UBS House View

Investment Strategy Guide:
Prepare for Trump 2.0

February 2025 I Chief Investment Office GWM I Investment research

In this report

February
CIO Monthly Livestream
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Lead authors
Mark Haefele
Solita Marcelli

Authors (in alphabetical order)
Jason Draho
Leslie Falconio
Wayne Gordon
Michael Gourd
David Lefkowitz
Nadia Lovell
Barry McAlinden
Brian Rose
Dominic Schnider
Frank Sileo
Giovanni Staunovo
Thomas Veraguth
Justin Waring

Cover image
Getty Images

Editors
Jess Hoeffner
Steven Faucher
Laura Amoroso

Project management
John Collura
Shawn Awan
Matt Siegel

Design
John Choi
Helena Powers
Cheryl Seligman
CIO Content Design

Dear reader

With the new year under way and the inauguration behind us, investors are now focused squarely on the evolving economic and policy landscape under President Donald Trump.

Markets have grown more volatile, with tariffs remaining a top concern. Despite lingering uncertainty, our base case assigns a 50% probability of "growth despite tariffs," assuming US economic growth of around 2.0% this year.

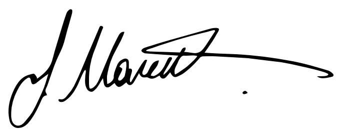
Economic resilience remains a key theme, with strong consumer spending, easing inflation, and a healthy labor market. While expectations for further rate cuts by the Federal Reserve have been pared back, we still believe easing will continue, with another 50bps in 2025. In aggregate, we should expect volatility to continue in 2025 as markets digest policy uncertainty, but we see an overall supportive environment for risk assets.

We maintain our year-end 2025 S&P 500 price target of 6,600. While stocks have become more expensive, we believe higher valuations are supported by a favorable macro backdrop, healthy earnings growth, and continued AI-related tailwinds. In our sector positioning, we have a Most Attractive view on information technology and Attractive views on communication services, consumer discretionary, financials, and utilities. This month, we upgraded health care to Attractive owing to a combination of policy clarity, attractive valuations, and potential upside to earnings estimates for select companies that should lead to a rebound in the sector after recent underperformance.

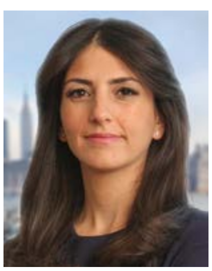
In fixed income, rates remain elevated, with the 10-year yield rising by almost 100bps since September. However, we still expect yields to trend lower toward 4.0% by year-end as growth moderates and inflation declines. We favor investment grade corporate bonds, agency mortgage-backed securities, and senior loans. We are also advising clients to stick to the five-year part of the curve, which is more insulated from concerns over deficits, supply, and inflation.

The bottom line: Maintaining a diversified portfolio will be critical as markets adjust to evolving policy dynamics. While volatility may persist, we expect both equities and fixed income to deliver positive returns, and we see 2025 as a favorable year for balanced portfolios.

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 and portfolio.



Solita Marcelli



Solita Marcelli
Chief Investment Officer Americas
Global Wealth Management

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linkedin.com/solita-marcelli-ubs

Prepare for Trump 2.0

Tariffs top of mind

President Trump has reiterated his intention to take an aggressive stance on tariffs. In our base case, we see the effective US tariff rate on Chinese imports rising to 30%.

Volatility likely

Investors should prepare for market volatility and potential policy surprises by considering portfolio diversification and hedging approaches.

US economy robust

While tariffs are a risk, we still expect a solid US economy, healthy earnings growth, and gradual Fed rate cuts to create a favorable backdrop for equities.

Asset allocation

We see US equities as Attractive and favor AI-related stocks. In fixed income, we favor government and investment grade bonds. We also like gold.

Mark Haefele
Global Chief Investment Officer
Wealth Management

Follow me on LinkedIn
linkedin.com/in/markhaefele

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Since Donald Trump won the US presidential election and the Republicans gained control of Congress, long-end government bond yields have increased, the dollar has strengthened, and equity markets have become more volatile. The challenge for investors now is to understand the implications of potential changes in US policy.

