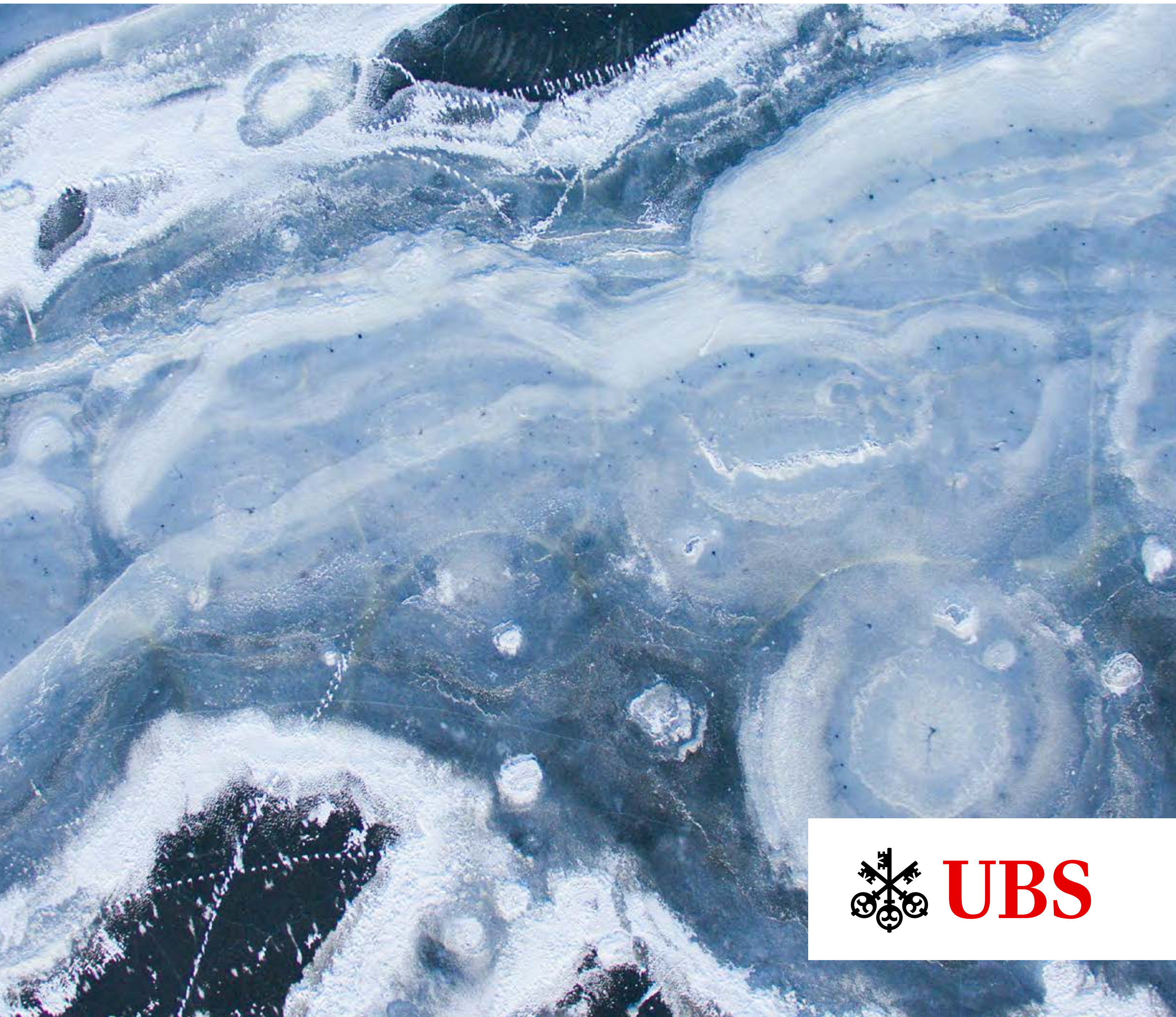
UBS House View

Investment Strategy Guide:
Geostationary orbit?

November 2024 | Chief Investment Office GWM | Investment research



In this report

November

CIO Monthly Livestream

7 November 2024 1:00 p.m. ET

- Tune in to the event here
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Dear reader

With the fall in full swing, we approach arguably the most awaited event for investors this year—the US presidential election. In the coming weeks, discussions on the macro outlook or the magnitude of future Fed cuts will likely take a backseat to the show in DC.

The latest polls suggest that the race between Vice President Harris and former President Trump is a dead heat. Accordingly, we recently updated our election probabilities to reflect a 50-50 tossup between the two candidates. With the outcome uncertain, we continue to urge investors not to make dramatic portfolio shifts ahead of the vote. And while we may be due for some volatility and knee-jerk reactions in the coming weeks, we don't believe US political developments will undermine the positive macro and market fundamentals.

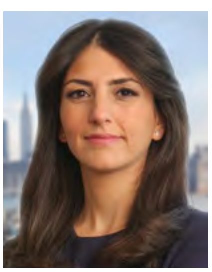
On the economic front, data continue to suggest that the economy is resilient. Indeed, rather than slowing down, it seems that domestic demand keeps humming along at a solid pace. Resilient growth and an easing Fed provide a healthy backdrop for stocks.

Additionally, 3Q earnings season has started on a positive note, with bank management teams highlighting that consumer spending remains healthy. Overall, we expect S&P 500 earnings-per-share growth to remain healthy, in the 5-7% range. As a result, we believe US equities look attractive and have increased our June 2025 S&P 500 target to 6,300, from 6,200 previously. We've also introduced a year-end 2025 a price target of 6,600. Our favorite sectors are information technology, communication services, consumer discretionary, financials, and utilities.

In fixed income, bond yields have crept up recently on the heels of the macro resiliency and a hotter-than-expected CPI report. But we still believe yields will trend lower into next year as the Fed continues to cut rates. In our view, it is a good idea to move out of cash into fixed income. Specifically, we still see opportunities in high-quality, medium-duration bonds, especially within Investment Grade corporates and Agency Mortgage Backed Securities.

As always, we encourage you to reach out to your UBS financial advisor with questions on how our views fit in with your goals and portfolio.

Solita Marcelli



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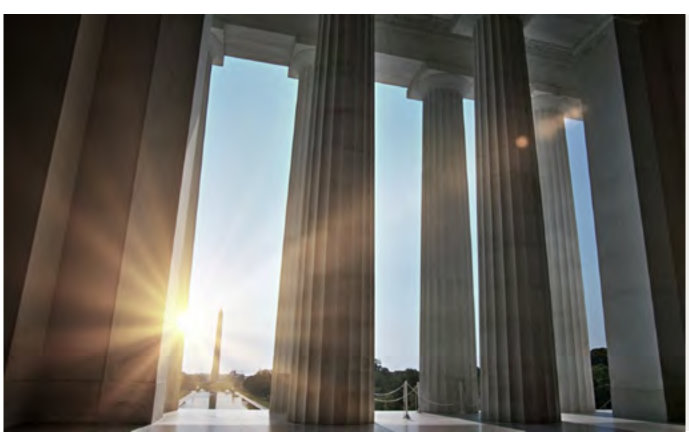

ElectionWatch 2024

UBS Road to the Election

CIO launched a weekly video series, "UBS Road to the Election." New episodes air every Thursday at 4:30 p.m. ET. For additional election-related content, we encourage you to visit the ubs.com/electionwatch.

Geostationary orbit?

No landing?

Recent US data point toward a "no landing" scenario, in which inflation is close to the Fed's target, but growth remains at or above trend estimates.

Tight election race

With less than three weeks until the US presidential election, the outcome remains too close to call. We recommend investors remain invested while hedging specific election outcome risks.

China stimulus

China has announced fiscal stimulus plans, but the size of the package is unknown. A more explicit commitment to multi-year stimulus is needed to break the debt-deflation cycle.

Asset allocation

Within equities we upgrade US and global equities (MSCI ACWI) to Attractive from Neutral. We view gold as Attractive and the US dollar as Unattractive.

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Our views, live with Q&A
The next CIO global monthly livestream will take place on 22 October. Join here.

In 2022, the Federal Reserve began what would become the fastest set of rate hikes since the 1980s as it tackled a US economy with strong growth and inflation at four-decade highs.

I likened the situation to a spaceship returning from orbit and laid out two potential paths. The more favorable "soft landing" path would see inflation fall rapidly, while growth dipped moderately below trend. The more challenging "hard landing" would see inflation stay elevated, while growth slowed sharply, risking recession.

The debate over whether the Fed could engineer a soft landing or trigger a recession has preoccupied investors ever since. But recent data mean we are taking a hard look at an alternative "no landing" scenario, in which inflation is close to the Fed's target, but growth remains at or above previous trend estimates.

In this letter, we review the latest US data on inflation, the labor market, and the recent revisions to the GDP print and what these imply. The bottom line is that the improved macro outlook increases our degree of certainty about our positive view of equities. With the US presidential election imminent, I look at the risks that it could pose to this view. And we also look at China, as it embarks on large-scale stimulus to address its challenges.

On the back of this more positive outlook, we have upgraded US equities to Attractive from Neutral and have raised our June 2025 S&P 500 target to 6,300 and introduced a target of 6,600 for December 2025. We also upgrade global equities (MSCI All Country World Index) to Attractive from Neutral. In fixed income, we retain an Attractive view of investment grade bonds. We also view gold as Attractive and the US dollar as Unattractive.

