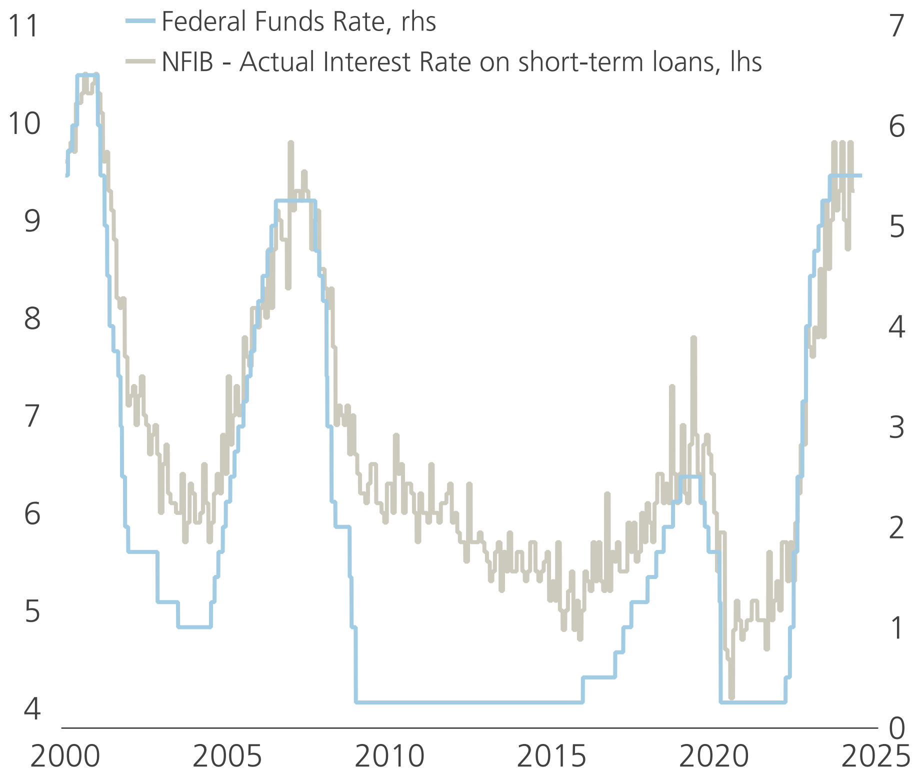
NFIB survey: Credit Conditions index



Source: NFIB, Macrobond, UBS as of 15 July 2024

And interest rates are very high

NFIB survey: Actual Interest Rate Paid & Policy Rate (%)

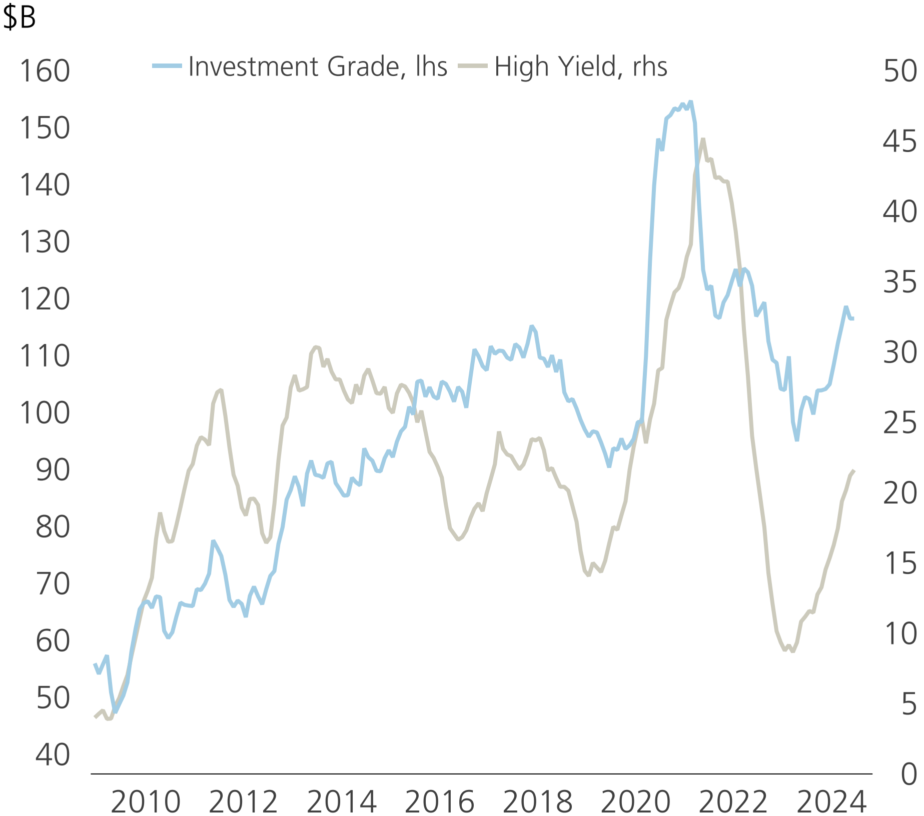


Source: NFIB, Macrobond, UBS as of 15 July 2024

Financial Conditions: Healthy backdrop for corporate bonds

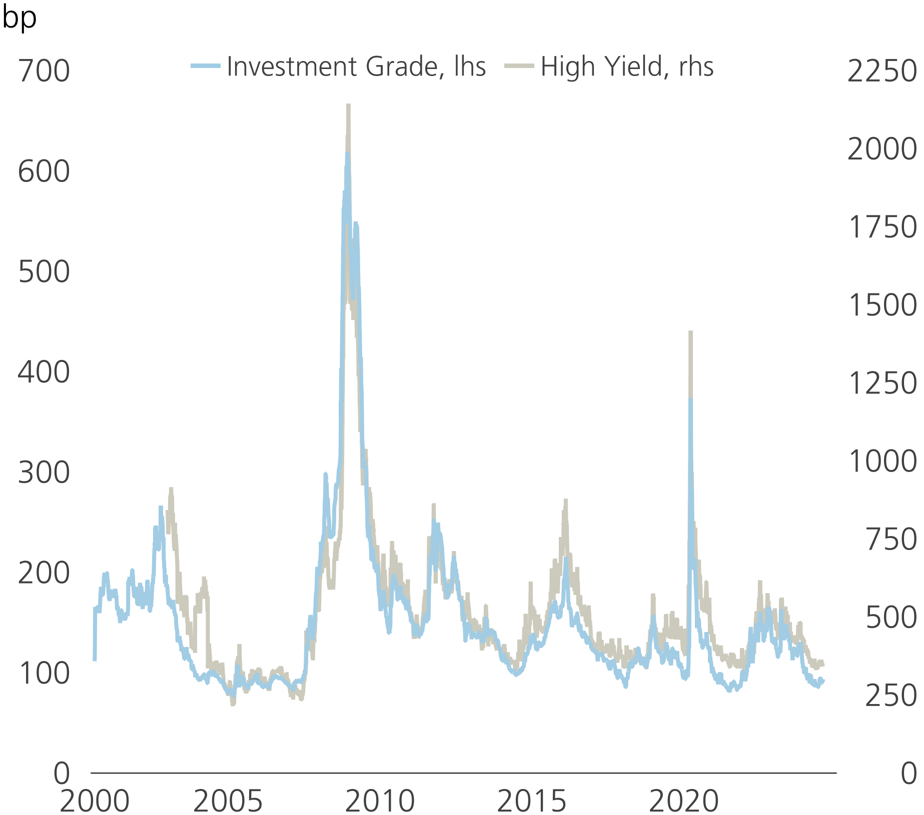
Strong demand for high yield and investment grade issuance driving an acceleration of issuance and very tight spreads.

Bond issuance still accelerating and at healthy levels



Source: Bloomberg, Macrobond, UBS as of 15 July 2024

And spreads are very tight



Source: Bloomberg, Macrobond, UBS as of 15 July 2024

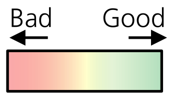
Section 3.4

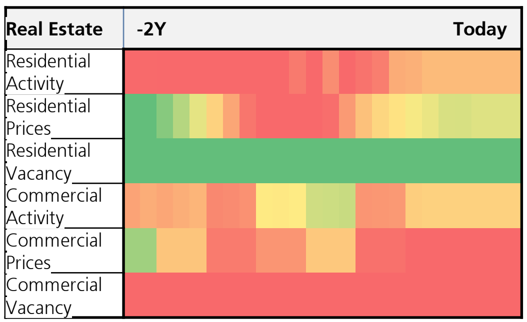
Real estate

UBS

Real Estate Key Points: Green shoots derailed by higher rates

Real estate heatmap





Note: "Activity" is a normalized average of sales and construction; Source: Bloomberg, BLS, NAHB, Federal Reserve, UBS, as of 23 July 2024

Residential market held up by still high rates. Low inventory and high mortgage rates are exacerbating affordability, still at the tightest levels in decades. Expect sales activity to increase if mortgage rates fall below 6%

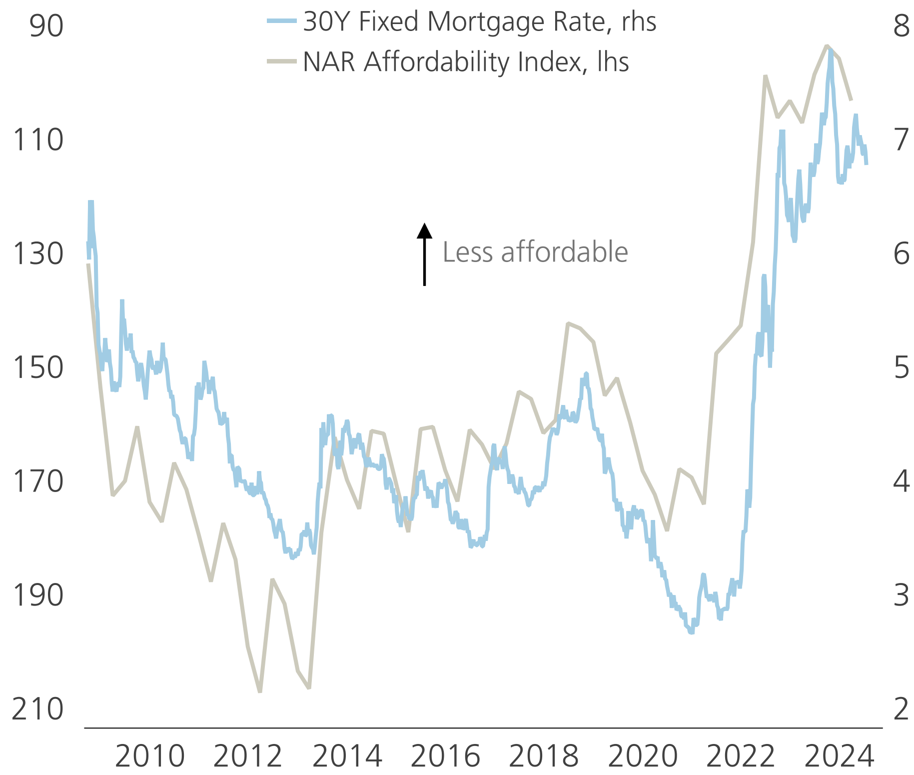
Pressures from pent-up demand are building. Delayed "adult decisions" (marriage, kids) may be a structural tailwind for residential housing as millennials and Gen Z come of age and move out of living at home.

Commercial real estate likely has already troughed without a contagion. Limited delinquencies should ease fears of financial stress. Price declines seem to have bottomed, and big real estate investors ramp up investment activity ahead of anticipated rate cuts.

Residential: Rate cuts should ease historic unaffordability issue

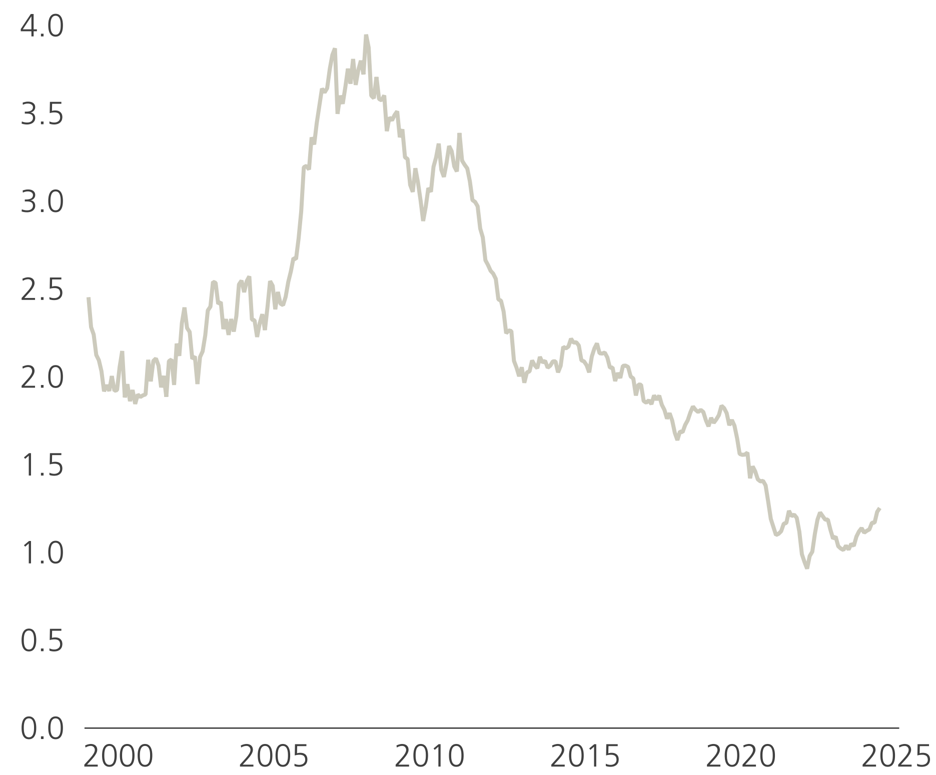
Affordability hurt by the double-whammy of very low inventory and relatively high mortgage rates; rate cuts should help.