Tariffs are top of mind for many investors. This is the area where the president has the most unilateral authority to alter the market consensus around continued growth and receding inflation.

In this letter we detail our latest tariff scenarios, consider how they may affect our broader investment scenarios for the year ahead, and address the implications for investors.

In short, we believe investors should prepare for the Trump administration to pursue aggressive tariffs. On his first day in office, the president announced and signed a flurry of executive orders and other actions. The most tangible trade-related action came in the form of a memorandum directing federal agencies to investigate and address "unfair" trade and currency policies by other countries. China's adherence to the 2020 trade deal and the US-Mexico-Canada Agreement (USMCA) were singled out.

The scope and severity of possible tariff outcomes remains uncertain. Our base case, to which we assign a 50% probability, is for the US effective tariff rate on China to rise to 30%, and for China to retaliate. We also expect efforts to limit transshipments, protect US technology interests, and impose tariffs on some EU exports.

We are also monitoring for a risk case, which could include 10-20% universal tariffs on all US goods imports, a larger tariff of around 60% on China, or sustained, broad, and large tariffs against Mexico and Canada. This scenario would have a more negative impact on markets and the economy.

These tariff scenarios are a key determinant in our broader investment scenarios. We believe the most likely outcome (50% probability) is for growth despite tariffs. US growth momentum is currently strong, we continue to believe the Federal Reserve will cut interest rates by 50bps in 2025, and we see a limited overall macroeconomic impact from an effective tariff rate of 30% on direct imports from China.

The risk-reward for equities remains attractive, in our view.

What does all this mean for investors from here?

We believe that the risk-reward for equities is attractive, although investors should prepare for near-term tariff-related volatility. We expect around 10% upside for US stocks over the balance of 2025 thanks to solid economic growth, AI tailwinds, and gradually falling yields.

We also view the outlook for high grade and investment grade bonds as positive. In our base case, we expect the 10-year Treasury yield to fall to 4.0% by the end of 2025 as growth and inflation gradually slow, and as the Fed cuts rates.

We see upside to gold both in our base case and in our bear case risk scenarios.

We expect EURUSD to rise to 1.06 by the end of 2025, but given likely near-term volatility we like to harvest volatility in major currency pairs, rather than taking strong directional views. We see upside to gold both in our base case and in our bear case risk scenarios.

The coming weeks are likely to see volatility in markets, so we reemphasize the importance of diversification. But while the path ahead may be uncertain, we continue to see opportunities for investors who are well prepared and adaptable.

President Trump has reiterated his intention to take an aggressive stance on tariffs.

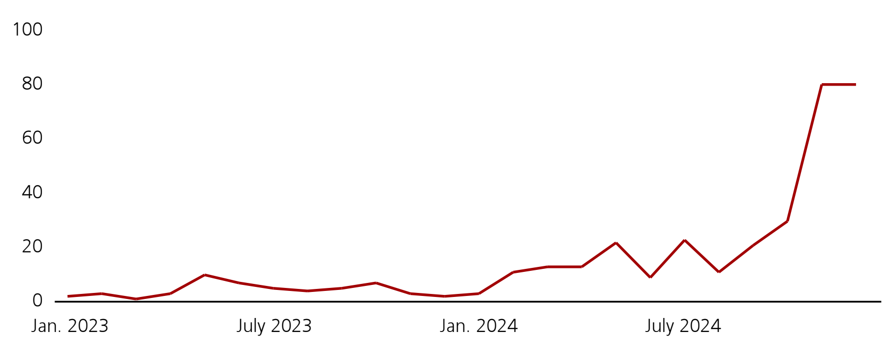
US trade policy in focus

On his first day in office, President Trump reiterated his intention to take an aggressive stance on tariffs, and we believe that investors should prepare for this to be the case.

Figure 1

Tariffs are top of mind for investors

Number of mentions of tariffs in S&P 500 companies' earnings transcripts



Source: Bloomberg, UBS, as of January 2025

Already, he has issued a memorandum directing federal agencies to investigate persistent trade deficits and address "unfair" trade and currency policies by other countries, reporting back by 1 April. The memo singled out China's compliance with the 2020 trade deal and the USMCA. The president also told reporters that he was considering a 25% tariff on Mexico and Canada. On universal tariffs, he said "we may, but we're not ready for that yet."