Resilient labor market data and upward revisions to GDP growth point toward a "no landing" scenario.

US economy: No landing?

What's happening in the US economy?

Recent US macroeconomic data suggest the economy is moving toward a benign growth (or "no landing") scenario.

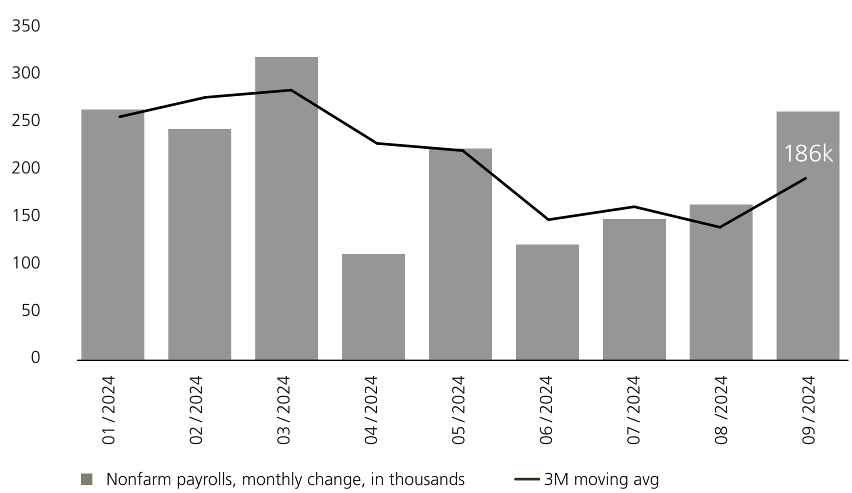
First, the labor market is more resilient than previously thought. Nonfarm payrolls grew by 254,000 in September, well above the consensus forecast of 150,000, while the prior two months were revised higher by 72,000. This lifted the three-month average payroll gain to 186,000, healthy enough to absorb the growth in labor supply. In addition, JOLTS job openings increased in August, indicating healthy demand for labor.

Second, the economy is stronger than expected. Recent annual revisions to the last five years' National Economic Accounts by the Bureau of Economic Analysis show that GDP growth has averaged 2.5% p.a. since 2019. Income growth was revised much higher, and household spending has been growing in line with income (with both growing at around 3.0% in real terms). The savings rate of 4.8% is slightly lower than the 10-year average prior to the pandemic (6.2%), but looks sustainable given the strength of household balance sheets. The unemployment rate remains below the Fed's longer-run projection (4.05% versus 4.20%).

Figure 1

The average payroll gain in recent months is healthy enough to absorb the growth in labor supply

Nonfarm payrolls, monthly change, in thousands, three-month moving average



Source: Bloomberg, UBS, as of October 2024

The medium-term trend US growth rate may be above the Fed's 1.8% longer-run projection.

Third, month-to-month US inflation data remain noisy. In September, core CPI rose by 0.3% for the second consecutive month, driven by services ex shelter inflation. But the broad disinflationary trend remains intact in the US. The most recent reading of the personal consumption expenditures price index (PCE), the Fed's preferred measure of inflation, showed annual inflation slowing to the lowest level since February 2021.

Taken together, we think the data suggest that the economic expansion appears sustainable, with limited risk of a near-term recession. The data also indicate the medium-term trend growth rate is well above the Fed's 1.8% longer-run projection, helping to explain why inflation has been able to fall close to the Fed's target even while growth has remained robust.

What does this mean for the Federal Reserve?

We continue to expect a further 50 basis points of rate cuts in 2024, and a further 100bps of cuts in 2025.

We continue to expect a further 50 basis points of rate cuts in 2024, and a further 100bps of cuts in 2025.

While recent labor market data have been stronger than expected, a single good payrolls report isn't a sufficient reason for the Fed to skip a cut at the next two meetings, in our view. Labor market concerns were one reason the Fed started with a 50bp cut, so while the latest data should have come as a relief, we think the Fed will still want to ease, even if at a slower pace. Similarly, while stronger inflation data in September increase the risk that the Fed might skip a rate cut at one of this year's remaining meetings if the data were to remain strong, it would require more persistent bad news on inflation to prompt an extended pause.

Additionally, the fed funds rate (currently 4.75%) remains well above the Fed's estimate of neutral (2.9%), which implies Fed officials believe policy remains restrictive. And while data have been encouraging, it has not been so strong to suggest that actively restrictive policy is appropriate.

Beyond this year, the rate path will be determined by how the economy performs and how comfortable the Fed is with core personal consumption expenditures (PCE) inflation above 2%. We think inflation will be low enough for the Fed to feel confident moving toward a more neutral stance, but we don't expect policymakers to rush rate cuts. We continue to forecast a further 100bps of easing in 2025, which would bring the Fed funds rate to 3.25-3.50%, in line with our estimate of the neutral rate.

We think a "no landing" scenario is positive for US and global equities.

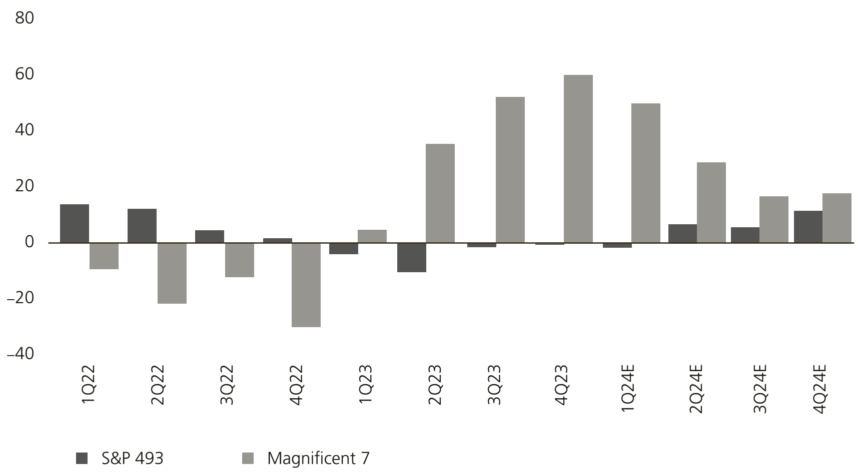
What does this mean for investors?

We think a "no landing" scenario is positive for US and global equities. With the economy more resilient, the risk of the Fed keeping rates too high for too long has diminished. Of course, there is a risk that inflation will reaccelerate, but with signs that the long-run trend growth rate may be higher than previously estimated, inflationary risks may also be lower than previously expected.

Figure 2

Earnings growth is solid in tech and beyond

Magnificent 7 stocks vs. S&P 500 ex-Mag 7 earnings growth, y/y, in % including consensus estimates for 2024



Source: Bloomberg, Factset, as of October 2024

Meanwhile, US corporate earnings remain solid—we expect 11% S&P 500 earnings per share growth in 2024 and 8% in 2025—and our confidence in this outcome is strengthened by the better macro outlook. Within the US, we particularly like the IT, financials, and utilities sectors, as well as stocks exposed to reshoring and infrastructure. We target 6,600 on the S&P 500 by end 2025, implying 13-14% total returns from current levels.

With less than three weeks until the US presidential election, the outcome remains too close to call.

US election: more volatility, but unlikely to derail positive equity fundamentals

With less than three weeks until the US presidential election, the outcome remains too close to call. Neither party holds a clear advantage in any of the key swing states that will decide the outcome.

What should investors do today to prepare?

Our first and most important takeaway is to remember that portfolio management is best treated as an apolitical exercise. Investors should not make dramatic changes based on expected election outcomes, and the election needs to be put in the context of the other fundamental factors that we believe are more important in determining the likely path of the S&P 500.

A well-constructed portfolio management plan should be able to withstand the market volatility surrounding a close election.

The election is taking place against a backdrop of Fed rate cuts, US economic momentum, and supportive secular trends like AI. A well-constructed portfolio management plan should be able to withstand the market volatility surrounding a close election, and we think that reducing equity exposure in the wake of a "disappointing" election outcome is likely to be counterproductive over the longer term.

Our second takeaway is that while the candidates' policy platforms differ greatly, we would caution against kneejerk or simplistic assumptions of equity market outcomes based on individual policies. The potential implications for the equity market will need to be viewed in the context of what can actually be implemented, and potential policy sequencing.

For example, we believe the kneejerk market reaction to a Trump victory may be positive, as the risk of tax increases or greater regulation gets priced out. However, we also think markets would soon move to consider potential tariff and deficit risks, which could temper any rally.

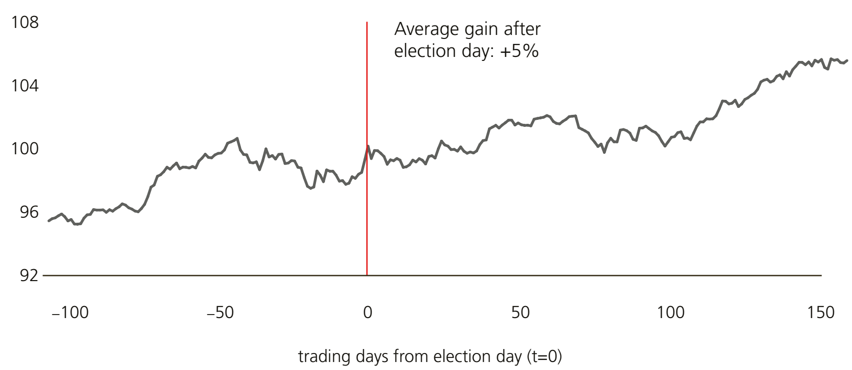
A divided Congress would hinder implementation of campaign policy proposals.