Affordability still at historically unreachable levels
%



Source: NAR, Bloomberg, UBS, as of 15 July 2024

Housing inventory is near the lowest levels on record
in millions

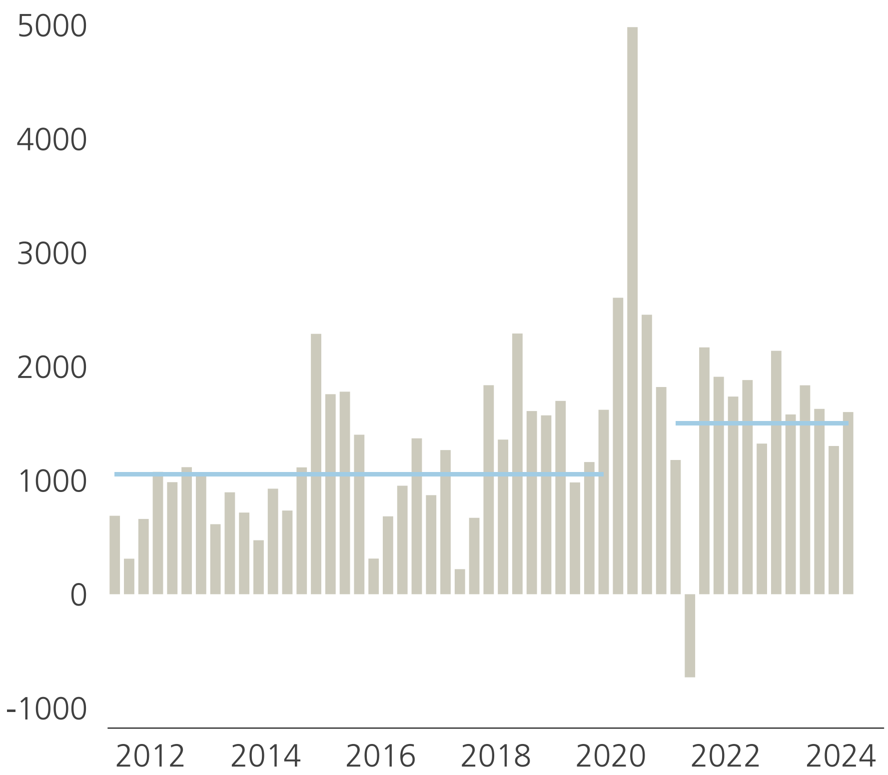


Source: Federal Reserve, UBS, as of 15 July 2024

Residential: Pent up demand may exist for residential units

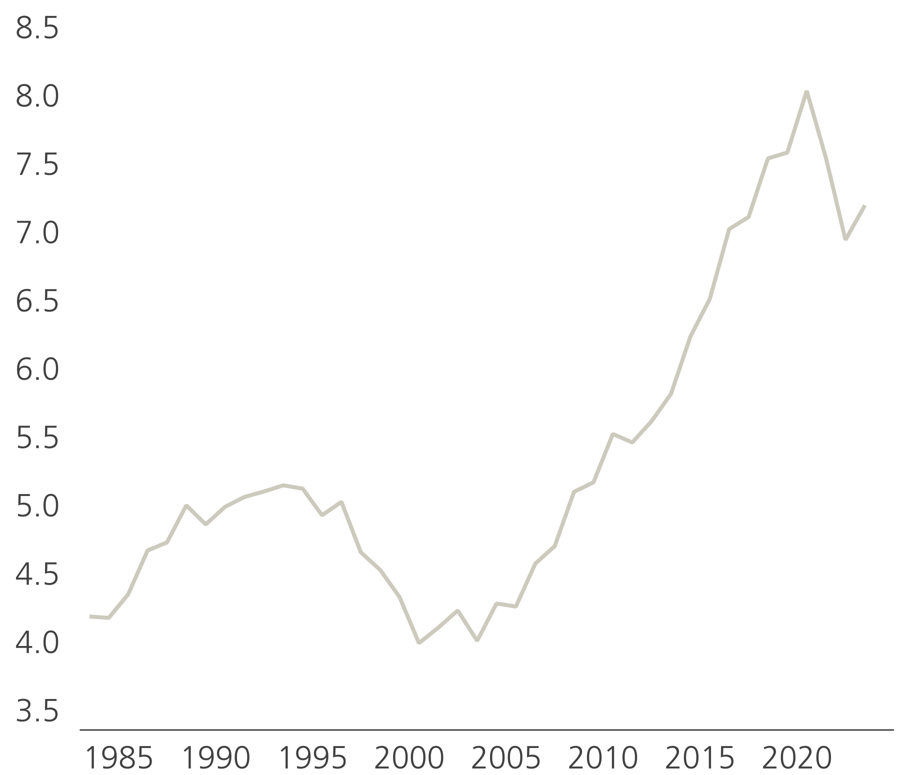
Faster household formation and a near-record number of young adults still living at home will likely be a structural tailwind for residential housing for some time.

Household formations running at a faster pace since pandemic
in tsds.



Source: Federal Reserve, UBS, as of 15 July 2024

25-34 year olds living at home still near all-time highs
in millions

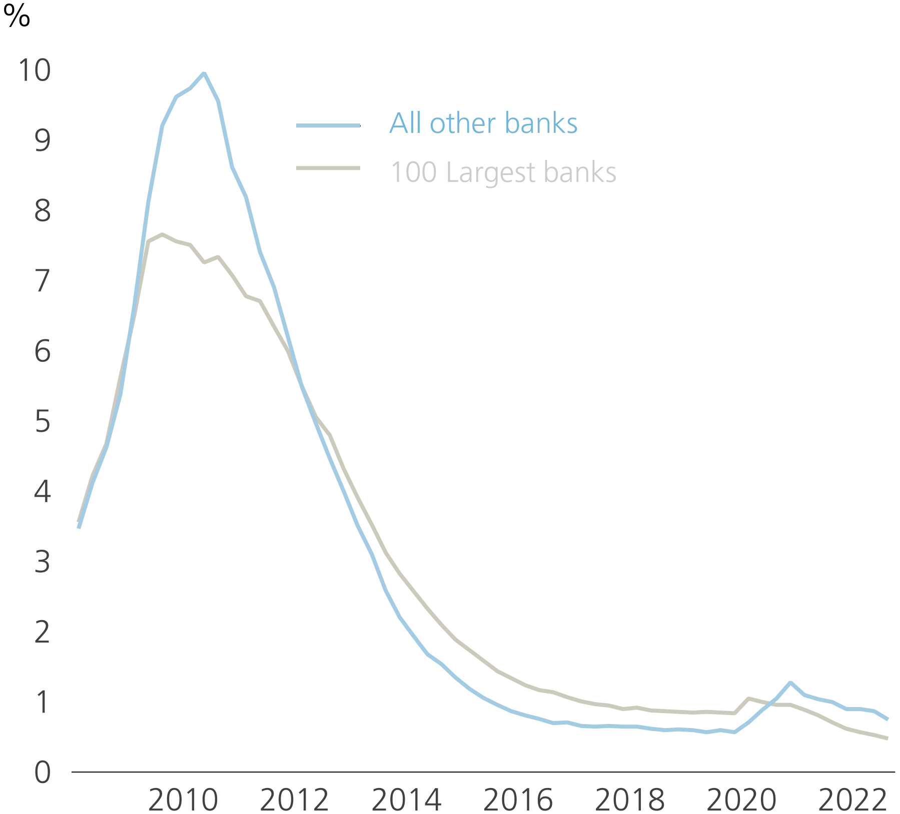


Source: BEA, UBS, as of 15 July 2024

Commercial Real Estate: Worst may be behind us

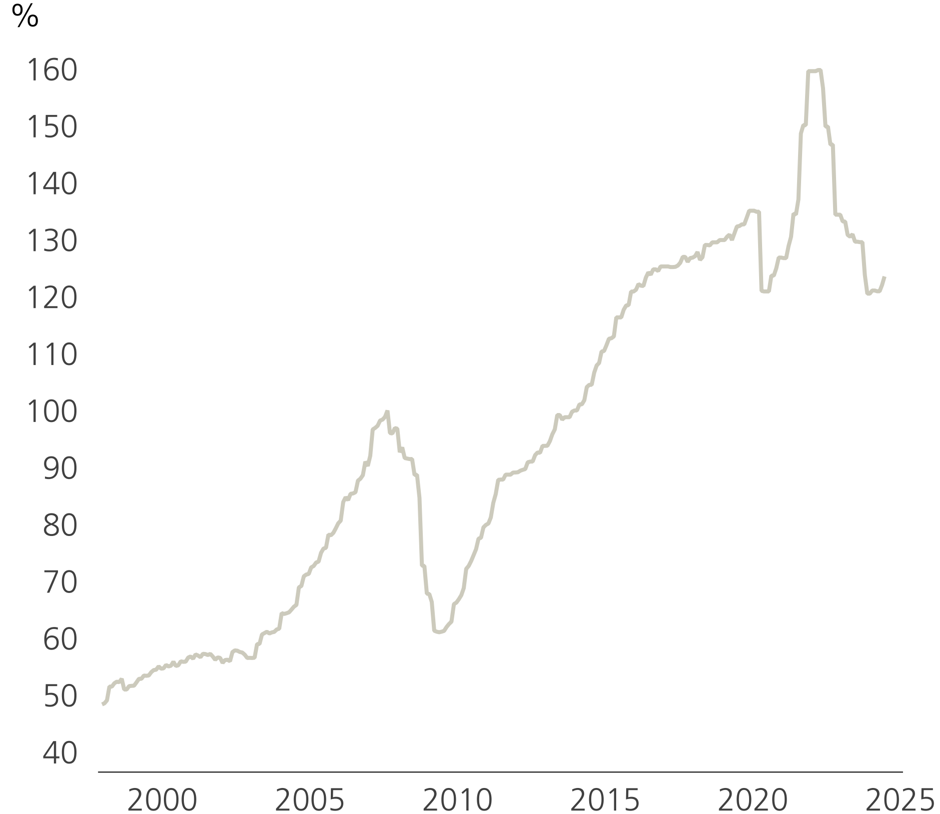
Contagion fears still are overblown as delinquency rates on CRE-related loans at very low levels; price declines on commercial real estate may have already troughed

Delinquency Rate for Commercial Real Estate



Source: Federal Reserve, Macrobond, UBS as of 15 July 2024

Commercial Real Estate Price Index



Source: Green Street Advisors, Macrobond, UBS as of 15 July 2024

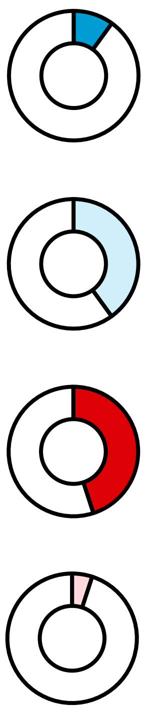
Section 4

Policy, geopolitics, politics

US election: Biden withdrawing has slightly shifted scenario probabilities

Harris likely replacing Biden as the Democratic nominee has slightly shifted our expectation of a Trump presidency from 60% to 55% due to lower “red sweep” probability; prediction markets have similar expectations.

Four plausible scenarios, but two are most likely
UBS CIO US election scenario probabilities



Blue sweep (10%)

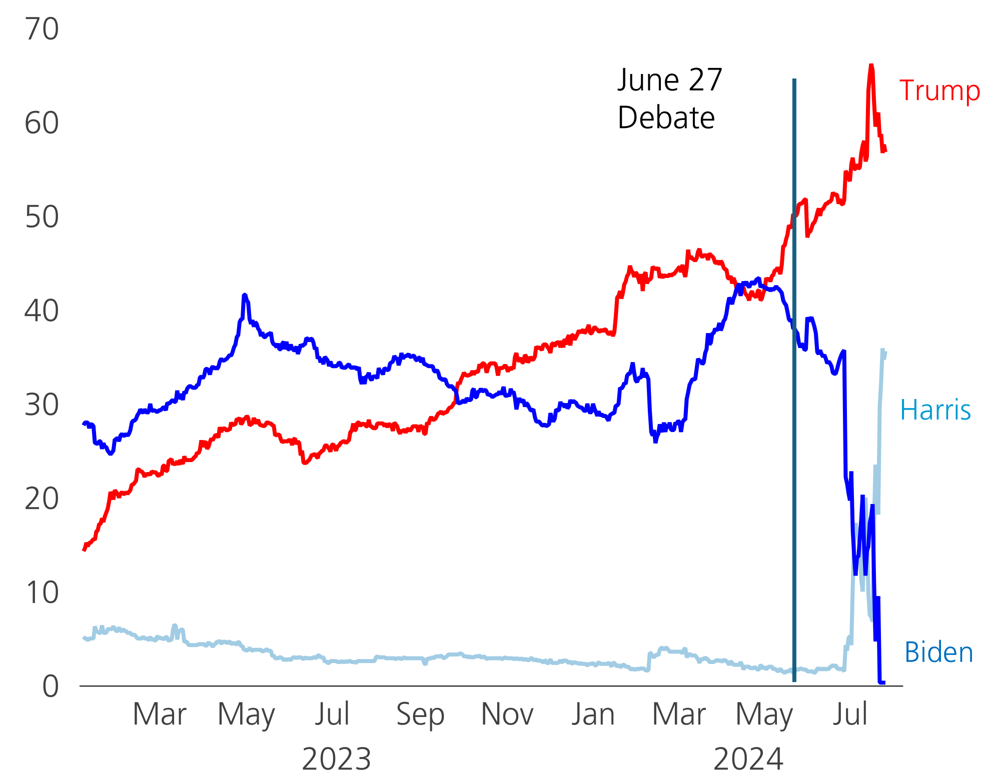
Harris with split Congress (35%)

Red sweep (40%)

Trump with split Congress (15%)

Source: UBS, as of 25 July 2024

Probability of a Trump Presidency closer to pre-debate levels



Source: PredictIt, UBS, as of 25 July 2024

“Trump trade”: Investors are monitoring a Trump trade 2.0…

A second Trump term will likely prioritize similar economic policies as the first; we should expect more tax cuts and protectionist policies, resulting in a higher growth and inflation environment (i.e., reflation).