In our base case, we expect the effective US tariff rate on Chinese imports to rise to 30%.

In our base case, we expect the effective tariff rate on China to rise to 30% (from 11% currently). We also expect measures to protect technological interests, rules limiting transshipments, and tariffs on EU autos. Possible retaliation by China includes imposing tariffs, weakening the Chinese yuan, and restricting critical mineral exports.

At the same time, we do not believe that aggressive tariffs will necessarily lead to a major negative impact on the broader US economy. Up to a third of China's exports to the US avoid tariffs by supply chain rerouting, and those that do not reroute currently account for just 12% of US imports by value, down from 18% in 2015. Non-tariff retaliations by China can still cause challenges in select areas, like critical minerals and agricultural supply chains, though currency actions and/or selling of Treasury bonds may not have as much of an impact as they once could have had. China's official holdings of US Treasuries have fallen from USD 1.1tr to USD 768bn over the past three years and should be seen in the context of a total refinancing need of USD 10tr this year.

The Fed is likely to look through one-off price increases because of tariffs.

We do not believe that tariffs would necessarily lead to persistently higher inflation. Using market-based gauges, there is little sign that inflation expectations have become unanchored. The Fed is likely to look through one-off price increases because of tariffs. And the central bank's own analysis of 2018-19 suggests that it is the potential impact on growth that would concern them more than the inflation impact.

What could lead to a worse outcome for markets and the economy?

- *Mexico and Canada* together account for about 30% of the US's total trade, more than twice the share of direct trade with China (12%). We consider broad-based and long-lasting tariffs on Mexico or Canada to be unlikely, given significant economic and political investment in the USMCA (including from President Trump himself), eventual signs of cooperation from Mexico on border security and drug enforcement, and the risk of potentially damaging retaliation.

  President Trump's threatened 25% tariff could be an example of an "escalate to de-escalate" negotiation tactic. If the tariffs were announced, but the news flow suggests they would not be sustained, then we would view market volatility as a potential buying opportunity, particularly in US equities, which we rate as Attractive.

  Conversely, if the 25% tariffs appear set to be broad and sustained, then we would likely need to lower our growth forecasts, raise our inflation forecasts, and reconsider our positive view on risk assets. This would particularly be the case if it were to appear likely that the tariffs would be in place for six months or more and if they appeared likely to provoke second-round inflation effects.

- *Universal or not?* The impact of individual tariffs is often mitigated by supply chains adjusting (by sourcing in different locations) and/or consumers adapting (by purchasing different products). But if Trump pursues blanket universal tariffs (i.e., tariffs on all US imports), such adaptation would not be possible, and longer-term growth estimates would likely need to be downgraded.

We believe that universal tariffs would likely be hampered by legal challenges.

We believe that universal tariffs would likely be hampered by legal challenges and could require Congressional approval, where ideological differences on free trade could hinder their passage. But there is a chance that the president's national emergency justification may prove sufficient for such challenges to be rebuked. If they were to be enacted and ratified, it would mark a fundamental and potentially long-term shift in US economic policy and would be a negative for both markets and growth.

Potential tariff outcomes

We expect trade policy, including the use of tariffs, to play a central role in the Trump administration's agenda. While the range of possible policy permutations is wide, we group the potential outcomes into the following four scenarios:

Aggressive (50% probability): The US effective tariff rate on China rises to 30%, primarily on industrial and capital goods, stepped up over time from the current 11%. China retaliates, but the impact on the US economy is limited given the relatively low level of US exports to China. Retaliation could include sanctions of US companies, allowing the Chinese yuan to weaken, and limits on critical minerals exports. The US pursues efforts to protect and promote US technology interests, including critical minerals. The US focuses on Rules of Origin to limit transshipments of goods through Vietnam, Mexico, and elsewhere. The US imposes tariffs on EU autos (including EVs). The EU retaliates.