Cutting corporate taxes would likely only be possible if the Republicans control both houses of Congress (35% probability, in our view), and may still be difficult if the Republican majority is slim and fiscal conservatives balk at the estimated USD 15tr impact on the debt position if all of Trump's campaign policy proposals were enacted. Furthermore, even if corporate tax cuts were passed, they may only be introduced after trade tariffs come into force, which could have more negative macro and equity market implications.

Figure 3

US equities tend to rise into presidential elections and thereafter

S&P 500 performance into US presidential election and thereafter, based on trading days since 1928 (for election years)



Source: Bloomberg, UBS, as of October 2024

Deficit concerns may surface and impact long-term borrowing costs.

Deficit concerns may also surface. We estimate that extending personal tax cuts would cost USD 3-4tr, and the US budget deficit and debt position is already in a worse condition than in 2016. This could drive higher long-term borrowing costs, and concerns about the potential impact of a higher Treasury yield on equity markets.

Equally, while we think markets may initially show concern about some of the tax, antitrust, and regulatory aspects of Kamala Harris' policy platform, many are unlikely to be passed. The odds of her winning the presidency alongside control of both the House and Senate remains a remote outlier, in our view (5%), and so legislative efforts are most likely to be focused on making personal tax cuts permanent for Americans earning less than USD 400,000 per year.

As such, perceptions that a Democratic platform with higher taxation would be negative for equities need to be seen against a backdrop of probable policy paralysis.

It's possible that the election outcome is not known for several weeks after the ballot closes on 5 November.

Finally, it's worth remembering there is a possibility that the outcome is not known for several weeks after the ballot closes on 5 November. The prospect of recounts and legal contests means that the winner might not be known before 11 December, the deadline for states to declare their electoral college votes. And even that date might not fully draw a line under the outcome if the result is still undecided or contested. For example, if no candidate receives 270 electoral college votes, the presidential election would move to the House of Representatives, where each state's delegation is allowed a single vote. Investors deferring investment plans in anticipation of the election result therefore need to factor in the potential risk and cost of a potentially long wait.

We recommend investors remain invested while hedging risks if they are particularly concerned about election outcomes. For example, an investor looking to shield a portfolio from short-term fluctuations in value can pursue a capital preservation strategy that locks in gains now or limits the magnitude of a potential loss. Structured notes are another alternative that can preserve existing gains in return for a willingness to forego future growth for some period.

Election scenario	Probability
Blue sweep l Harris with a unified Democratic Congress	5%
Harris with a divided Congress l Republican Senate and Democratic House	45%
Red sweep l Trump with a unified Republican Congress	35%
Trump with a divided Congress l Republican Senate and Democratic House	15%

China, the world's second-largest economy, faces significant structural economic challenges.

China at the crossroads

What's happening in the Chinese economy?

China, the world's second-largest economy, faces significant structural economic challenges stemming from a combination of an aging population, high debt, and a high degree of reliance on investment to drive growth. As the population ages and the workforce shrinks, the traditional model of rapid industrialization and urbanization is becoming less sustainable. High levels of corporate and local government debt pose risks to financial stability. And the real estate sector, a major driver of investment and growth, is still trapped in the downward spiral that started in 2021.

We see two potential paths forward. The first path mirrors Japan's experience in the 1990s, when its economic boom was followed by a prolonged period of stagnation. The similarities are striking: Both countries experienced rapid growth driven by exports and investment, accompanied by asset bubbles and high debt levels. Japan's subsequent "lost decade" was characterized by deflation and low growth, with a moderate policy response insufficient to break the cycle.

China could use policy stimulus to address the risk of "Japanification."

In the second path, China uses policy measures to avoid the outcome faced by Japan. China's top leaders, aware of the "Japanification" risk, have already vowed to step up "necessary fiscal spending" to meet the country's economic growth target. China's central bank has announced stronger-than-expected monetary stimulus, including cuts to interest rates and reserve requirement ratios, and some easing of mortgage rules. Fiscal stimulus measures have also been announced. But the question remains, will it be enough?

Figure 4

A commitment to ongoing stimulus is crucial to sustain market recovery

MSCI China, historical trend since the end of 2020

Bloomberg, UBS, as of October 2024

To date, proposed support plans lack a concrete numerical fiscal target.

What should we expect from Chinese fiscal policy?

On 12 October, China's Ministry of Finance (MoF) confirmed plans to support indebted local governments, recapitalize large state banks, and stabilize the property market. While no concrete numerical fiscal stimulus target was set, the MoF did reinforce China's new accommodative policy tone.

- Another CNY 400bn in local government bond (LGB) issuance was announced, using the headroom from the current LGB debt ceiling to improve fiscal capacity.
- Special local government bond issuance will be allowed to fund land acquisition and project redevelopment and buy back "complete but unsold" inventory for use as affordable social housing.
- Finance Minister Lan Fo'an indicated local government debt swap limits could be raised by a "relatively large amount" in a one-off increase and on a scale that outstrips increases in prior years.
- The finance minister also said he sees scope for China to increase both its deficit and debt, and confirmed more new countercyclical measures were under consideration.
- Special Chinese government bonds will also be issued to help six large state banks rebuild their core tier-one capital.

Efforts to accelerate the deployment of unused funds are positive. Easing local government debt burdens will enable them to continue providing public services, indirectly supporting consumption. Buying back unsold property inventories should accelerate the bottoming out of the property market. But more details are needed on how this would be achieved in practical terms. Similarly, hints at further large-scale implicit debt restructuring of local governments need to be followed up with more concrete announcements.

What does this mean for investors?

A more explicit commitment to a multi-year stimulus program is needed.

Near term, investor focus will be on the potential size of the additional stimulus package. While no specifics have been unveiled yet, we think up to CNY 4-5tr could be announced by year-end, which could primarily involve a local debt swap quota (up to CNY 2-4tr per year), bank capital supplement (about CNY 1tr), and some social welfare support (CNY 500-1tr) among others. If so, this is likely to occur after the National People's Congress meeting at the end of October or early November. If fresh fiscal stimulus is announced and implemented immediately, we expect mid-teens percentage gains for Chinese equities over the next twelve months. But gains are likely to be slower, more volatile, and more fundamentally driven than the recent rally from the September lows.

For the medium term, a more explicit commitment to a multi-year stimulus program is needed to decisively break the debt-deflation cycle. More aggressive fiscal stimulus could be announced for 2025 and beyond. We estimate a wide-ranging stimulus package of at least CNY 10tr is required, with a focus on resolving the economy's weakest links by restructuring local government debt (similar to or larger than the 2015-18 program), digesting property inventory, and improving social welfare. If such a package materializes, we think it should be enough to anchor China's GDP growth at around 5% annually through 2027.

While there is potential for a policy-driven rally in Chinese equity markets, we think the degree of certainty around this, or the longer-term path, is low at this stage. If China is preparing policies that have a chance of propelling the country out of a debt-deflation cycle, we believe that it will still be possible to enter the market profitably at a later stage, when there is greater clarity. In the meantime, we prefer to tilt our portfolios more toward areas where we have greater conviction about the future path, including US equities given our positive views on the economy and the potential of AI.

Overall, we maintain a Neutral view on China equities. For investors with large allocations to China, these risks illustrate the need to consider diversification, and we do see opportunity in Asia Pacific more broadly, including in India and Taiwan. Within China, we recommend a barbell strategy that tilts exposure to select quality internet and consumer names with resilient growth prospects, clear shareholder return policies, and attractive valuations. Given lingering risks, we think that investors should also maintain some allocation to defensive high-yielders in sectors heavy on state-owned enterprises like financials, utilities, energy, and telecoms.

Investment ideas

An improving US macro outlook set against a global rate-cutting cycle is a positive environment for both stocks and bonds

Equities. We believe major world stock markets can gain in the near term from falling rates, positive global growth, and China's stimulus efforts. We have upgraded global equities (MSCI All Country World Index) and expected returns of around 13% by December 2025. As discussed above, the US is among our preferred markets and we target 6,600 on the S&P 500 by end-2025. We also like European small- and mid-caps thanks to falling rates and 20-year low valuations relative to large-cap stocks.

We believe AI will remain a key driver of equity market returns for several years. Investors lacking exposure should plan to use potential periods of volatility in the technology sector to build up long-term positions. Within tech, we see the best opportunities in AI-linked semiconductors, US megacaps, and China's internet leaders. Those with high existing or concentrated technology exposure can consider capital preservation strategies.

Fixed income. We continue to like investment grade (IG) corporate credit and recommend that investors shift excess cash into quality fixed income as the global rate-cutting cycle advances. Looking ahead, we continue to see IG returns in the high-single-digit range over the coming 12 months, supported primarily by elevated yields and low spread-volatility. Investors can also consider diversified fixed income strategies—including selective exposure to higher-yielding parts of the asset class—as a way of further enhancing portfolio income.