Likely Policy

- Extension of prior tax cuts (household and corporate)
- Decreased regulatory scrutiny (financials, energy)
- Protectionist policies (tariffs)

Likely Macro Effect

- Faster growth, inflation
- Wider deficit

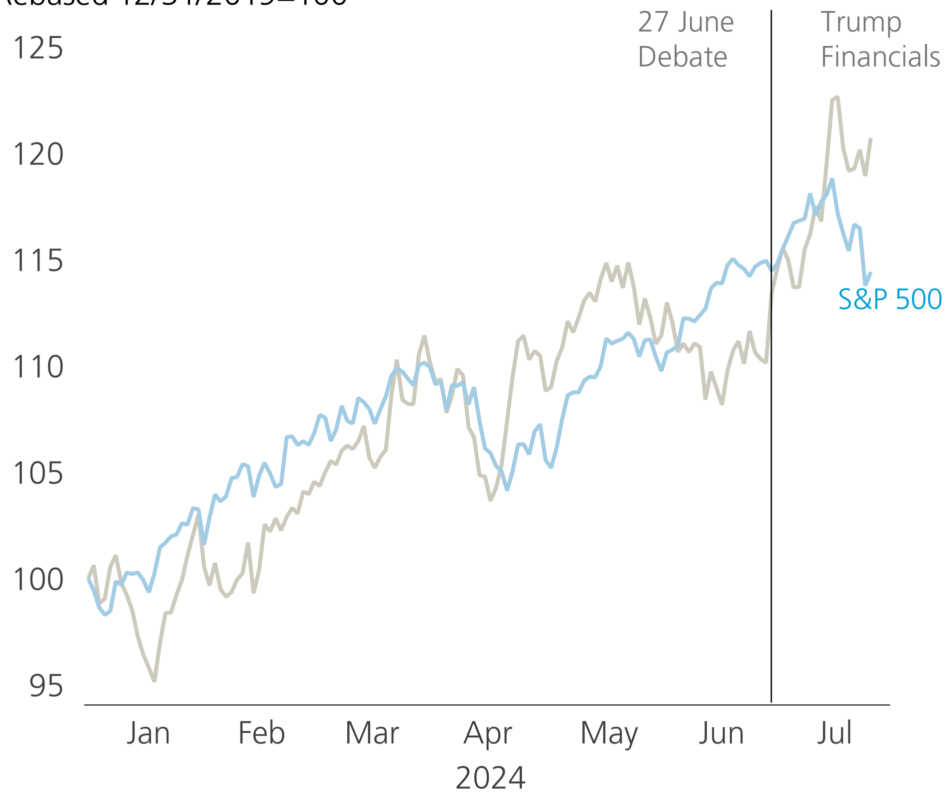
Likely Market Reaction

- Higher Yields
- Strong dollar
- Select benefit for names / sectors

"Trump trade": …but only partially evident at the sector/stock level

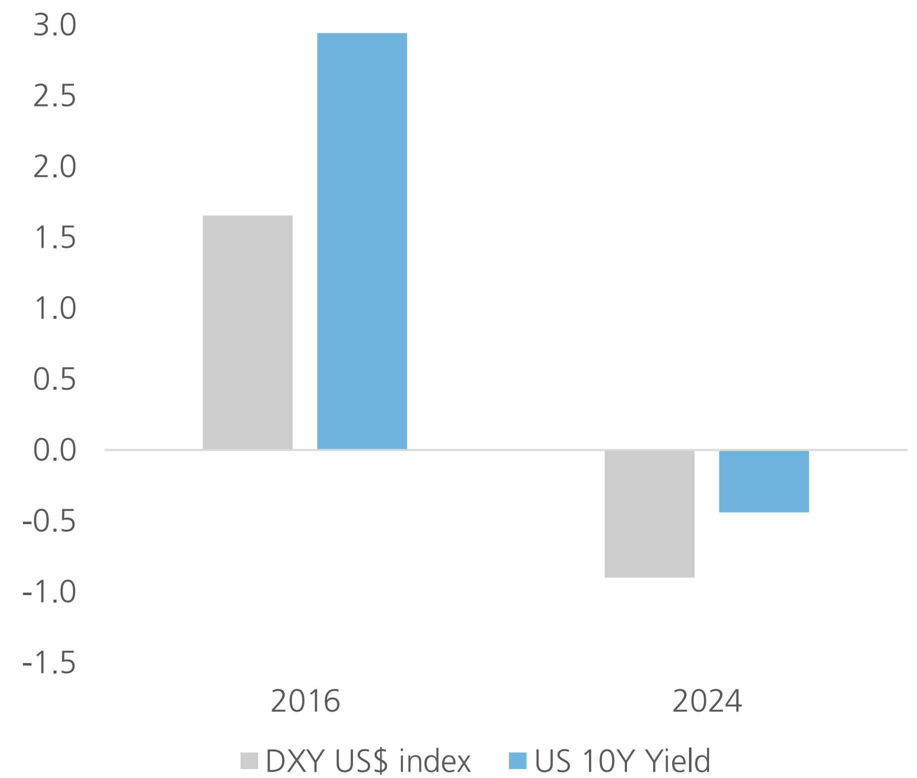
Sectors and stocks that would be beneficiaries of lower regulation have down relatively well since the first debate, but the prospect of higher rates and USD in a Trump trade has not materialized.

Higher probability of Trump win help certain names/sectors
Rebased 12/31/2019=100



Note: UBS Trump Financials is a basket of stocks levered to a policy platform that benefits from deregulation, increase in capital markets activity, and Basel 3 softening.
Source: Bloomberg, Macrobond, UBS as of 15 July 2023

Neither the USD nor the 10Y yield reflect a Trump trade so far
1M Z-Score



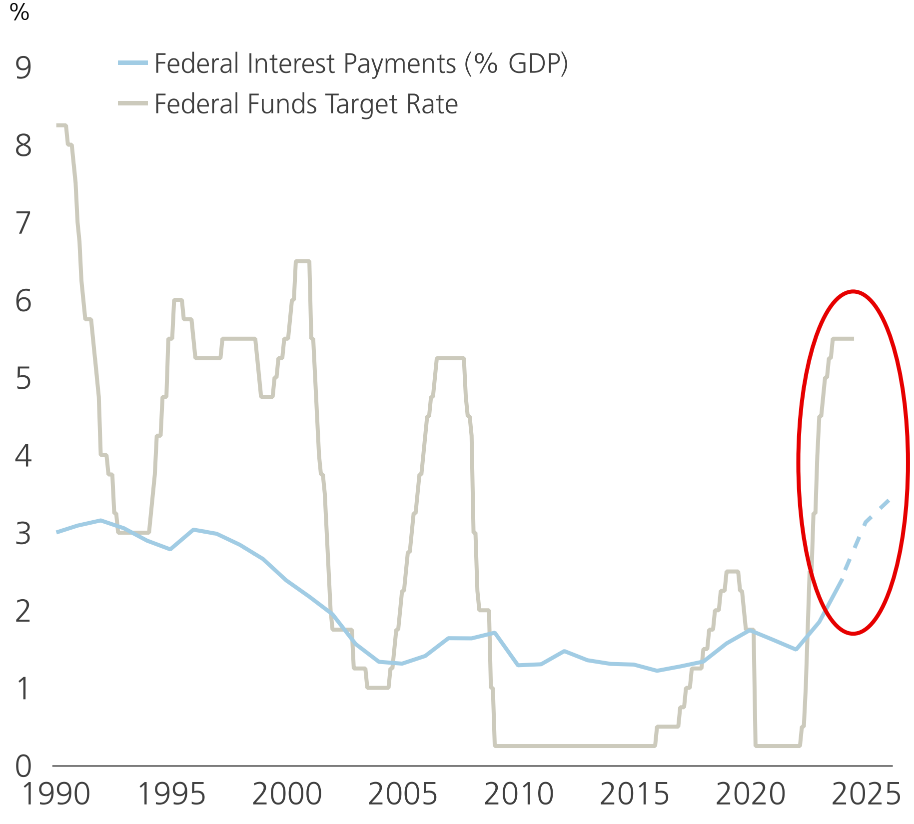
Note: 2016 measured rom 10/28/2016 to 11/18/2016 while 2024 measured from 6/28/2024 to 7/19/20204
Source: Bloomberg, UBS, as of 15 July 2024

UBS

Policy: Large deficits will constrain whoever wins the White House

The deficit is 6% of GDP in 2023 despite near record-low unemployment, implying public finances are structurally imbalanced, and the CBO forecasts it to remain above 6% for the foreseeable future.

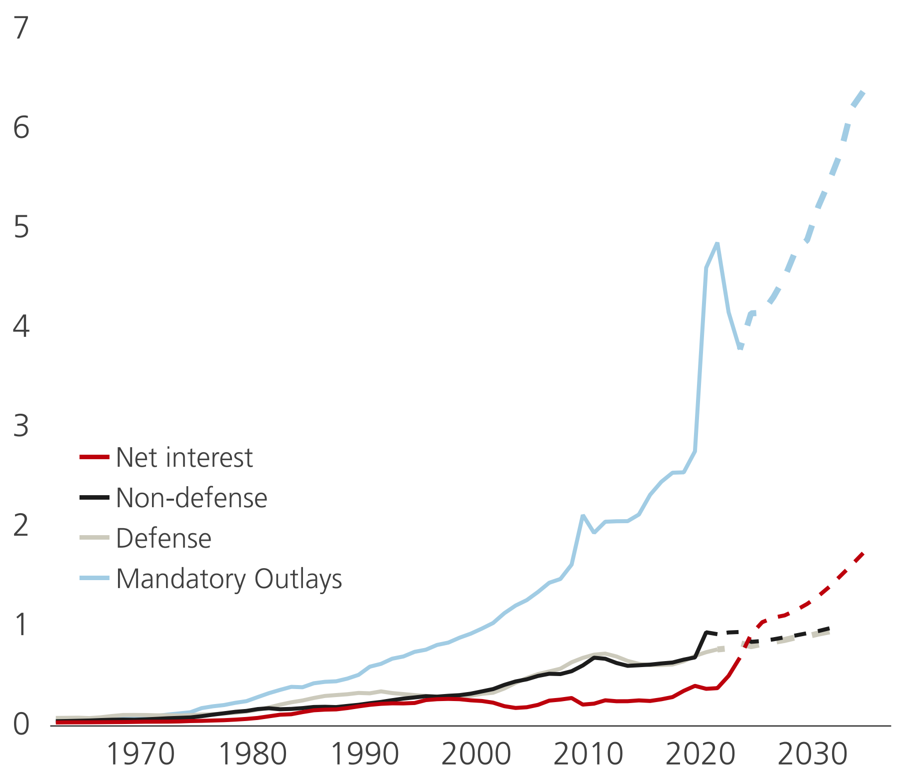
The federal interest burden will rise quickly at current rates



Source: BLS, CBO, Bloomberg, UBS, as of 17 June 2024

Hard-to-reform mandatory spending pushing deficits higher

CBO projections, % GDP



Source: CBO, Bloomberg, UBS, as of 17 June 2024

UBS

Policy: The focus in 2025 will be on extending the Trump tax cuts

Parts of the Tax Cuts and Job Acts (2017) from Trump's first term, are set to expire in 2026; some of these cuts are to be extended regardless of the election outcome, but at a large cost to the debt.