This tariff scenario is consistent with our base case macro scenario of "growth despite tariffs," to which we assign a 50% probability.

Highly aggressive (25%): Universal tariffs of 10-20% are imposed on all US imports, with a higher 60% rate on Chinese goods, and/or high (e.g., 25%), broad, and sustained tariffs on Canada and Mexico. Court challenges against the use of presidential authority to impose universal tariffs fail. Retaliation occurs globally.

This tariff scenario is consistent with our bear case macro scenarios of a "tariff shock," to which we assign a 15% probability, and a "hard landing," to which we assign a 10% probability.

Limited (15%): The US delays action against China and revisits the Phase 1 trade deal negotiated during Trump's first term. Some export restrictions and product-based tariffs are imposed on technology goods and items important to economic and national security. The US pursues a policy of "escalate to de-escalate" with USMCA countries and other allies, with most issues resolved without sustained tariffs. The USMCA is reviewed in 2026.

Benign (10%): The US reaches a deal with China with a reliance on purchase quotas and otherwise uses very limited tariffs to achieve balanced trade.

The "limited" and "benign" tariff outcomes are consistent with our bull case "strong growth" macro scenario, to which we assign a 25% probability.

Our base case is for solid US economic growth despite tariffs.

We are also monitoring the risk that, even in the absence of widespread selective or universal tariffs being imposed, companies use trade taxes as an excuse to raise prices. This could raise inflation concerns at the Fed.

- *Policies beyond trade: immigration.* While much investor focus has been on tariffs, President Trump has also declared a national emergency at the southern border and stated that the process of returning undocumented immigrants would begin immediately. While funding is currently not available for such a deportation program, the risk, if the policy were to be enacted on a large scale, is that the US labor supply could be reduced. This could contribute to higher inflation, particularly in service sectors, and have a negative impact on consumer demand and hence growth.

House View scenarios

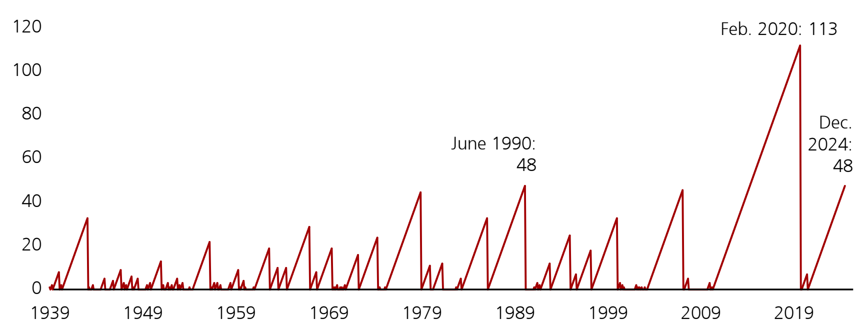
Overall, we see the following scenarios for the remainder of the year:

Base case: growth despite tariffs (50%). As described above, we do not believe that our base case expectations of 30% effective tariffs on China, select tariffs on Europe, and some efforts to limit transshipments will be particularly damaging to still-solid US growth. Nor do we believe such tariffs would preclude inflation from continuing to fall from current levels, enabling the Fed to cut rates by 50bps later this year. In this scenario, we would expect the 10-year Treasury yield to fall to 4.0% and US and Asia-ex Japan equities to rally by around 10%.

Figure 2

The US has seen one of the longest streaks of consecutive positive monthly job growth