Currencies. We view the US dollar as Unattractive. While US growth has beaten expectations, markets look set to anticipate slower growth in 2025 and narrowing interest rate differentials thanks to sharper US rate reductions than other G10 currencies. US fiscal concerns may also resurface in the early part of next year. These factors are all likely to weigh on the USD. Meanwhile, troughing Eurozone activity, spillover effects from Chinese stimulus, and the potential for a more risk-on tone after the US election could support G10 currencies including the AUD, EUR, and GBP.

Commodities. We retain a positive outlook for commodities, supported by interest rate cuts, a recovery in global industrial activity, and commodity-specific supply-side factors that should combine to push commodities higher.

In gold, the demand outlook is positive, in our view, supported by central bank purchases, returning appetite for gold exchange trade funds as rates fall, and safe haven demand on US election and geopolitical uncertainties. In our base case, we forecast gold rising to USD 2,850/oz by mid 2025 and continue to like the yellow metal as a hedge within portfolios. In oil, we expect modest supply growth to keep the market in deficit. The International Energy Agency estimates that the oil output rose just 0.3% in the first half of 2024. Demand growth continues to outstrip supply and energy demand looks likely to be bolstered into 2025 by solid economic growth as central banks cut rates. We forecast Brent crude to trade at USD 87/bbl in June 2025.

Mark Haefele
Chief Investment Officer
Global Wealth Management

Global forecasts

Economy

Real GDP y/y, in %

	2023	2024E	2025E
US	2.9	2.6	1.6
Canada	1.1	1.1	1.3
Japan	1.7	0.0	1.1
Eurozone	0.5	0.7	0.9
UK	0.1	1.1	1.5
Switzerland	0.7	1.4	1.3
Australia	2.0	1.2	2.0
China	5.2	4.6	4.0
India	8.2	6.8	6.8
EM	4.7	4.3	4.0
World	3.4	3.1	2.9

Inflation (average CPI), y/y, in %

	2023	2024E	2025E
US	4.1	2.9	2.4
Canada	3.9	2.6	2.2
Japan	3.3	2.5	1.8
Eurozone	5.5	2.4	2.1
UK	7.4	2.5	2.3
Switzerland	2.1	1.1	0.7
Australia	5.6	3.3	2.7
China	0.2	0.4	0.5
India	5.4	4.5	4.3
EM	7.4	8.5	4.3
World	6.2	5.9	3.4

Source: Bloomberg, UBS, as of 17 October 2024. Latest forecasts available in the *Global forecasts* publication, published weekly.

Asset classes

	Spot	June-25
Equities		
S&P 500	5,842	6,300
Eurostoxx 50	4,909	5,250
FTSE 100	8,329	8,600
SMI	12,193	12,800
MSCI Asia ex-Japan	744	837
MSCI China	66	76
Topix	2,691	2,900
MSCI EM	1144	1,250
MSCI AC World	1028	1,110
Currencies		
EURUSD	1.09	1.16
GBPUSD	1.30	1.38
USDCHF	0.86	0.80
USDCAD	1.38	1.34
AUDUSD	0.67	0.74
EURCHF	0.94	0.93
NZDUSD	0.61	0.59
USDJPY	150	140
USDCNY	7.12	7.00

	Spot	June-25
2-year yields, in %		
USD 2y Treas.	3.94	3.25
EUR 2y Bund	2.17	2.00
GBP 2y Gilts	4.02	3.25
CHF 2y Eidg.	0.37	0.50
JPY 2y JGB	0.43	0.40
10-year yields, in %		
USD 10y Treas.	4.01	3.50
EUR 10y Bund.	2.18	2.25
GBP 10y Gilts	4.06	3.50
CHF 10y Eidg.	0.41	0.50
JPY 10y JGB	0.96	1.10
Commodities		
Brent crude, USD/bbl	74	87
Gold, USD/oz	2,674	2,850

Source: Bloomberg, UBS, as of 17 October 2024. Latest forecasts available in the *Global forecasts* publication, published weekly.

Messages in Focus

The Messages in Focus (MIFs) are a set of high-conviction investment narratives from CIO. These narratives combine our top views across asset class preferences, short-, medium-, and longer-term themes, and alternatives.

MIFs	Elevator pitch	Investment ideas
Seize the AI opportunity	We expect AI to be a key driver of equity market returns for years. Recent volatility in the technology sector presents an opportunity for investors to build up sufficient long-term exposure to AI at more favorable prices. We currently see the best opportunities in the enabling layer of the AI value chain, which is benefiting from significant investment in AI capabilities, and in vertically integrated megacaps, which are well positioned across the value chain.	• AI-linked semiconductors • US AI tactical preferences • Megacap tech
Prepare for the US election	It is important to remember the principle that investors should vote at the ballot box and not with their portfolio. However, the election will affect markets and government policy, and investors should consider the potential risks to their wealth. Although stocks typically rise both before and after US elections, hedging strategies can help investors manage potential downside risks that could materialize if markets fear changes to trade, foreign, or tax policy. We also believe gold can act as an effective hedge against a potential increase in fears about geopolitical polarization, inflation, or deficits.	• Managing equity sectors • Election-related equity baskets • Defensive structured investments • Gold • US Reshoring beneficiaries
Position for lower rates	The Fed has cut rates for the first time this cycle, signaling that cash yields are set to decline. Investors should transition cash and money market holdings into high-quality corporate and government bonds, as well as beneficiaries of lower rates in equities. We recommend a balanced approach diversified across quality bonds, income-oriented equities, and structured solutions as the best way to position for long-term financial goals.	• Manage liquidity holdings (bond ladders, structured solutions) • Quality bonds (incl. IG, Agency MBS, munis, sustainable) • Diversified fixed income strategies • Income-oriented equity strategies
Opportunities in currencies and commodities	We expect the US dollar to weaken over the medium term as US interest rates are cut and as fears rise about the US fiscal deficit. We recommend reducing dollar holdings. With the Swiss National Bank closer to the end of its interest-rate-cutting cycle, we expect the Swiss franc to appreciate, a trend which could be reinforced by geopolitical concerns. Lower interest rates should be supportive for a broad range of commodities, including gold, silver, oil, and copper.	• Reduce US dollar holdings • CHF • Gold, silver, oil, copper, incl. select miners • Active commodity strategies

MIFs	Elevator pitch	Investment ideas
More to go in equities	We expect global stock markets to benefit from falling rates, positive earnings growth, and potential Chinese stimulus. AI innovations continue to drive growth, and we like US equities as beneficia-ries, where we target 6,600 on the S&P 500 by year-end 2025. We favor small and mid caps in Europe and diversified exposure in Asia, partic-ularly Taiwan and India.	• US equities (particularly IT, financials, utilities) • Asia ex-Japan (incl. India & Taiwan) • European small and mid caps
Diversify with alternatives	Adding exposure to alternative assets in a well-diversified portfolio can help investors navigate a shifting backdrop. Private equity and infrastructure can help investors diversify exposure to public equity markets. Private credit can offer an attractive alternative source of portfolio income, while hedge funds with low correlations to traditional assets can help reduce overall portfolio volatility.	• Infrastructure • Hedge funds (equity long-short, macro, and multi-strategy) • Private equity (secondaries, value-oriented buyout, and thematic growth) and private credit

Asset allocation implementation

The UBS House View is our current assessment of the global economy and financial markets, with corresponding investment recommendations. The asset allocation implementation of this view can vary based on the portfolio types and objectives.

Jason Draho, PhD, Head of Asset Allocation Americas; **Michael Gourd,** Asset Allocation Strategist; **Danny Kessler,** Asset Allocation Strategist

Our tactical asset class preferences

Attractive

- **New** Global equity
- **New** US equity
- **New** US Large cap equity
- **New** US growth equity
- **New** US value equity
- US Agency MBS
- US investment grade corporate bonds
- Oil
- Gold

Implementation guidance

The Fed's decision to kick off their easing cycle in September with a 50bp cut was followed in quick succession by strong US economic data, further supporting our expectation for a risk-positive "landing" scenario. Payrolls grew well above consensus expectations in September, with revisions from prior months bringing the three-month average to 186,000, while JOLTS job openings rose. Additionally, September retail sales show that consumer spending remains strong. With this backdrop of strong labor markets supporting ongoing consumption, there is a strong possibility that the economy continues to grow at a 5% nominal rate versus the 4% of the 2010s.

With this strong economic backdrop and the Fed embarking on its rate-cutting cycle, we believe the macro environment is supportive for risk assets, and for equities in particular. This month we upgrade equities overall and US equities specifically to an Attractive outlook. We increase our June 2025 price target for the S&P 500 to 6,300 from 6,200 and introduce a December 2025 target of 6,600. These upgrades indicate our belief that there is **more to go in equities**. Within the US, we see the largest growth drivers tied to innovations in artificial intelligence. Outside the US, there are attractive opportunities in emerging markets—specifically in Taiwan and India—as well as attractive valuations among European mid- and small-cap names.

Within US equities, we remain Neutral on value versus growth and make no changes this month to our sector preferences. We maintain our Attractive view on financials, which should benefit from lower funding costs, cooling regulatory pressures, and a pickup in capital market activity. We think the communication services sector is Attractive owing to its solid digital advertising trends and investor enthusiasm around AI, while consumer discretionary should benefit from Fed rate cuts, which should help drive improvement in housing and automotive segments. Within a portfolio context we also like utilities, as they are defensive and should do well in the event of weaker economic activity.