Tax Cuts and Job Acts of 2017 Provisions

Permanent

- Corporate tax cut to 21% from 35%

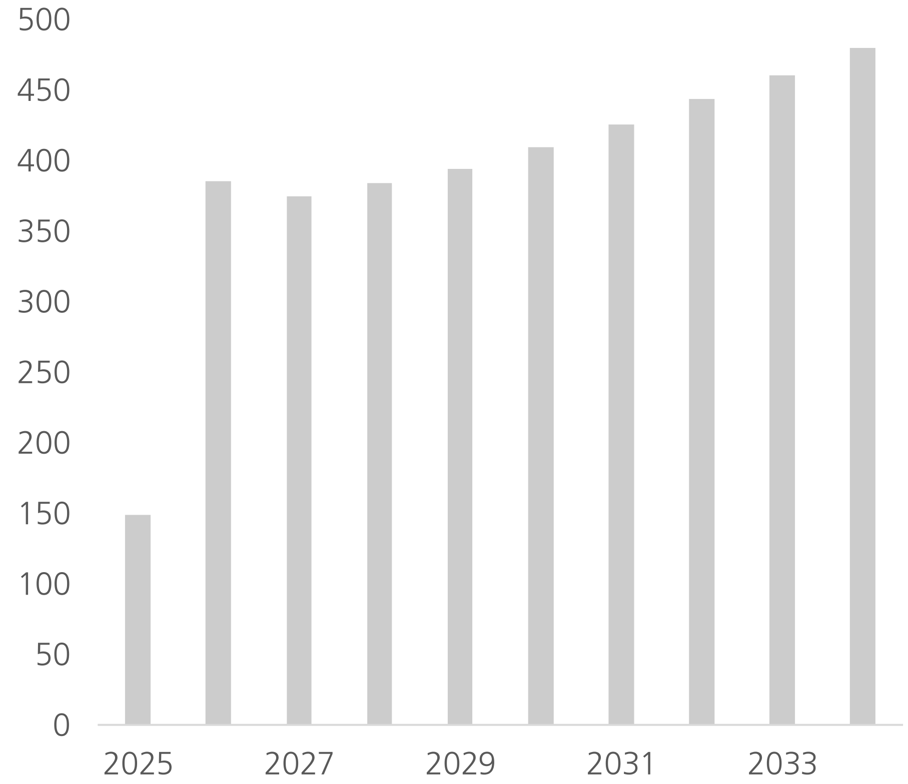
Expiring in 2025

- Qualified business income deduction
- Marginal income tax will revert to pre-TCJA levels
- Higher individual deductions
- Increased estate tax exemption

Source: CBO, UBS, as of 15 July 2024

CBO expects extending TCJA will cost ~ $4 trillion over a decade

Annual cost, $B



Source: CBO, UBS, as of 15 July 2024

Section 5

Markets and corporate transactions

UBS

Markets Activity Key Points: Activity has lagged returns, rate cuts will help

Macro remains supportive of risk assets. Moderating growth, cooling growth, and rate cuts ahead are all positive for risk assets. Sooner rather than later, rate cuts should ease investor fears of slower growth; markets are now pricing in more than two rate cuts by the end of 2024 likely starting in September, but path of future trajectory is quite wide. Since the start of July, equities have staged a stunning reversal, with year-to-date leaders vastly underperforming equity laggards amid favorable macro conditions.

Politics a source of volatility. Recent events have increased the probability of a Republican presidency, which entails both risks (e.g., higher tariffs and deficits) as well as market-positives (e.g., tax cuts, less regulation.) While a Republican win is now a base case, the "Trump trade" impact has been limited so far to certain stock / sectors, while the broader macro impact on rates and the USD is muted.

M&A and PE still modest but should benefit from rate cuts and election clarity. Dealmaking remains modest with activity decelerating back to pre-pandemic levels. Lack of exit opportunities is exacerbating the PE market imbalance: dealmaking is roughly around 2018 levels, but "dry powder" is 1.5x as large, and average holding periods have extended to >6 years compared to a 3–5-year longer-term average. Secular areas like logistics, infrastructure, energy and life sciences do show green shoots.

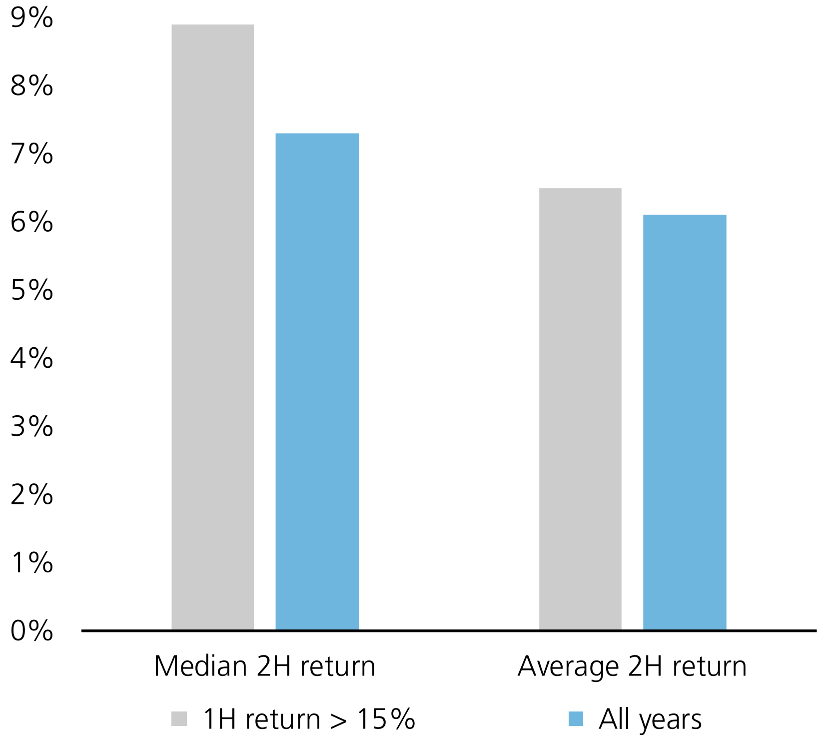
IPO activity and VC funding recovering from very low base. Things are still stagnant in the IPO flywheel. VC fundraising is at low levels, but valuations are holding for both early and late-stage start-ups. Companies have been able to extend runways of prior funding and using new financing structures to extend their lifespan. IPO and VC markets are improving but have yet to fully open and are likely to improve later than M&A / PE.

Equities: A hard first half to follow, but history is on the S&P 500's side

History suggests strong 1H should be followed by good 2H, but in the near-term markets may be vulnerable to being stretched and geopolitical uncertainty and weak seasonal patterns.

1H momentum usually continues into 2H…

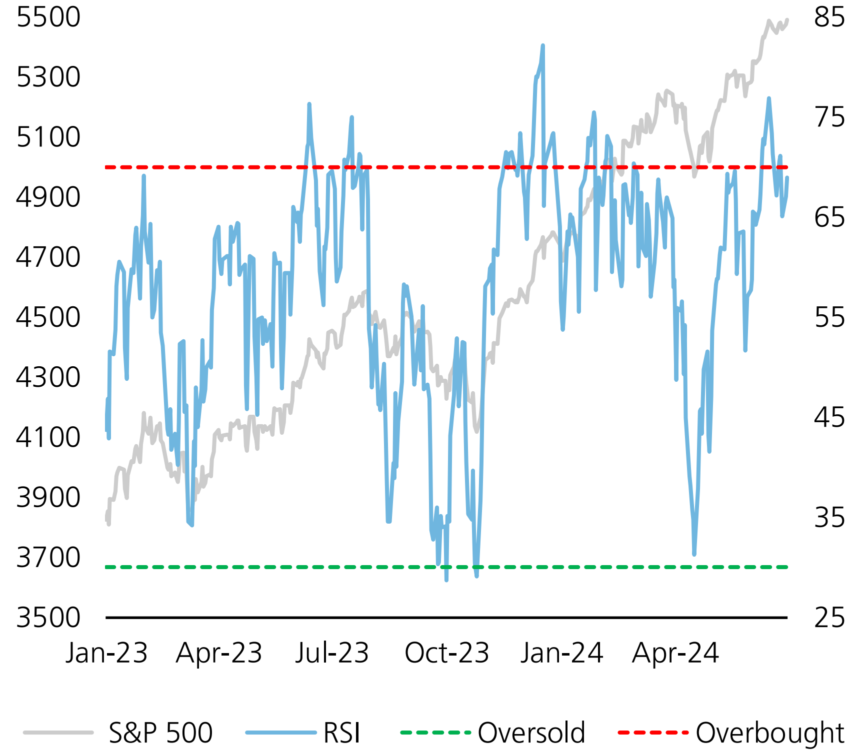
S&P 500 total returns in 2H of the year, since 1900



Source: Bloomberg, UBS, as of 28 June 2024

…but near-term market may be overbought and stretched

RSI for S&P 500



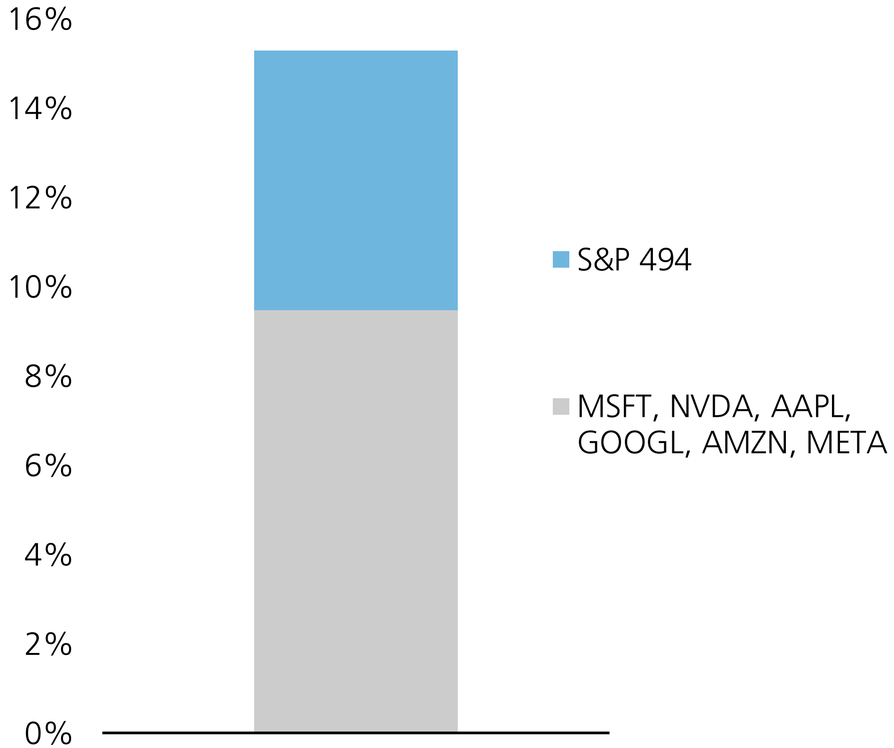
Source: Bloomberg, UBS, as of 2 July 2024

UBS

Equities: A concentrated first half of the year experiences a rotation

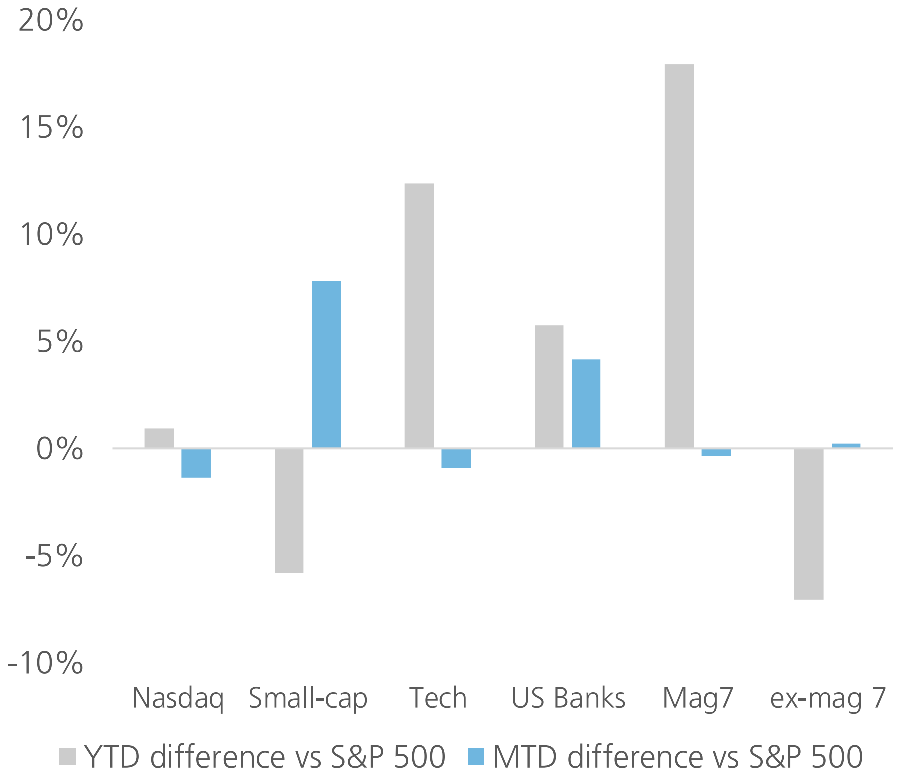
Equity performance was very concentrated in the first half of the year; since the start of July, a reversal has happened where laggards have been on a tear.

Sources of S&P 500 performance in the first half
YTD performance, %



Source: Bloomberg, UBS, as of 15 July 2024

A sharp rotation in July benefitted equity laggards
%

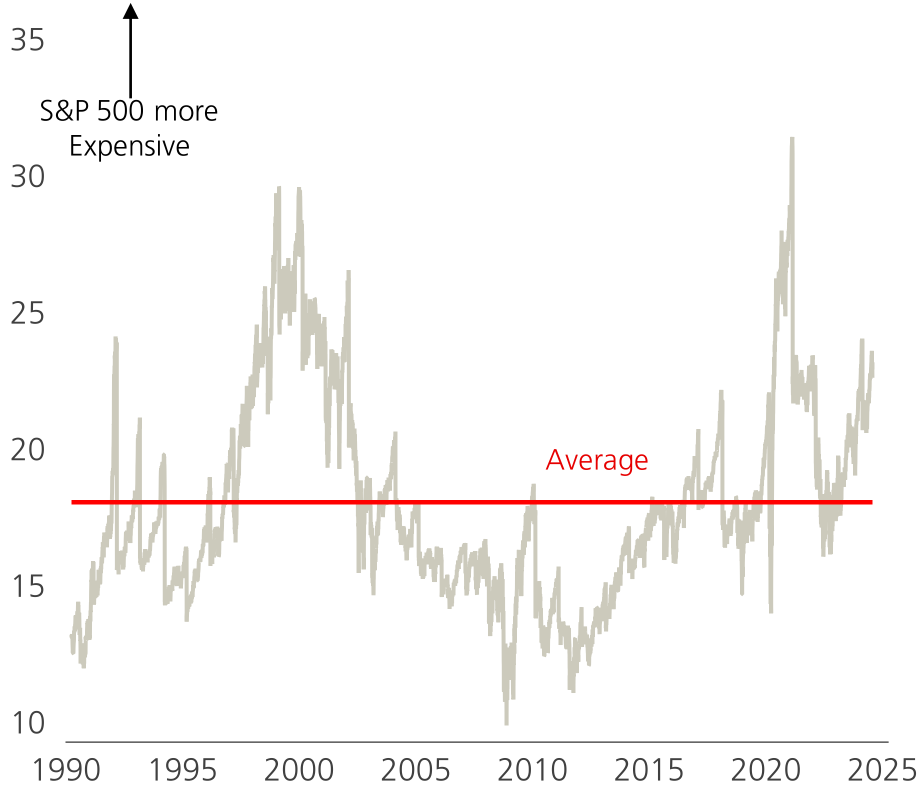


Note: MTD calculates the price change from 6/30/2024 and 7/23/2024
Source: Bloomberg, UBS, as of 23 July 2024

Equities: Valuations and concentration increasingly stretched…

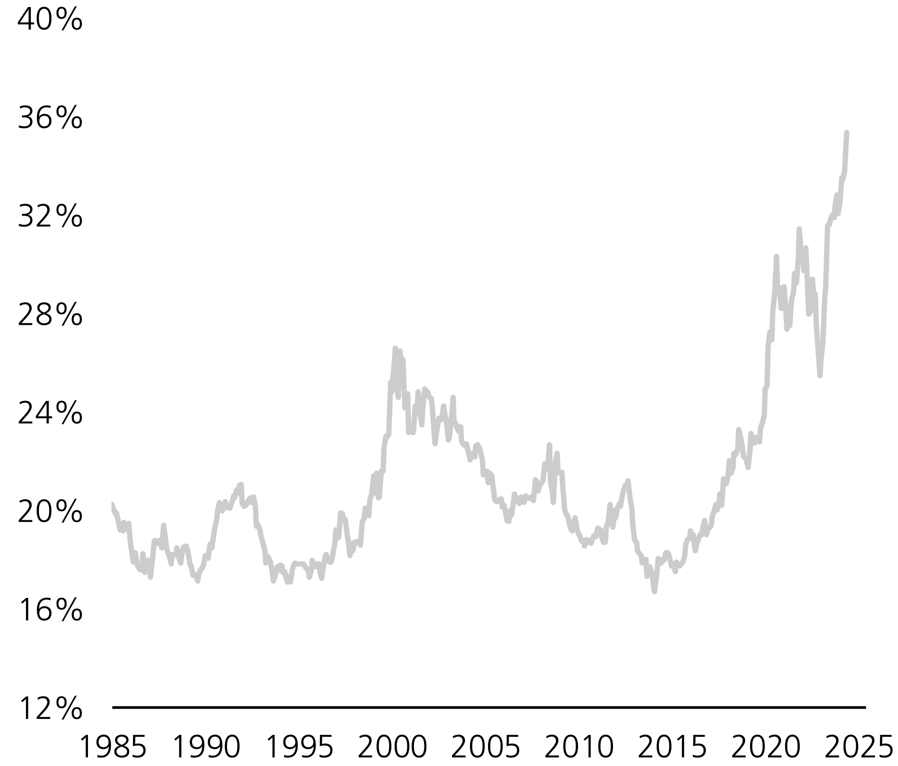
Stocks are expensive but not at extreme levels, while Mag-7 outperformance has led to the highest equity concentration in recent memory.

S&P 500 P/E is a standard deviation above its LT average
Forward P/E



Source: Bloomberg, UBS, as of 15 July 2024

Equity market concentration is the highest in decades
Top 10 S&P 500 constituents as % of S&P 500 market value



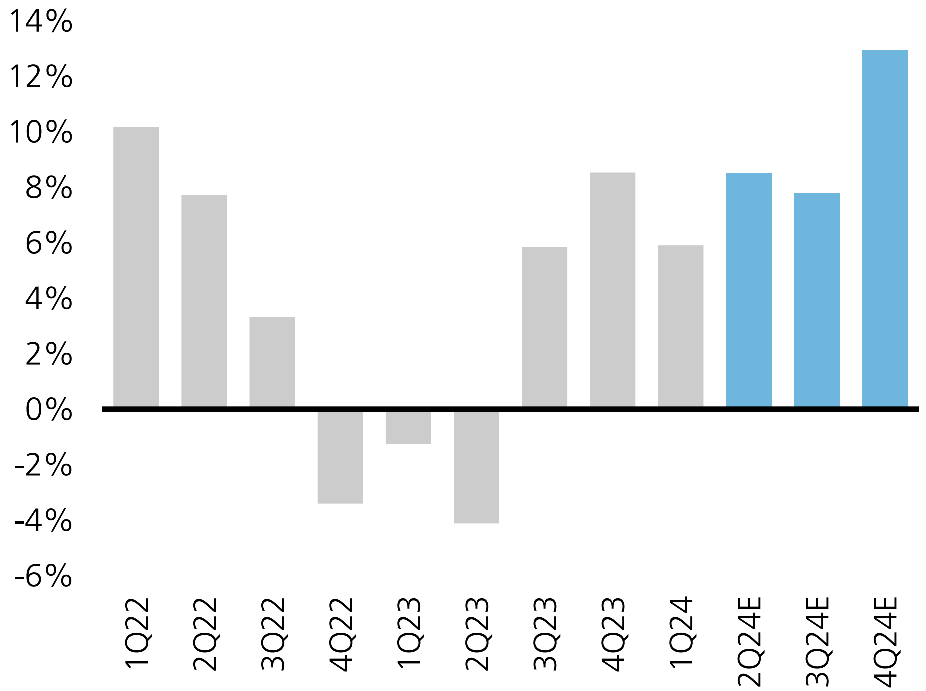
Source: Bloomberg, UBS, as of 15 July 2024

UBS

Equities: …but justified by higher earnings

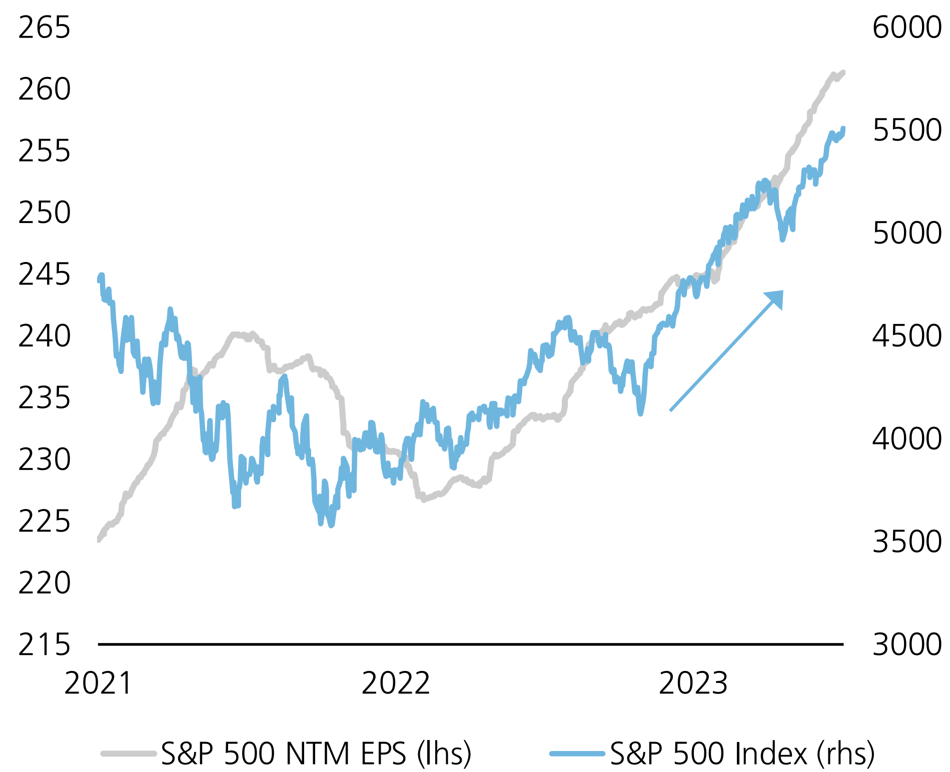
Earnings growth is positive, supported by broadening equity rally, increasing likelihood of 'soft landing', higher changes of a rate cut, and robust GDP growth.

Earnings growth should be healthy the rest of this year…
S&P 500 quarterly EPS Y/Y growth, actual and consensus estimates



Source: Bloomberg, UBS, as of 15 July 2024

As earnings make new highs in 2024
S&P 500 index and SPX bottoms-up consensus NTM EPS estimates



Source: Bloomberg, UBS, as of 15 July 2024

Rates: Longer-term yields stay range bound

10-year Treasury yield has been rangebound (4.1-4.7%) for months, and likely to stay that way before trending lower as rate cuts start. The yield curve has bull steepened as the market gets more confident in rate cuts.

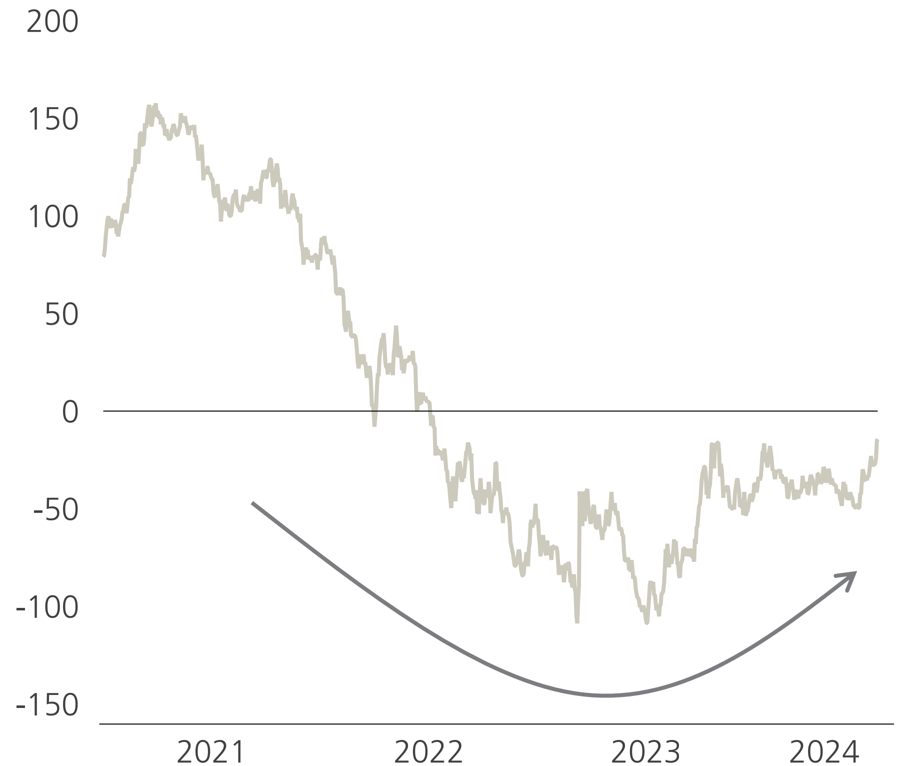
10-year Treasury yield likely to stay range-bound for now…

%

Source: Bloomberg, Macrobond, UBS as of 15 July 2024

Yield curve steeping toward positive territory

2s10s Treasury curve, in bp



Source: Bloomberg, Macrobond, UBS as of 15 July 2024

UBS

M&A: Conditions continue to become more favorable for M&A

The economic and market environment remains generally supportive of increased M&A activity, especially if Fed starts its rate-cut trajectory sooner rather than later.