Additionally, we maintain our positive outlook on US technology, even as the sector has grown significantly over the past year. Specifically, we are recommending investors **seize the AI opportunity** as we expect AI to be a key driver of equity market returns over the coming years. Given such, it is important that investors hold sufficient long-term exposure to the theme. We currently see the best opportunities in the enabling layer of the value chain, which is benefitting from significant investments. We also like vertically integrated megacaps, which are well positioned across the value chain.

With the Fed having made its first cut and central banks around the world undertaking rate-cutting cycles, we recommend investors **position for lower rates**. As cash and money market funds begin offering lower returns as rates fall, investors need to manage their liquidity more actively. We particularly like high-quality bonds that still offer relatively attractive yields and can perform well in the risk scenario of growth slowing rapidly. Specifically, we see good value in investment grade corporate bonds, Agency MBS, municipals, and sustainable bonds.

Looking beyond public markets, we continue to advise investors to **diversify with alternatives**. Including alternatives in a well-diversified portfolio can help investors navigate a shifting interest rate, technological, and political backdrop. Hedge fund strategies that offer low correlations to traditional asset classes can help reduce overall portfolio volatility. Private equity offers investors the opportunity to invest in growing companies, including those exposed to AI, that are not listed on public markets.

Lastly, as we look ahead, we recommend investors **prepare for US elections**. There is a strong likelihood that changes to election polling and the eventual results in the US could prompt more volatility across markets. For investors concerned about protecting their portfolio from election-related volatility, we recommend hedging strategies like holding gold or purchasing structured solutions with capital preservation features. We do not recommend selling out-of-risk assets ahead of elections and waiting for the vote outcome before returning to the market. Our research suggests this is a large negative contributor toward reaching one's financial goals. Rather, we recommend investors express their political preferences at the ballot box, instead of in their portfolios.

Our preferences

	Unattractive	Neutral	Attractive
Cash		=	
Fixed Income		=	
US Gov't FI		=	
US Gov't Short		=	
US Gov't Intermediate		=	
US Gov't Long		=	
TIPS		=	
US Agency MBS			+
US CMBS		=	
US Municipal		=	
US IG Corp FI			+
US HY Corp FI		=	
Senior Loans		=	
Preferreds		=	
EM Hard Currency FI		=	
EM Local Currency FI		=	
Commodities		=	
Gold			+
Oil			+

	Unattractive	Neutral	Attractive
Equity		= →	+
US Equity		= →	+
US Large Cap		= →	+
Comm Services			+
Cons Discretionary			+
Cons Staples		=	
Energy		=	
Financials			+
Health Care		=	
Industrials		=	
Info Technology			+
Materials		=	
Real Estate		=	
Utilities			+
US Growth Equity		= →	+
US Value Equity		= →	+
US Mid Cap		=	
US Small Cap		=	
Int'l Developed Markets		=	
Emerging Markets		=	

The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid, commonly known indexes, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

Attractive – We consider this asset class to be attractive. Consider opportunities in this asset class.
Neutral – We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive – We consider this asset class to be unattractive. Consider alternative opportunities.

Note: We have collapsed "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive" from the 5-tier rating system that is found in the *Equity Compass* into 3 tiers.

US economic outlook

We expect consumption-led growth, with Fed rate cuts helping to sustain the expansion.

Brian Rose, PhD, Senior US Economist

Overview

Until recently, one of our biggest concerns was that consumer spending was growing far faster than income, with the savings rate falling to historically low levels below 3%, suggesting that a pullback was inevitable at some point. However, the Bureau of Economic Analysis has made revisions to the data going back to 2019, including large upward revisions to household income. As shown in Figure 1, rather than trending down, the savings rate is now estimated to have been hovering near 5% over the past 18 months. That is still somewhat lower than normal, but justifiable given the huge increase in household wealth in recent years. Meanwhile, real disposable income has been climbing for two years, helped by rising wages (Figure 2) and slowing inflation (Figure 3). The revised data make the robust spending growth look sustainable and, in our view, downside risks for the economy now appear lower.

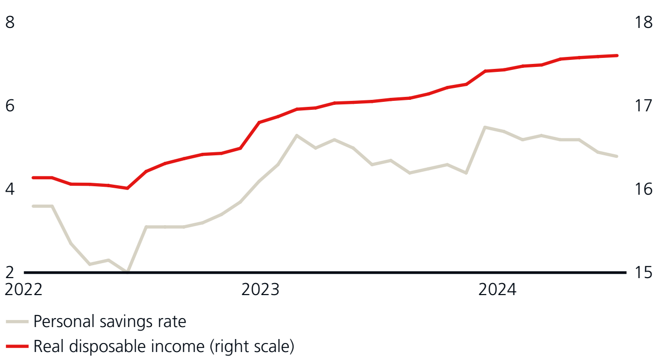
Growth

Recent data have included some significant surprises to the upside. In particular, the labor report for September showed stronger payroll growth, wages rising at a robust pace, and a lower unemployment rate. As shown in Figure 2, wage growth has slowed since the peak in 2022, but it is still stronger than at any point in the decade before the pandemic. Most of the key data for 3Q have been released, and the Atlanta Fed's GDPNow tracking estimate stands at 3.4%, with growth mainly driven by consumer spending. In contrast with the strength in the hard data, soft data from surveys of both businesses and consumers has been weaker. This perhaps reflects that larger businesses and wealthier households, which are fewer in number but have an outsized impact on aggregates like GDP, are experiencing better conditions than small businesses and lower-income households. With help from Fed rate cuts, we expect growth to continue at a good pace in the quarters ahead.

Figure 1

Consumer spending supported by rising income

Personal savings rate in % of disposable income, real disposable income in USD tr

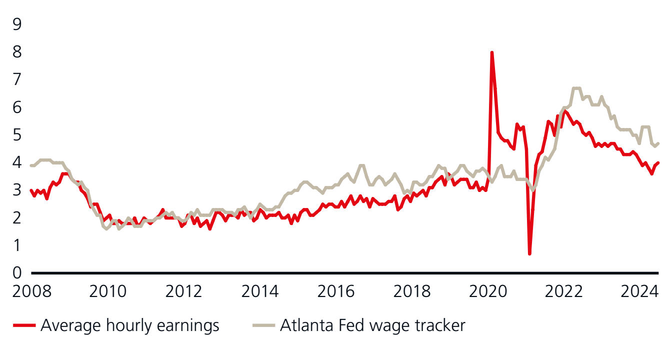


Source: Bloomberg, UBS as of 16 October 2024

Figure 2

Wage growth still relatively strong

Average hourly earnings and Atlanta Fed wage tracker, y/y change in %



Source: Bloomberg, UBS as of 16 October 2024

For our global economic forecasts, please see our report *Global forecasts*.

Read the report ›

Inflation

As shown in Figure 3, after spiking during the pandemic, inflation has gradually slowed to more normal levels over the past two years. Formally, the Fed targets 2% inflation for Personal Consumption Expenditures (PCE), although core PCE, which excludes food and energy prices, is generally considered a better measure of underlying inflation trends. PCE inflation slowed to 2.2% year over year in August, and based on other inflation data for September, we expect a further tick lower to 2.1%, helped by falling gasoline prices. Shelter remains the biggest driver of inflation and has taken longer to slow than we expected, but it does appear that the data have finally turned, which should help constrain overall inflation in the months ahead. Given the strength of wage growth, inflation could get stuck slightly above the Fed's target over the medium term, but AI-driven productivity growth offers hope for low inflation in the longer run.

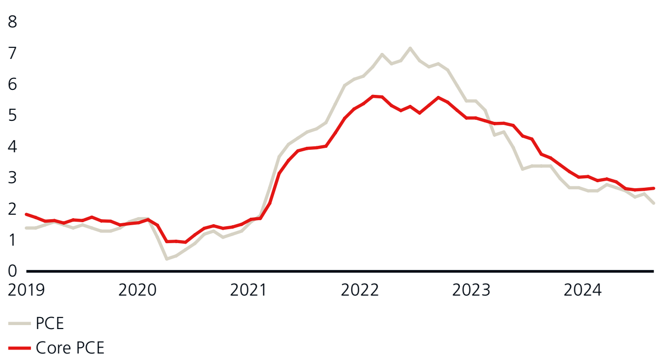
Policy

Downside risks in the labor market provided the Fed with a reason to start its rate-cutting cycle with a larger-than-normal 50-basis-point cut in September. The stronger data noted above makes it unlikely that there will be another 50bp cut. Our base case remains that the Fed will cut by 25bps at the two remaining meetings this year, then slow to a once-per-quarter pace in 2025. We do see some risk that the Fed will decide to skip a cut this year. The September dot plot showed nine of the 19 participants looking for less than 50 bps of additional cuts, and recent public comments suggest that some participants believe it will be appropriate to leave policy unchanged at the November meeting. As shown in Figure 4, markets are pricing in around 1.7 cuts by the December meeting, implying about a 30% chance of a skip this year. In our view, a skip would not change the big picture, which is that the Fed will be moving toward a neutral policy stance in 2025.