M&A Heatmap	**Sep-18**	**Dec-18**	**Mar-19**	**Jun-19**	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**	**Mar-21**	**Jun-21**	**Sep-21**	**Dec-21**	**Mar-22**	**Jun-22**	**Sep-22**	**Dec-22**	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**
M&A Volume	524	450	553	711	459	483	365	156	558	763	716	930	860	850	715	686	398	429	353	445	410	585	507	482
FCI	0.7	-1.0	0.3	0.3	-0.1	0.3	-5.3	-0.9	-0.4	0.3	0.9	1.2	0.7	0.9	-0.2	-1.2	-1.1	-0.1	-0.3	0.3	0.2	0.9	1.1	1.0
Vistage CEO Confidence	7.1	6.4	6.7	6.5	6.2	6.6	7.0	6.5	6.9	6.9	7.1	6.9	6.7	6.5	6.7	5.6	5.9	5.9	6.1	6.6	6.1	6.3	7.0	6.7
NFIB Small Business Confidence	107.9	104.4	101.8	103.3	101.8	102.7	96.4	100.6	104.0	95.9	98.2	102.5	99.1	98.9	93.2	89.5	92.1	89.8	90.1	91.0	90.8	91.9	88.5	91.5
Markets																								
SPX	16%	-6%	7%	8%	2%	29%	-9%	5%	13%	16%	54%	39%	28%	27%	14%	-12%	-17%	-19%	-9%	18%	20%	24%	28%	23%
NASDAQ	28%	-1%	12%	9%	2%	38%	6%	32%	47%	48%	68%	43%	29%	27%	13%	-21%	-25%	-33%	-11%	32%	34%	54%	38%	30%
Midcap	12%	-12%	1%	0%	-4%	24%	-24%	-8%	-4%	12%	81%	51%	42%	23%	3%	-16%	-17%	-14%	-7%	16%	14%	14%	21%	12%
Smallcap	14%	-12%	1%	-5%	-10%	24%	-25%	-8%	-1%	18%	93%	60%	46%	14%	-7%	-26%	-24%	-22%	-13%	11%	7%	15%	18%	8%
Rates																								
10Y rate	3.06	2.68	2.41	2.01	1.66	1.92	0.67	0.66	0.68	0.91	1.74	1.47	1.49	1.51	2.34	3.01	3.83	3.87	3.47	3.84	4.57	3.88	4.20	4.40
Federal Funds Rate	2.25	2.50	2.50	2.50	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.75	3.25	4.50	5.00	5.25	5.50	5.50	5.50	5.50
2s10s Spread	24	19	14	25	4	34	42	50	55	79	158	122	121	77	0	5	-45	-56	-56	-106	-48	-37	-42	-36
Financing																								
IG Spread	1.1	1.5	1.2	1.2	1.2	0.9	2.7	1.5	1.4	1.0	0.9	0.8	0.8	0.9	1.2	1.6	1.6	1.3	1.4	1.2	1.2	1.0	0.9	0.9
HY Spread	3.2	5.3	3.9	3.8	3.7	3.4	8.8	6.3	5.2	3.6	3.1	2.7	2.9	2.8	3.3	5.7	5.5	4.7	4.6	3.9	3.9	3.2	3.0	3.1
SLOS Large	-16	-16	3	-4	-3	5	0	42	71	38	6	-15	-32	-18	-15	-2	24	39	45	46	51	34	15	16
SLOS Mid/Small	-8	-3	4	0	-6	6	-1	40	70	31	11	-13	-26	-11	-9	0	22	32	44	47	49	30	19	20
IG Issuance	17%	-90%	-10%	-3%	72%	-78%	142%	124%	66%	-64%	-22%	-7%	67%	-46%	97%	-14%	-27%	-88%	9%	1%	24%	-87%	-11%	49%
HY Issuance	-27%	-94%	65%	97%	828%	-7%	-86%	363%	51%	0%	65%	-28%	37%	-71%	-80%	-70%	-78%	-76%	15%	29%	119%	-14%	28%	92%
Volatility																								
MOVE	46.2	66.6	58.5	70.4	77.2	58.3	83.9	54.1	39.2	49.0	71.3	57.3	61.1	77.1	106.9	135.5	141.9	121.6	135.9	110.6	113.6	114.6	86.4	98.6
VIX	12.1	25.4	13.7	15.1	16.2	13.8	53.5	30.4	26.4	22.8	19.4	15.8	23.1	17.2	20.6	28.7	31.6	21.7	18.7	13.6	17.5	12.5	13.0	12.4

Negative ← → Positive

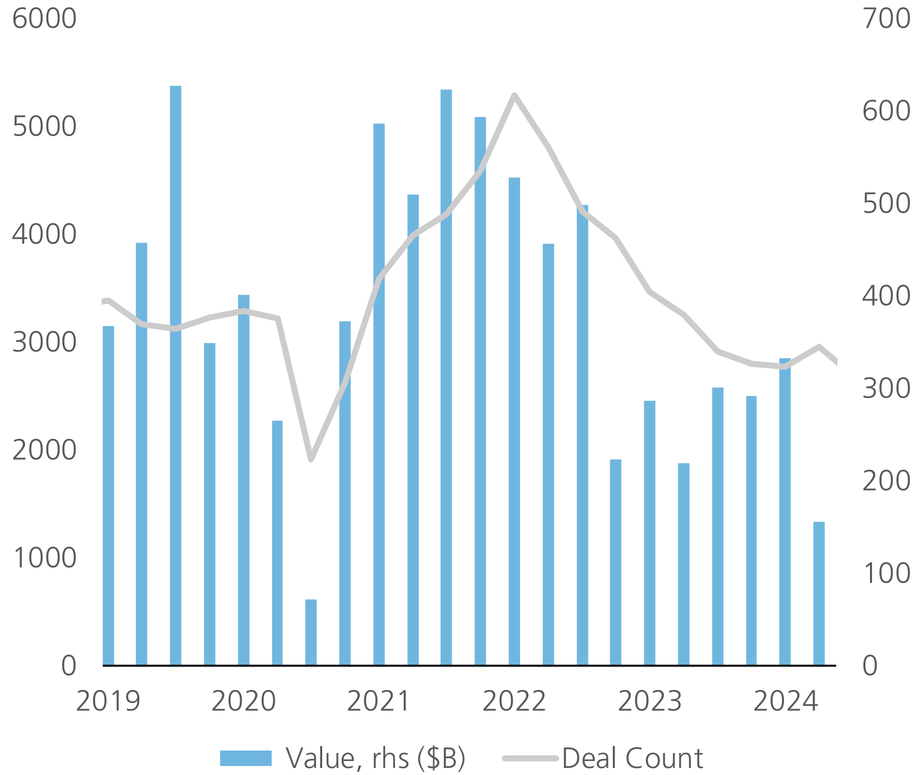
Note: SLOOS Large and SLOOS Mid/Small measure the change in tightening standards
Source: Bloomberg, UBS, as of 15 July 2024

UBS

M&A: Deal counts still sluggish but within pre-pandemic range

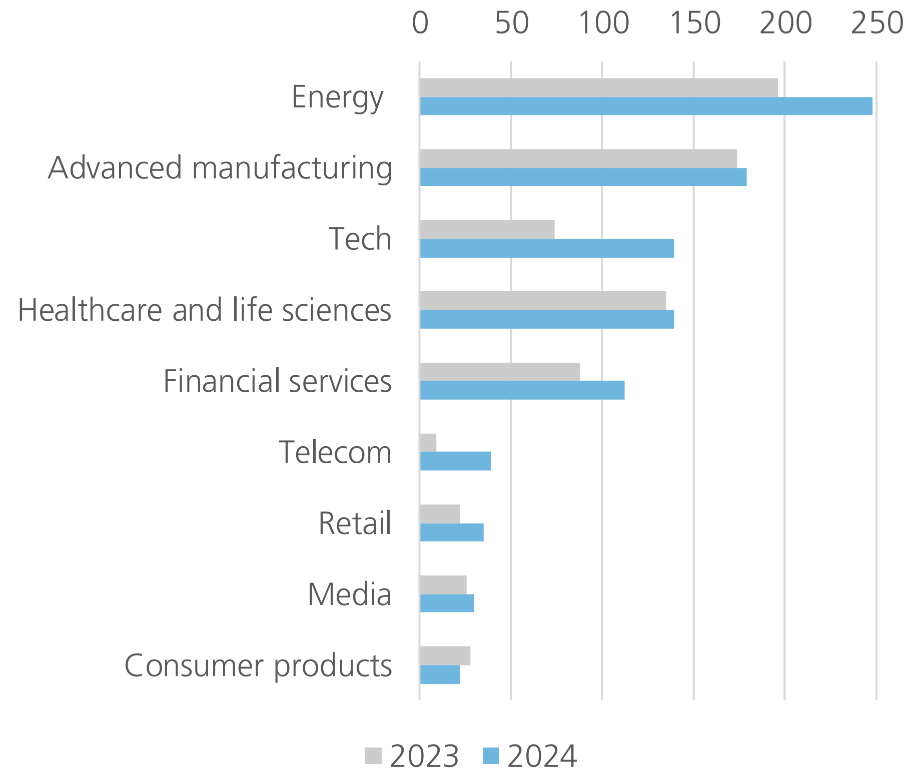
Overall activity remains modest in the US with some pockets of bright spots including deals in energy, financial services, and tech. Rate cuts should be a critical tailwind to support activity.

US dealmaking still sluggish, no strong rebound yet
Count and value ($B)



Source: Pitchbook, UBS, as of 15 July

Global M&A by sector
in $B



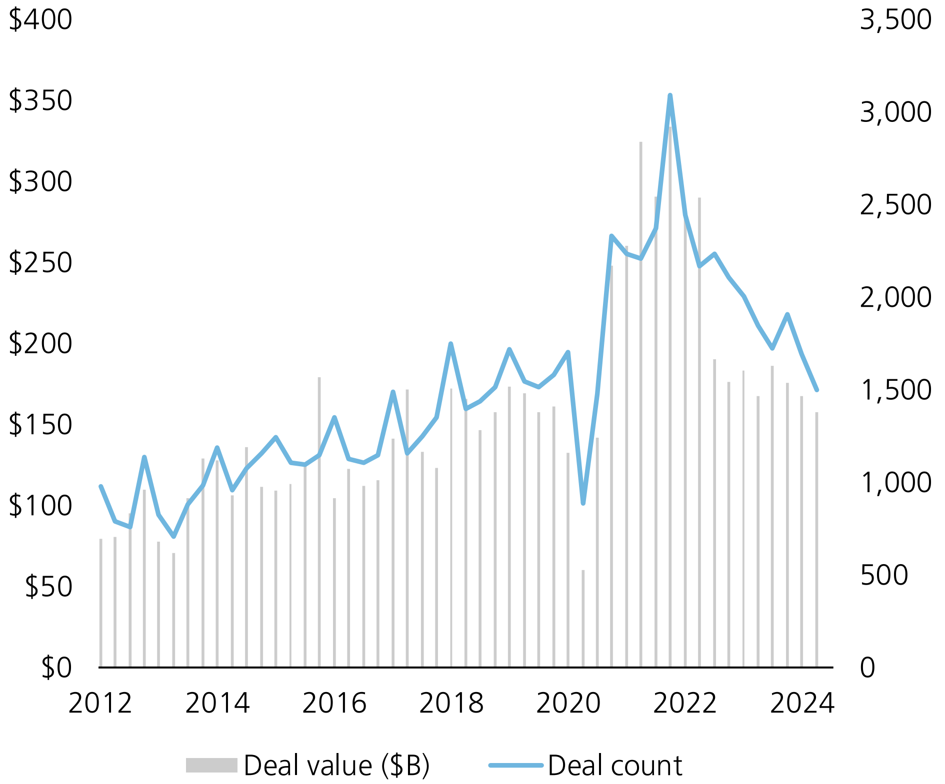
Source: Bain, UBS, as of 15 July

UBS

Private Equity: No obvious reacceleration exacerbates exit holding time

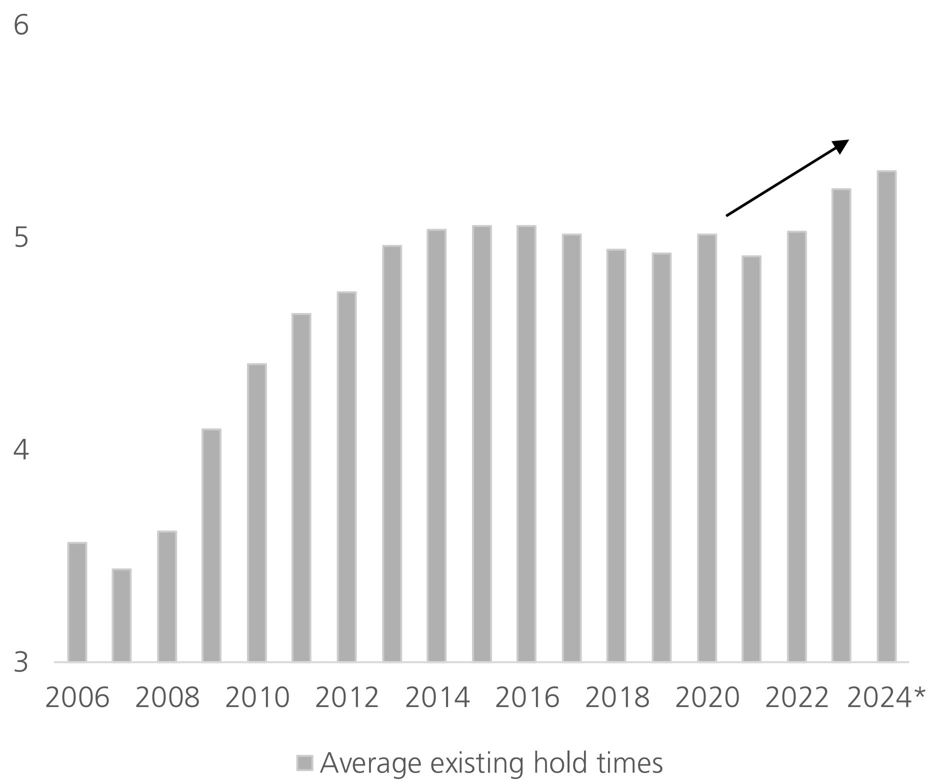
Dealmaking activity is tracking the 2023 pace. While a historic amount of dry powder remains on the sidelines and pressure on sponsors for more exits continues to build.

US dealmaking still sluggish, no strong rebound yet
Number and count



Source: Pitchbook, UBS, as of 15 July

Average exit hold times still growing, clogging dealmaking
in years



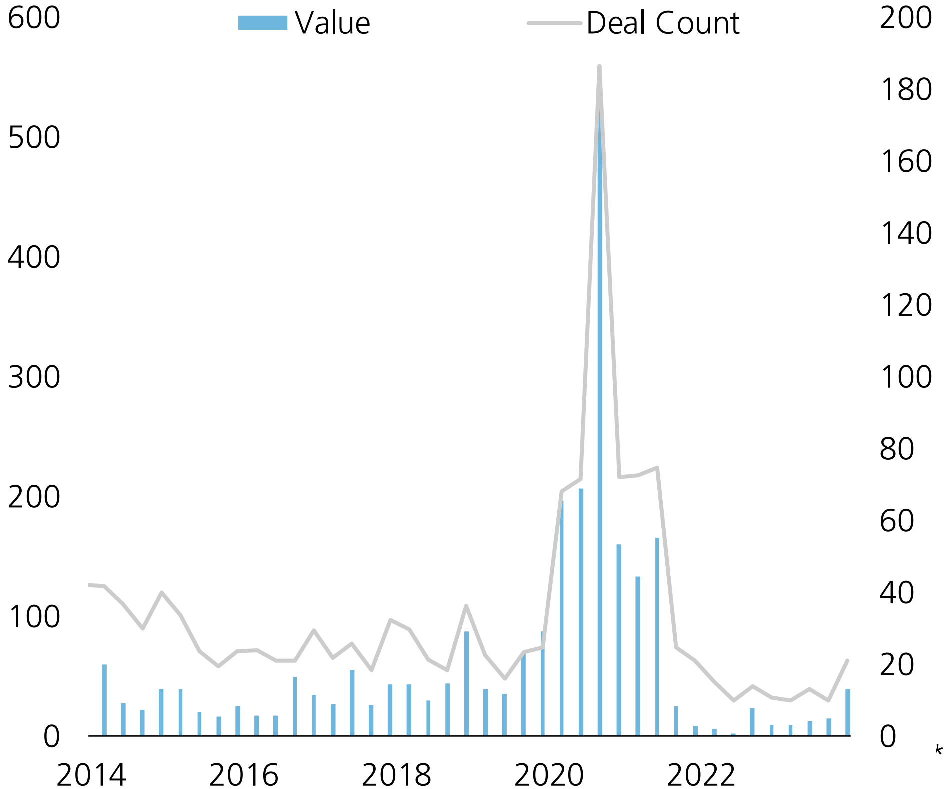
Source: Pitchbook, UBS, as of 15 July

UBS

IPOs: Halfway through 2024, IPO market showing some signs of life

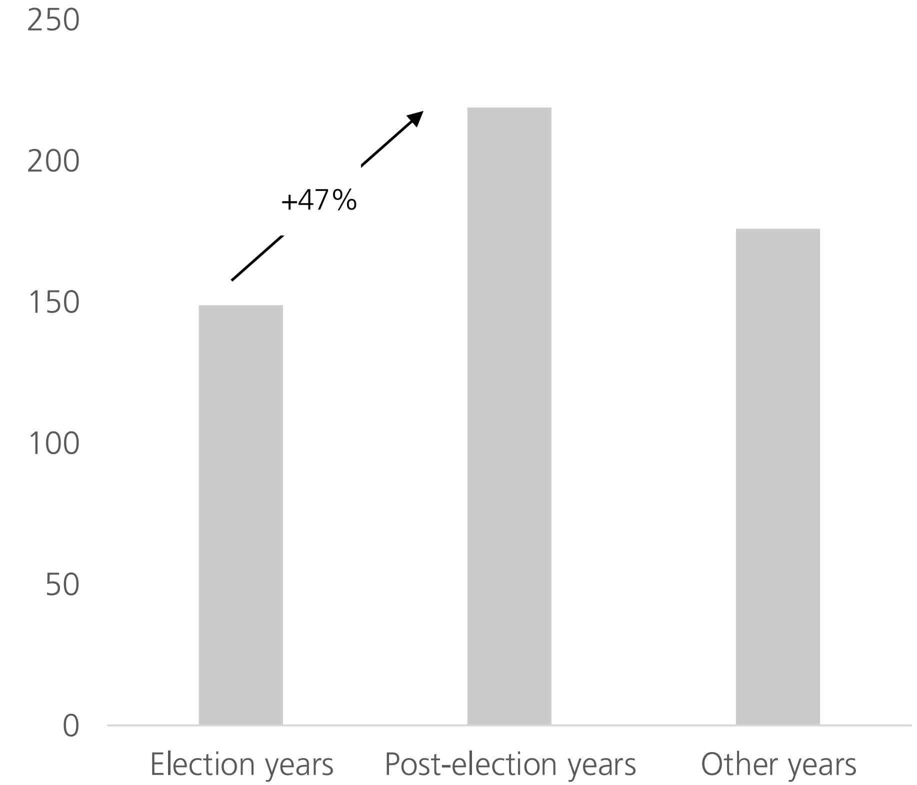
IPOs are improving gradually but remain relatively muted as firms deal with increasing uncertainty and alternate sources of financing.

IPO market recovering back to pre-pandemic ranges
Deal value ($B) and count



Source: Bloomberg, UBS, as of 23 April 2024

IPO activity muted during election years before a rebound
Average count



Source: EY, UBS, as of 23 April 2024

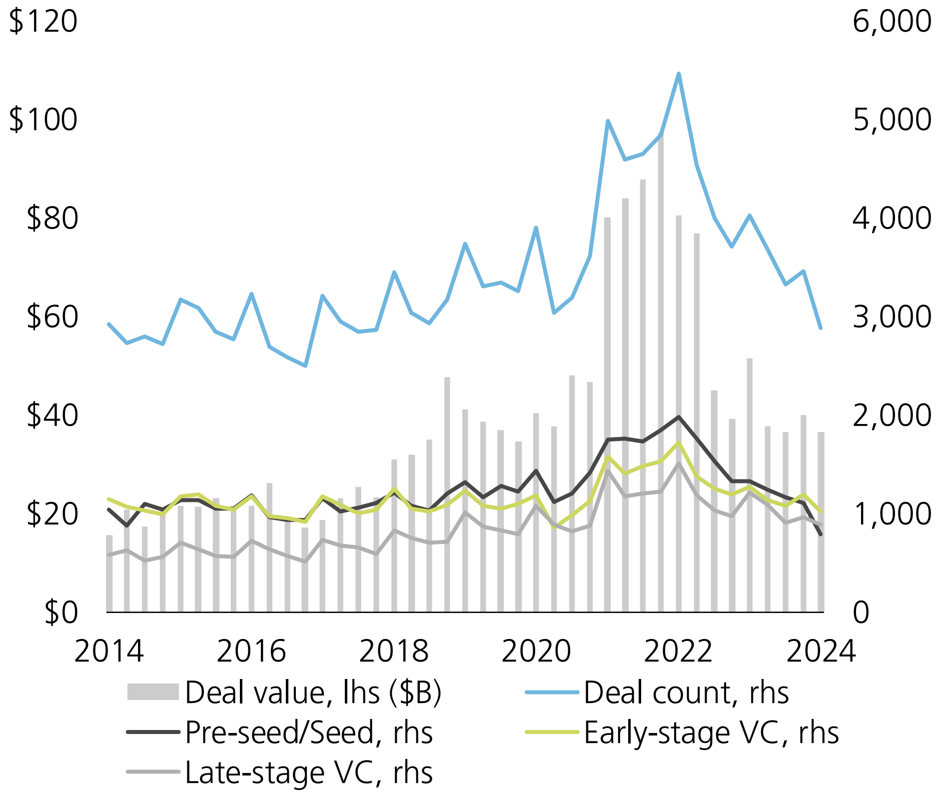
UBS

Venture Capital: Very muted amid "higher for longer" rates

Fundraising still at low levels, especially for non-AI startups, as investors become more selective. VCs focused on bridge financing to avoid down rounds.

Venture capital deal activity remains muted

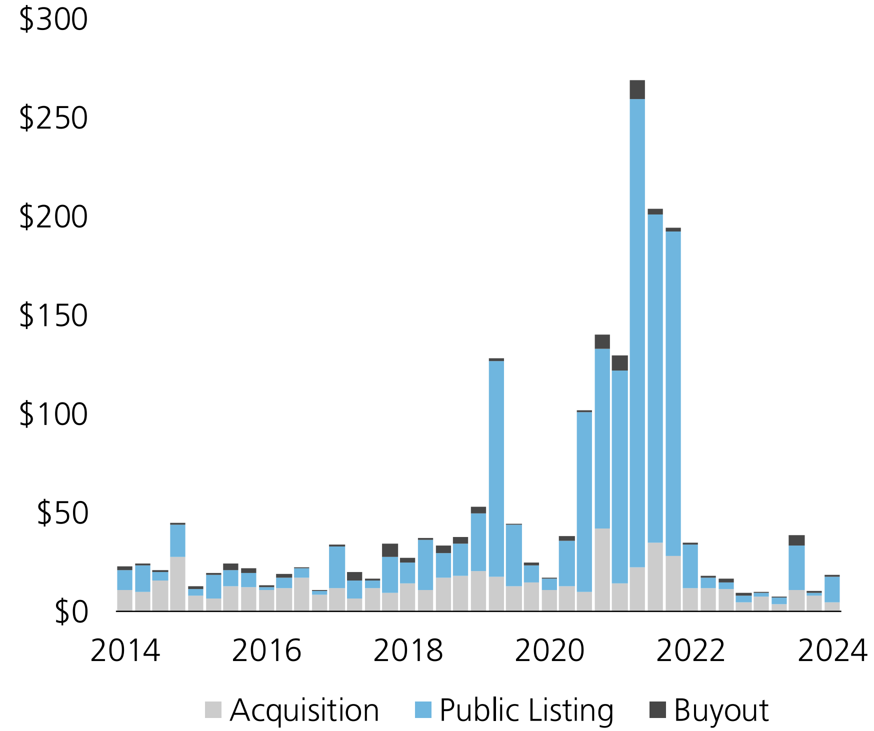
Deal value ($B) and count



Source: Pitchbook, UBS, as of 15 July 2024

Venture exits by type

$B



Source: Pitchbook, UBS, as of 15 July 2024

UBS

Section 6

Sector updates

Sector Views: Tech, and Industrials in CIO Most Preferred

Tech: Valuations are expensive but reflect strong earnings. Tech continues to outperform, helped by a still-strong earnings outlook and increased optimism on AI. Within the AI opportunity set, we like the enabling layer for its mix of attractive and visible earnings growth profiles, strong competitive positioning, reinvestment runway, and reasonable valuations.

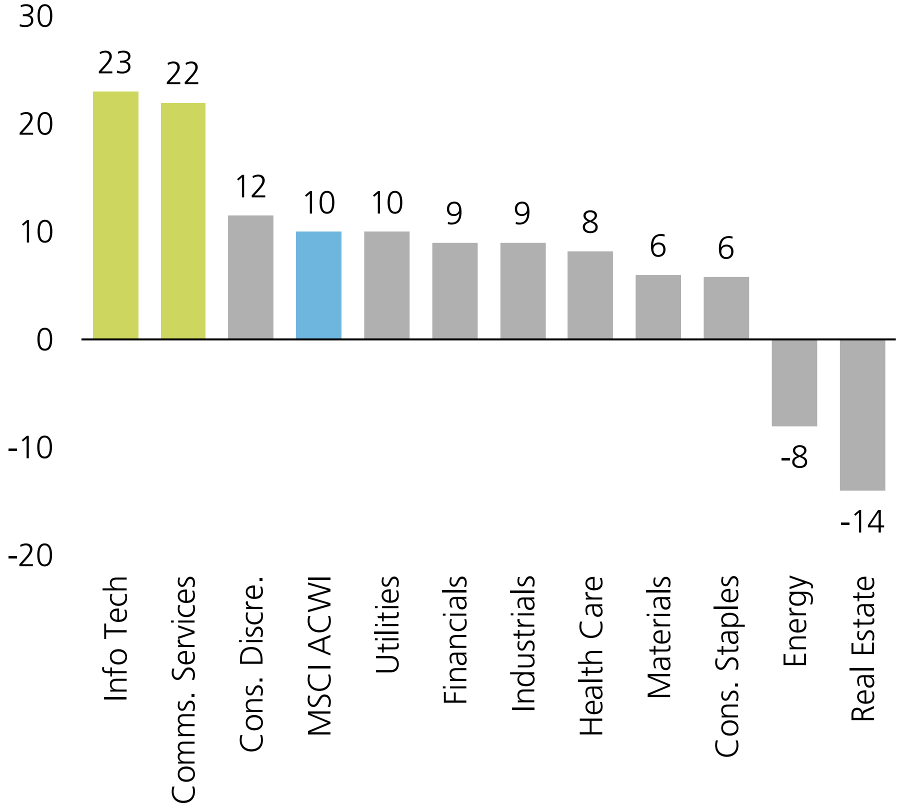
Health Care: Recently downgraded to neutral, in line with other defensive sectors. Significant underperformance in 2024 holds back better investor sentiment. Valuations are in line with historic trends, with opportunities lying in medical equipment & supplies and life sciences tools & services.

Industrials: Green shoots emerge after prolonged distress. Tailwinds such as improvement in manufacturing business sentiment, bottoming out in cyclical areas like transport, higher defense spending amid geopolitical tensions, and multi-year growth in infrastructure all supportive for the sector.