Figure 3

Inflation near the Fed's target

PCE and core PCE, year-over-year change in %

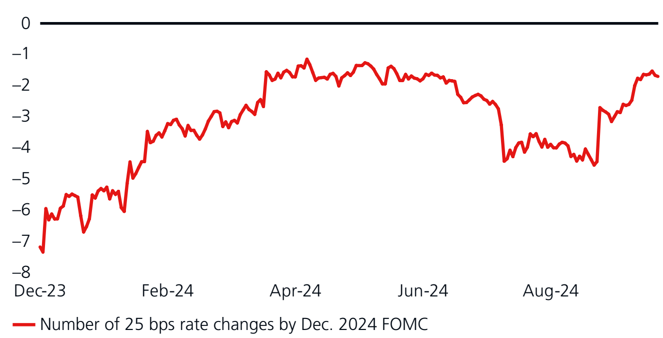


Source: Bloomberg, UBS as of 16 October 2024

Figure 4

Market pricing in some chance of Fed skip

Number of 25-basis-point rate changes by December 2024 FOMC



Source: Bloomberg, UBS as of 16 October 2024

Equities

We move global equities to Attractive from Neutral. Global equities are close to all-time highs, while volatility has increased. We still believe the backdrop is constructive, with healthy earnings growth, elevated AI investments, normalizing inflation, and the beginning of central bank easing cycles. We continue to believe that the global economy is heading toward a soft landing. We expect earnings to grow in the high single digits this year and next. Contribution should broaden, but tech sectors should remain the main engine of growth thanks to robust AI investments.

Eurozone

NEUTRAL

EURO STOXX 50 (index points, current: 4,909)	June 2025 target
House view	**5,250**
↗ Positive scenario	5,800
↘ Negative scenario	3,800

Note: All current values as of 17 Oct 2024

We are Neutral on the region. Tactical drivers remain supportive, with growth intact, inflation cooling, and rate cuts having started. But after the strong run, we expect only modest further gains. At a 12.7x forward price-to-earnings (P/E) multiple (MSCI EMU index), valuations are reasonable, in our view. However, the earnings recovery is taking time to materialize. We now forecast 0% earnings growth this year and 7% in 2025.

Emerging markets

NEUTRAL

MSCI EM (index points, current: 1,144)	June 2025 target
House view	**1,250**
↗ Positive scenario	1,350
↘ Negative scenario	880

Note: All current values as of 17 Oct 2024

The global environment for emerging market stocks is becoming more favorable. This is especially true if US economic growth remains resilient and China fulfills its policy promises. Against this backdrop, we believe there are numerous opportunities within emerging markets for investors in the coming months. We advise adding exposure to those with solid economic and earnings growth potential and reasonable valuations. We continue to favor ESG leaders for their exposure to high-quality growth sectors, ability to mitigate downside risks, and attractive valuations.

Japan

NEUTRAL

TOPIX (index points, current: 2,691)	June 2025 target
House view	**2,900**
↗ Positive scenario	3,300
↘ Negative scenario	2,200

Note: All current values as of 17 Oct 2024

We are Neutral on Japanese equities. Despite the yen's appreciation over the past three months, corporate earnings for the September quarter (2Q) should be relatively firm, supported by a still-weak yen year over year, domestic consumption recovery, and a resilient US economy. Japan's structural reforms remain intact. Likely catalysts in early 2025 include another round of wage growth during the spring wage negotiations (Shunto), supported by inflation. Historically, Japanese equities have tended to perform well during a Fed rate-cutting cycle if the US economy avoided a recession.

UK

NEUTRAL

FTSE 100 (index points, current: 8,329)	June 2025 target
House view	**8,600**
↗ Positive scenario	9,800
↘ Negative scenario	6,700

Note: All current values as of 17 Oct 2024

We are Neutral on UK equities. We believe the underlying macroeconomic backdrop remains supportive. Earnings and domestic GDP growth are recovering, the Bank of England has started to cut interest rates, the political backdrop is more stable, and valuations remain relatively attractive. In addition, the UK offers a combination of relatively high quality and defensive businesses that can prove to be resilient in periods of uncertainty, as we saw in July and August.

US equities

The S&P 500 has notched new all-time highs on the heels of the September Fed rate cut and a good start to earnings season. We expect the gains to continue in the coming months, driven by: (1) healthy earnings growth, (2) improving inflation, (3) Fed rate cuts, and (4) AI investment.

David Lefkowitz, CFA, Head of US Equities; **Nadia Lovell,** Senior US Equity Strategist; **Matt Tormey,** US Equity Strategist

US equities overview

ATTRACTIVE

US equities

We believe the environment remains constructive for US equities. The third-quarter earnings season has started on a positive note, with bank management teams highlighting that consumer spending remains healthy and consistent with normal economic growth. We continue to expect earnings growth to broaden out and look for 11% S&P 500 EPS growth this year and 8% growth in 2025. While the election outcome adds a layer of uncertainty, we don't think potential policy changes stemming from the election will significantly alter the environment. Valuations are high in absolute terms, but we think they are reasonable in light of the macro environment. With the Fed signaling that it wants to stay ahead of the curve to mitigate any recession, we recently nudged up our June 2025 S&P 500 price target from 6,200 to 6,300. We also introduced a December 2025 price target of 6,600.

US equities – sectors

Tech should benefit from AI investment and adoption, a pickup in key end markets, and its higher quality bias. Continued healthy digital advertising trends should support communication services, while Fed rate cuts are likely to drive a pick-up in housing and other segments within consumer discretionary. Financials are likely to benefit from lower funding costs and a pickup in activity. Utilities offer defensive exposure if growth falters as well as upside from AI power demand.

US equities – size

We have an Attractive view on large caps and Neutral views on midcaps and small caps. While small-cap valuations remain compelling, profit trends are lagging other size cohorts. Small caps have a high proportion of floating-rate debt, which should benefit from Fed rate cuts; however, without an acceleration in economic growth, profit growth may continue to lag.

US equities – style

We have an Attractive view on both large-cap value and growth stocks. Valuations for growth stocks are elevated, but profit trends continue to be favorable. Our positive views on the financials and utilities sectors suggest upside for value stocks.

S&P 500 (index points, current: 5,841)	June 2025 target
House view	**6,300**
↗ Positive scenario	6,700
↘ Negative scenario	4,500

Note: All current values as of 17 Oct 2024

Figure 1

Remain selective in our sector positioning

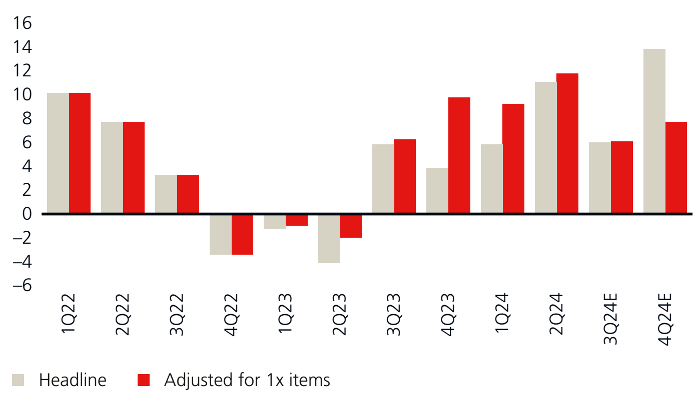
	Unattractive	Neutral	Attractive
US equities			
Communication services			+
Consumer discretionary			+
Consumer staples		=	
Energy		=	
Financials			+
Healthcare		=	
Industrials		=	
Information technology			+
Materials		=	
Real estate		=	
Utilities			+

Note: Tactical preferences from benchmark (S&P 500)
Source: UBS, as of 17 October 2024

Figure 2

Earnings growth should remain solid

S&P 500 quarterly EPS y/y growth (%), actuals and consensus estimates (except for 3Q24 which is CIO estimate)



Source: FactSet, UBS, as of 17 October 2024

Bonds

We hold a Neutral outlook on fixed income but recommend buying the dips on rates when the 10-year yield is 4% or higher. The Federal Reserve cut rates by 50bps in September. While there is much focus on the speed and magnitude of future cuts, priced-in expectations around the rate at which the Fed will stop (terminal rate) are perhaps even more important. The market is currently priced for a relatively frontloaded easing cycle, with a terminal policy rate above 3%. This would be a high neutral policy rate based on recent history, but Fed cuts should still pull Treasury yields lower.

Alejo Czerwonko, Chief Investment Officer Emerging Markets Americas; **Leslie Falconio,** Head of Taxable Fixed Income Strategy; **Barry McAlinden,** CFA, Fixed Income Strategist; **Frank Sileo,** CFA, Fixed Income Strategist

Government bonds

NEUTRAL

US 10-YEAR YIELD (current: 4.01%)	June 2025 target
House view	**3.50%**

Note: All current values as of 17 Oct 2024

Our short term 10-year yield range remains 3.5-4.0%, with the expectation that yields will trend lower toward 3.85% by year-end. The market came into the rate-cutting cycle with an overly dovish view and has now repriced to slightly under 150bps of cuts through 2025, below even the Fed's projections. We continue to recommend buying on dips when yields reach 4.0% and higher. The repricing, as well as geopolitical uncertainty and growing probability of a Trump victory, has caused a bear steepening of the yield curve. However, we continue to believe in the bull steepener in 2025 as the rate-cutting cycle continues. We maintain a portfolio duration of 4.5-5.0 years.

US investment grade corporate bonds

ATTRACTIVE

US IG SPREAD (current: 83bps)	June 2025 target
House view	**85bps**
↗ Positive scenario	80bps
↘ Negative scenario	250bps

Benchmark: ICE BofA
Note: Current values as of 17 Oct 2024

We hold an Attractive view on investment grade (IG) bonds. We still find the outright level of yields appealing and believe investors with excess cash holdings should look to lock in attractive yields in investment grade bonds. Fundamentals generally remain solid, and we expect limited credit quality deterioration in our base case. Resilient fundamentals and yield-driven demand are supportive factors for our view of range-bound credit spreads.

Emerging market bonds

NEUTRAL

EMBIG DIV. / CEMBI DIV. SPREAD (current: 350bps / 246bps)	June 2025 target
House view	**325bps / 225bps**
↗ Positive scenario	290bps / 210bps
↘ Negative scenario	550bps / 500bps

Note: Current values as of 17 Oct 2024

We keep emerging market credit as Neutral. Bond valuations look historically tight, suggesting the asset class remains vulnerable to possible setbacks. However, in our soft-landing base case, we expect bond spreads to trend sideways to slightly tighter over the next six to 12 months, allowing investors to collect appealing interest rate carry. Key risks include renewed US recession and inflation concerns, China's economic woes, softer crude oil prices, and escalation of geopolitical tensions.

EMBIG = hard-currency sovereign bonds; CEMBI = hard-currency corporate bonds

US high yield corporate bonds

NEUTRAL

USD HY SPREAD (current: 290bps)	June 2025 target
House view	**320bps**
↗ Positive scenario	270bps
↘ Negative scenario	700bps

Benchmark: ICE BofA
Note: All current values as of 17 Oct 2024

We have a Neutral recommendation on HY bonds. We continue to view the risk of a large increase in defaults as relatively low, as we have not seen the classic buildup of financial excess and leverage since the last default cycle in 2020 related to the COVID-19 pandemic. With credit spreads at historical lows, we see limited scope for spread compression from here. However, the average yield of 7.1% provides a good income return and the absolute level of Treasury yields provides a buffer against mark-to-market losses that could occur from a potential widening in credit spreads.

Municipal bonds

NEUTRAL

Muni yields rose across the curve over the past month, as issuance has remained elevated. We expect supply to cool following the election and yields to trend lower, setting the stage for stronger year-end performance. We like the 12- to 22-year maturities on the curve, with a significant overweight on the 17- to 22-year band (relative to the Bloomberg muni index) and recommend an effective portfolio duration of 6.0-6.5 years. Spreads of lower-rated credits are tight, so we continue to prefer high quality. We do find some incremental value in electric utilities and single-family housing and to a lesser extent states and airports. We remain Neutral.

Non-US developed fixed income

NEUTRAL

Over the past month, bond yields in non-US developed markets were mixed, rising significantly in some countries but falling in others. On foreign exchange markets, the dollar was mostly stronger against other major currencies, hurting the value of non-US bonds in dollar terms. These factors combined to produce negative returns for the month. US bonds still offer higher yields than those in most other developed markets, but dollar weakness against other currencies could enhance returns in the months ahead.

Additional US taxable fixed income (TFI) segments

Agency bonds

We remain Neutral on agency debt given the compressed spreads and value in other sectors. We do not see value in agency debt versus other higher-quality sectors such as Treasuries or agency MBS. Those that want to lock in higher yields should allocate to agency MBS. For investors looking for a higher yield with a high-quality rating, agency MBS is cheap to agency debt and IG corporates. The current spread is +14bps (versus +17bps last month)

Mortgage-backed securities (MBS)

ATTRACTIVE

Agency MBS spreads remain wide of investment grade corporates, presenting investors a good relative value opportunity. The steepening yield curve has benefitted agency MBS, causing spreads to tighten and we expect the sector will continue to benefit from the rate-cutting cycle and falling volatility in the months ahead. Bank demand has increased, helping offset continued Fed runoff from QT and is also a tailwind to the sector. We maintain an Attractive allocation to agency MBS and look for continued outperformance as the rate-cutting cycle continues.

AGENCY MBS SPREAD (current: 140bps)	June 2025 target
House view	**110bps**
↗ Positive scenario	100bps
↘ Negative scenario	185bps

Note: Current values as of 17 Oct 2024

Preferred securities

NEUTRAL

The preferred securities sector has been a top performer this year, with roughly 12% returns through the end of the third quarter. While October's backup in Treasury rates almost halted the rally in preferreds, the sector remains resilient, with marginal gains so far entreat the beginning of the fourth quarter. However, the sector's resilience in the face of higher interest rates means that valuations have diminished. The factors that have driven the sector's strong performance over the past year are less likely to provide the same level of support. We expect more monthly return volatility in the months ahead; however, the rate backdrop should generally remain supportive, as should fundamentals and technicals.

Treasury Inflation-Protected Securities (TIPS)

NEUTRAL

TIPS yields have risen owing in part to the ongoing geopolitical uncertainty and its impact on oil prices. As a result, five-year breakevens have reached 2.24%, nearly 40bps above the four-year lows seen in September. While we believe TIPS (up to the five-year) are on the cheaper side, we remain Neutral and wait for stabilization within the oil market.

US 10-YEAR REAL YIELD (current: 1.67%)	June 2025 target
House view	**1.50%**
↗ Positive scenario	0.75%
↘ Negative scenario	2.30%

Note: All current values as of 17 Oct 2024

Figure 1

UBS CIO interest rate forecast

In %

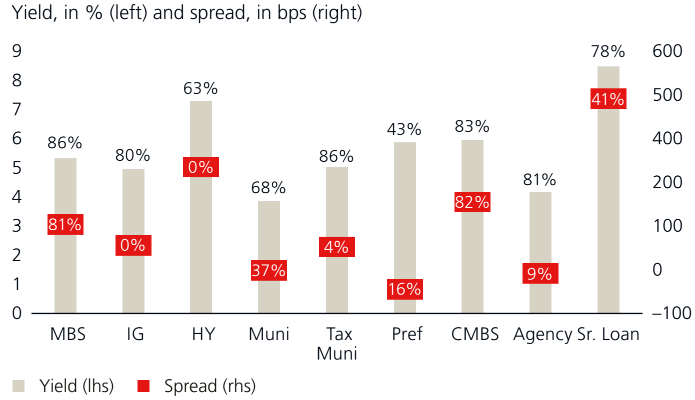
UST	Current	Dec-24	Mar-24	Jun-25	Sep-25
2-year	3.9	3.8	3.3	3.3	3.3
5-year	3.8	3.8	3.3	3.3	3.3
10-year	4.0	3.9	3.5	3.5	3.5
30-year	4.3	4.0	3.8	3.8	3.8

Source: Bloomberg, UBS, as of 16 October 2024

Figure 2

Spread and yield percentile rankings over the past ten years

Yield, in % (left) and spread, in bps (right)



Source: Bloomberg, ICE BofA, UBS, as of 15 October 2024

Commodities and listed real estate

With an expected total return of around 10% for broad commodities and volatility of around 15%, we retain a Neutral outlook for the asset class. Most of the gains are expected to materialize in two sectors, energy and industrial metals. We like gold (due to lower share in the commodity sector it has a limited impact), as we see even higher prices over the next six to 12 months, driven by greater investment demand as US real rates drop and strong, ongoing central bank purchases. And with inventories set to keep falling, we expect Brent to move back above USD 80/bbl.

Dominic Schnider, CFA, CAIA, Strategist, UBS Switzerland AG; **Giovanni Staunovo,** Strategist, UBS Switzerland AG; **Thomas Veraguth,** Strategist, UBS Switzerland AG; **Wayne Gordon,** Strategist, UBS AG Singapore Branch

Commodities

NEUTRAL

GOLD (current: USD 2,674/oz) — June 2025 target

ATTRACTIVE

House view	**USD 2,850/oz**
Positive scenario	USD 2,500/oz
Negative scenario	USD 3,100/oz

Note: All current values as of 17 Oct 2024. Gold is a safe-haven asset whose price tends to rise when risk assets, such as equities, fall, and vice versa.

BRENT (current: USD 74/bbl) — June 2025 target

ATTRACTIVE

House view	**USD 87/bbl**
Positive scenario	USD 120–140/bbl
Negative scenario	USD 40–60/bbl

Note: Current values as of 17 Oct 2024

Precious metals

The latest gold ETF report published by the World Gold Council shows ongoing inflows for the fifth straight month, supported primarily by US buyers over recent months. Geopolitical risks remain elevated in the Middle East, as does the uncertainty associated with the US election, which should keep demand for hedges elevated in the weeks ahead. We expect 900-950 metric tonnes of full-year demand versus above 1,000 metric tonnes in 2023. Together with greater investment demand driven by a drop in US interest rates, we target gold prices of USD 2,900/oz by September 2025.

Base metals

Industrial metals have been under pressure in October after a solid rally in September. Meanwhile, copper mine production in Chile and Peru increased by 1.1% in the first seven months of 2024 compared to the same period in 2023, with Chile's output usually being higher in the second half. Aluminum production restarts outside China are increasing, warranting greater attention. The nickel market remains well supplied. We remain positive on the sector, driven by China's policy support and potential manufacturing recovery in developed countries. Copper is our preferred metal, with prices likely to reach USD 12,000/mt by 2H25.