Sectors: Earnings growth expected to be robust through 2024

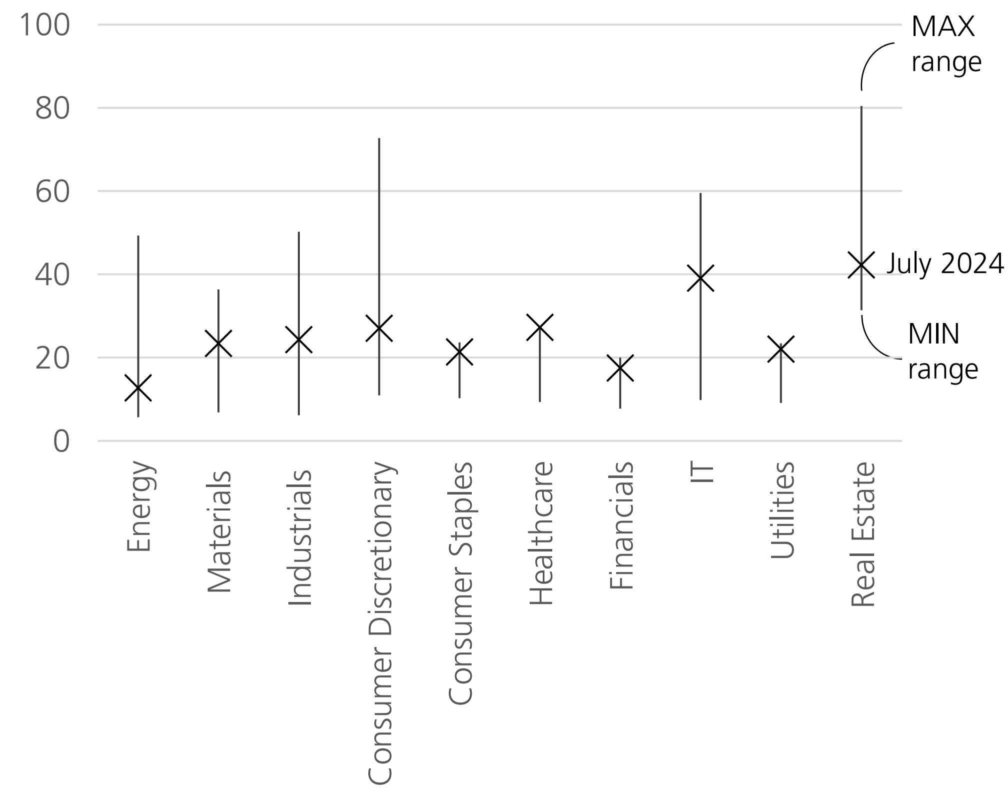
Earnings estimates generally robust for most sectors with tech leading the way; valuations expensive for defensive sectors like healthcare, staples, and utilities.

Tech outperformance justified by strongest earnings
Consensus estimates for 2024 earnings growth, y/y %



Source: Refinitiv, UBS, as of 25 July 2024

Historical P/E ratios for S&P GICS sectors
%



Note: History taken from 2004
Source: Bloomberg, UBS, as of 25 July 2024

UBS

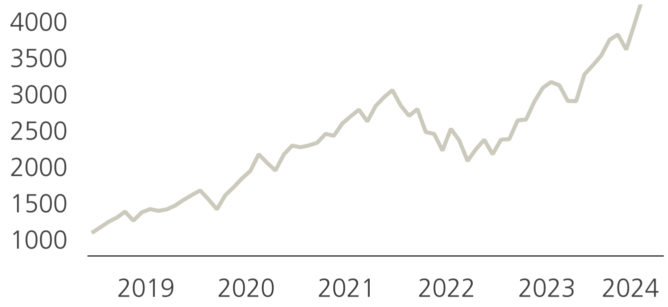
Sector Snapshot: Tech

Summary

- Investors will likely continue to gravitate to high-quality companies that have good secular growth, especially in a market environment with greater uncertainty and growth concerns.
- AI investment spending remains robust and key components will likely remain supply constrained into next year.
- The sector should benefit from a bottoming in PC and smartphone end markets.
- Valuations can be a concern since Tech is one of the most expensive sectors globally

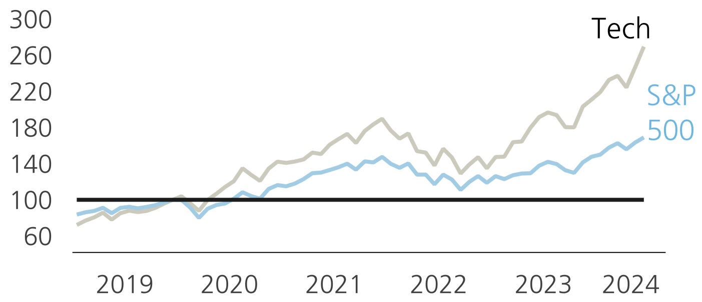
Market Performance

S&P Subsector performance
in tsds.



Source: Bloomberg, UBS, as of 25 July 2024

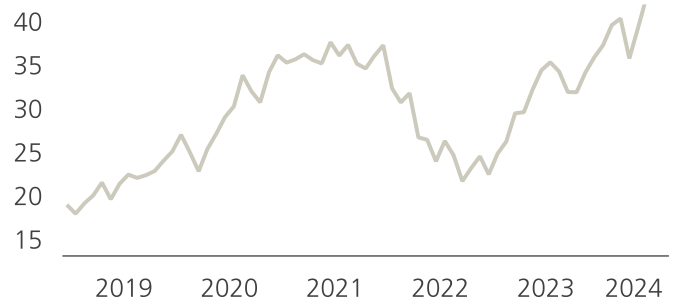
Relative Market Performance
Rebased 12/31/2019 =100



Source: Bloomberg, UBS, as of 25 July 2024

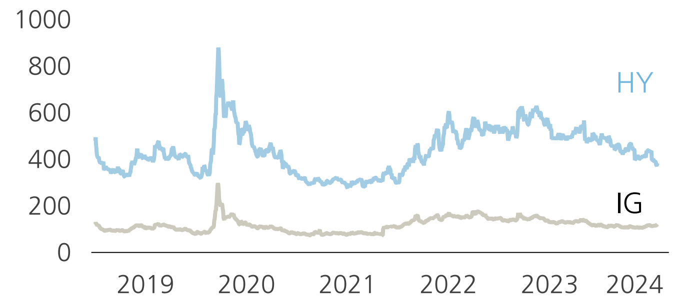
Valuations

P/E Ratio
%



Source: Bloomberg, UBS, as of 25 July 2024

Spreads
in bp



Source: Bloomberg, UBS, as of 25 July 2024

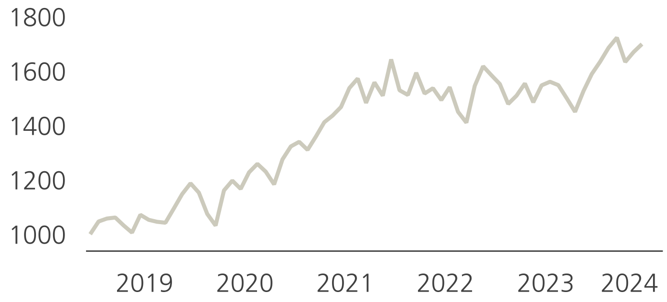
Sector Snapshot: Healthcare

Summary

- Healthcare continues to underperform the broader index, but sentiment should improve with improved revenue and earnings growth.
- The sector should benefit from an opening of capital markets as rates lower.
- Relative valuation compared to broader S&P index trends at long-term averages.
- Campaign season unlikely to be a major driver for healthcare sector.
- Within the sector, medical equipment & supplies and life science tools and services are most preferred based on secular market growth.

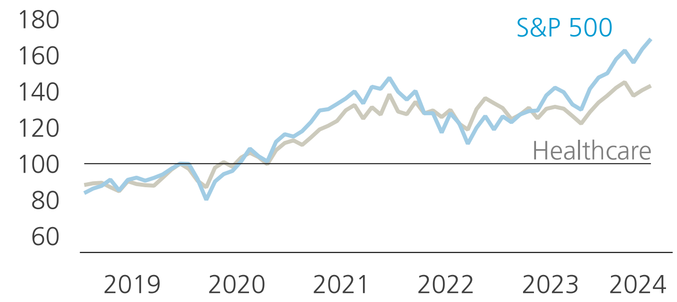
Market Performance

S&P Subsector performance
in tsds.



Source: Bloomberg, UBS, as of 25 July 2024

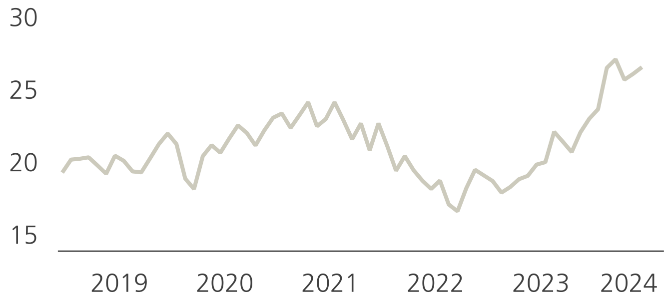
Relative Market Performance
Rebased 12/31/2019 =100



Source: Bloomberg, UBS, as of 25 July 2024

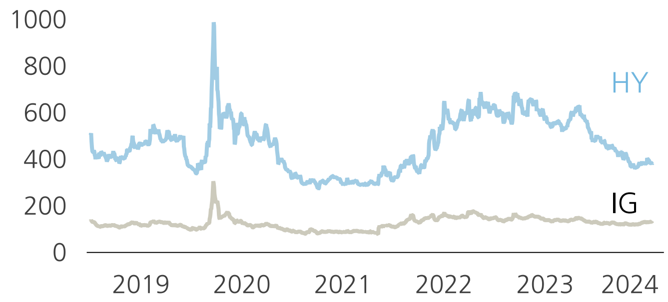
Valuations

P/E Ratio
%



Source: Bloomberg, UBS, as of 25 July 2024

Spread
bp



Source: Bloomberg, UBS, as of 25 July 2024

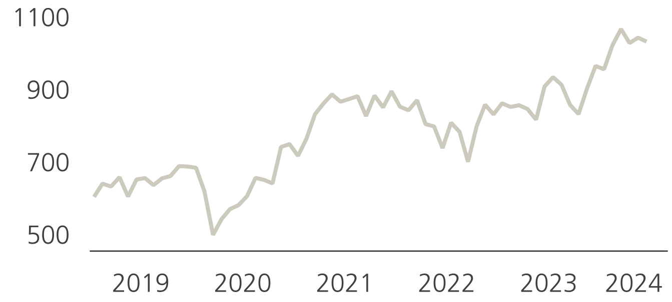
Sector Snapshot: Industrials

Summary

- Despite lagging broader index performance, tailwinds such as improvement in manufacturing business sentiment, bottoming out in cyclical areas like transport, and multi-year growth in infrastructure all supportive for the sector.
- Increased geopolitical uncertainty will likely spur further defense spending .

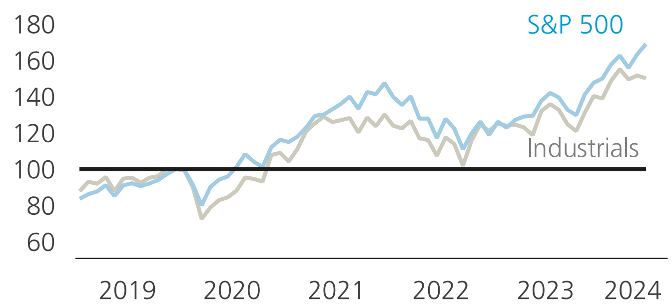
Market Performance

S&P Subsector performance
in tsds.



Source: Bloomberg, UBS, as of 25 July 2024

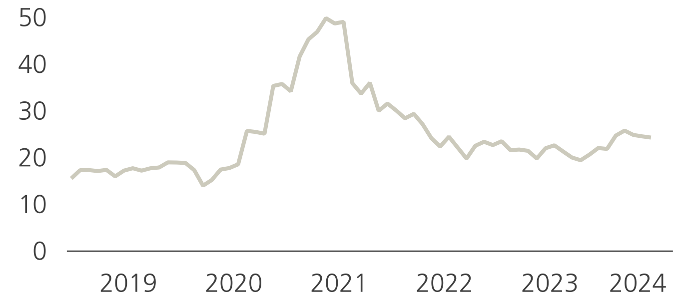
Relative Market Performance
Rebased 12/31/2019 =100



Source: Bloomberg, UBS, as of 25 July 2024

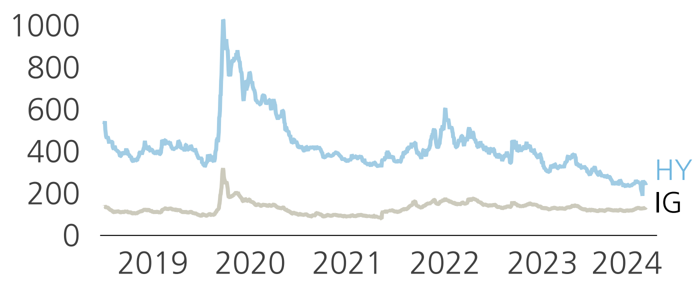
Valuations

P/E Ratio
%



Source: Bloomberg, UBS, as of 25 July 2024

Spreads
%



Source: Bloomberg, UBS, as of 25 July 2024

UBS

Section 7

Appendix

Risk information

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:

- Hedge Fund Risk: There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- Managed Futures: There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- Real Estate: There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- Private Equity: There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- Foreign Exchange/Currency Risk: Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

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