Agriculture

A divergence between grains and soft commodities that first appeared during 2023 has begun to fade, with our benchmark CMCI Agri Index broadly flat over 2H (-6.2% overall in 1H). While the USDA's much-awaited October WASDE report was bearish to neutral, we believe weather-related production risks in Russia, US winter wheat regions, and planting delays in Brazil are supportive for grains prices into 2025. In soft commodities, sugar has been the standout as Brazil's UNICA reported a further decline in the sugar mix, which has shifted our production forecast lower and the global deficit to 4.8 million metric tons for 2024-25. Other softs, like coffee and cocoa, remain in deficits over the year ahead. Livestock performance, like grains, had separated in 1H.

Crude oil

Oil prices have been strongly influenced by geopolitical tensions in the Middle East in recent weeks. Comments by US President Joe Biden that oil facilities in Iran could be targeted by Israel lifted Brent temporarily above USD 80/bbl, before media reports suggested that Israel is likely to target military facilities and avoid oil facilities, pushing Brent below USD 75/bbl. In early October, the eight member states of OPEC+ with voluntary production cuts are expected to announce whether they plan to extend these beyond December. Our oil view remains moderately constructive, as we continue to see Brent moving back above USD 80/bbl over the coming weeks, as the oil market remains undersupplied.

Listed real estate

RUGL Index (current: USD 6,362) — June 2025 target

House view	**USD 7,500**
Positive scenario*	USD 7,700
Negative scenario*	USD 7,100

Note: All current values as of 17 Oct 2024
*Positive and Negative scenarios reflect December 2024 targets.

We like companies that seek for growth and make acquisitions or accretive issuance. Strong pricing power, large pipelines, attractive yield gaps, and robust cash flows help. We like Singapore developers and REITs, which should benefit from interest rate cuts. We have similar expectations for Hong Kong and Japanese developers versus their REITs counterparts. Continental Europe has already priced in a good portion of market improvements, and we prefer to wait for the next market catalyst for adding exposure. The UK market is similar in that respect, while we now prefer US REITs with robust fundamentals.

Foreign exchange

We favor EUR, CHF, GBP, and AUD over the USD, while CNY is Unattractive.

Dominic Schnider, CFA, CAIA, Strategist, UBS Switzerland AG

After two years of US exceptionalism, US economic data have come to a point where a strongly restrictive monetary policy no longer appears justified. Inflation has returned to target and the labor market has started to loosen to a point where it is unlikely to exert material inflationary pressure anymore. As a result, the Federal Reserve started cutting its policy rate at the September meeting by 0.5 percentage points, and we expect the central bank to bring the rate closer to the neutral rate in the coming quarters.

Falling rates in the US are likely to undermine the most important driver of the USD. The fact that the US paid the highest interest among G10 countries in recent years and even a higher interest than some emerging market countries allowed the US to finance its twin deficits. However, the lower the US yield goes, the more attractive investments outside US tend to become on a relative basis. The erosion of the US yield should therefore lead to a partial reduction of the USD's overvaluation. We expect the greenback to weaken by mid-single digits over the next 12 months.

Looking for alternatives, the EUR is the first to come to mind as it is the next most liquid currency. With GDP growth expectations subdued, we believe positive surprises are likely to support the euro from here. Furthermore, we expect growth in Europe to return to around 1% next year from almost zero this year. We expect the EURUSD to gravitate steadily toward 1.16 over the coming quarters. In our view, the most attractive USD alternatives can be found in the CHF, the GBP, and the AUD. Switzerland has one of the lowest interest rates globally, which means that it has not a lot to cut in a global easing cycle. In the UK and Australia, the mix of inflation and economic growth dynamics doesn't justify an aggressive easing cycle, in our view. Accordingly, UK and Australia yields, which are currently the highest in G10, will likely stay high, taking the pole position from the USD. In a non-recessionary environment where risk-taking carries on, there should be continued for support both the GBP and the AUD going into 2025.

Also, narrowing US-Japan interest rate differentials should drive the USDJPY lower over the medium term. But as our view of a weaker US dollar is not driven by recession or risk-off considerations, we stay Neutral on the yen, not least because market positioning in the futures market has already turned firmly net-long.

Lastly, we have an Unattractive view of the CNY. While we acknowledge that the Chinese government's recent efforts should reduce the tail risk for the local economy, the looming US presidential election is a significant overhang for the yuan. The threat of harsh China tariffs should Donald Trump win could push the USDCNY toward 7.5. In this context, we recommend investors to stay hedged on CNY long exposure for now.

FX strategy

	Unattractive	Neutral	Attractive
USD	–		
EUR			+
JPY		=	
GBP			+
CHF			+
AUD			+
CNY	–		

FX forecasts

	Current	Dec-24	Mar-25	Jun-25	Sep-25
EURUSD	1.09	1.12	1.14	1.16	1.16
USDJPY	150	147	143	140	138
GBPUSD	1.30	1.33	1.36	1.38	1.38
USDCHF	0.86	0.83	0.82	0.80	0.80
USDCAD	1.38	1.38	1.36	1.34	1.32
AUDUSD	0.67	0.72	0.73	0.74	0.75
NZDUSD	0.61	0.58	0.58	0.59	0.60
USDSEK	10.47	10.36	10.09	9.83	9.74
USDNOK	10.91	10.36	10.09	9.74	9.66

Sources: SIX Financial Information, UBS, as of 17 Oct 2024

Investment committee

The UBS investment process is designed to achieve replicable, high-quality results through applying intellectual rigor, strong process governance, clear responsibility, and a culture of challenge.

Based on the analyses and assessments conducted and vetted throughout the investment process, the Chief Investment Officer (CIO) formulates the UBS Wealth Management Investment House View at House View Investment Meeting (HVIM). Senior investment professionals from across UBS, complemented by selected external experts, debate and rigorously challenge the investment strategy to ensure consistency and risk control.

The participants in the HVIM include top market and investment expertise from across all divisions of UBS:
• Mark Haefele (Chair)
• Solita Marcelli
• Paul Donovan
• Min Lan Tan
• Themis Themistocleous
• Bruno Marxer (*)
• Adrian Zuercher
• Mark Andersen

We recognize that a globally derived house view is most effective when complemented by local perspective and application. As such, UBS has formed a Wealth Management Americas US Investment Strategy Group:
• Solita Marcelli
• Alejo Czerwonko
• Jason Draho (chair)
• Leslie Falconio
• David Lefkowitz
• Brian Rose
• Daniel Scansaroli

(*) Business area distinct from Chief Investment Office Global Wealth Management

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Our preferences do not assure profits or prevent against losses from an investment portfolio or accounts in a declining market.

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Equities – Stock market returns are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions and other important variables.

Fixed income - Bond market returns are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions and other important variables. Corporate bonds are subject to a number of risks, including credit risk, interest rate risk, liquidity risk, and event risk. Though historical default rates are low on investment grade corporate bonds, perceived adverse changes in the credit quality of an issuer may negatively affect the market value of securities. As interest rates rise, the value of a fixed coupon security will likely decline. Bonds are subject to market value fluctuations, given changes in the level of risk-free interest rates. Not all bonds can be sold quickly or easily on the open market. Prospective investors should consult their tax advisors concerning the federal, state, local, and non-U.S. tax consequences of owning any securities referenced in this report.

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Municipal bonds – Although historical default rates are very low, all municipal bonds carry credit risk, with the degree of risk largely following the particular bond's sector. Additionally, all municipal bonds feature valuation, return, and liquidity risk. Valuation tends to follow internal and external factors, including the level of interest rates, bond ratings, supply factors, and media reporting. These can be difficult or impossible to project accurately. Also, most municipal bonds are callable and/or subject to earlier than expected redemption, which can reduce an investor's total return. Because of the large number of municipal issuers and credit structures, not all bonds can be easily or quickly sold on the open market.

Appendix

Emerging Market Investments
Investors should be aware that emerging market assets are subject to, among others, potential risks linked to currency volatility, abrupt changes in the cost of capital and the economic growth outlook, as well as regulatory and socio-political risk, interest rate risk, and higher credit risk. Assets can sometimes be very illiquid, and liquidity conditions can abruptly worsen. CIO GWM generally recommends only those securities it believes have been registered under federal US registration rules (Section 12 of the Securities Exchange Act of 1934) and individual state registration rules (commonly known as "Blue Sky" laws). Prospective investors should be aware that to the extent permitted under US law, CIO GWM may from time to time recommend bonds that are not registered under US or state securities laws. These bonds may be issued in jurisdictions where the level of required disclosures to be made by issuers is not as frequent or complete as that required by US laws.

Investors interested in holding bonds for a longer period are advised to select the bonds of those sovereigns with the highest credit ratings (in the investment grade band). Such an approach should decrease the risk that an investor could end up holding bonds on which the sovereign has defaulted. Sub-investment grade bonds are recommended only for clients with a higher risk tolerance and who seek to hold higher yielding bonds for shorter periods only.

Nontraditional Assets
Nontraditional 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.

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– **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 US dollars, changes in the exchange rate between the US 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 US investor.

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