Number of months with consecutive payroll gains in the US, since 1939



Source: Bloomberg, UBS, as of January 2025

	Bull case: strong growth	Base case: growth despite tariffs	Bear case: tariff shock	Bear case: hard landing
Probability	**25%**	**50%**	**15%**	**10%**
Market path	**Bond returns flat, equities up** Equity markets rally amid strong US growth, accelerating consumption, and optimism about the impact of AI on earnings. Bond yields trend slightly up.	**Bond returns slightly up, equities up** Equities rise owing to a stable and positive outlook for GDP and earnings growth. Bond yields fall slightly over the course of the year.	**Bond returns down slightly, equities down** Equities and bonds suffer a correction due to fears of economic stagnation, a rising US fiscal deficit, and a longer period of tighter monetary policy.	**Bond returns up, equities sharply down** Global equities post double-digit losses, credit spreads widen. Valuations in AI stocks drop substantially. Safe-haven assets, such as high-quality bonds, gold, the US dollar, the Swiss franc, and the Japanese yen, appreciate.
Economic growth	The US economy continues to surprise positively, aided by policy support from deregulation and lower taxes. China's economy turns the corner as policy stimulus proves more effective than expected and a US trade deal is reached quickly. European growth is lifted by improving global demand.	The US economy continues to grow at a stable pace of around 2.0% over the next 12 months. Other Western economies experience weaker but positive growth in line with market expectations. Policy stimulus in China helps to stabilize economic activity.	The disruption to global trade leads to lower US domestic demand and much weaker global economic growth, though likely falling short of a US or global recession.	Global growth falls over the next 12 months owing to weakness in consumer spending and labor markets and/or a fall in AI-related investments. GDP contracts for one or more quarters in the US and the Eurozone. Policy stimulus in China fails to stabilize the economy.
Inflation	Continues to fall in Europe but stabilizes above target in the US as fiscal stimulus lifts consumption.	Resumes its weakening trend in the developed world. Further softening in US core PCE opens door for more Fed rate cuts by mid-2025.	Remains elevated in the US as each subsequent round of tariffs puts additional upward pressure on prices. Inflation in targeted countries normalizes less quickly as currencies weaken to offset the tariff impact.	Falls as demand for goods and services collapses.
Central banks	The Fed pauses as inflation normalization stalls. Other central banks cut rates in line with expectations as inflation continues to normalize despite stronger-than-expected economic activity.	All major central banks ease policy by mid-2025 with the exception of the Bank of Japan. The Fed cuts rates by 50bps in 2025. The ECB cuts rates by 25bps every meeting until mid-2025.	Central banks adopt a more cautious approach to monetary easing for fear of a longer period of above-target inflation and dis-anchoring inflation expectations.	Major central banks cut rates swiftly at first signs of an economic downturn, bringing monetary policy back into accommodative territory. The Fed lowers its policy rate by at least 200bps over the next 12 months.
US politics / Geopolitics	US corporate tax cut to 20% or lower. A quick trade deal happens between the US and its main trading partners.	President Trump extends the time frame of temporary tax relief policies in the US but stops short of lowering US corporate taxes. Selective tariffs are implemented on US imports, mainly targeting China, with some tariff retaliation by other countries. The chances of a cease fire deal in the Ukraine have increased.	The Trump administration imposes large tariffs on imports from multiple countries, with proportionate retaliation by targeted trading partners.	

Note: Each scenario narrative represents a non-exhaustive list of events that could lead to a market path outlined in our scenario targets. The probabilities represent CIO's view on the overall probability of reaching the market targets for the given scenario, rather than the probability of a single event or chain of events materializing.

Source: UBS, as of January 2025

Other aspects of the Trump policy agenda could facilitate stronger growth.

Bull case: strong growth (25%). While there is significant focus on tariffs, we shouldn't forget that other aspects of the Trump policy agenda could facilitate stronger growth. We also note that data over the past month—including stronger-than-expected US payrolls growth and lower-than-expected core inflation—have supported this scenario. An economic bull case could see US growth stay around 2.5% while inflation stays in the 2-3% range, with continued optimism about artificial intelligence proving additionally supportive for markets.

In such a scenario, we would expect the Fed to keep interest rates on hold at 4.5%, the 10-year US bond yield to rise to 5.25%, and global equities to rally by about 15-20%.

In a tariff shock scenario, stocks and bonds would likely suffer.

Bear case: tariff shock (15%). If trade policy proves highly aggressive, we believe it would be likely (albeit not certain) that both equity and bond markets would sell off as growth forecasts are revised down, inflation forecasts are pushed up, and countervailing forces like AI or pro-growth policies prove insufficient to offset this.

In such a scenario, the Fed and other global central banks would likely consider delaying further rate cuts to manage inflation expectations, and risk premia would likely rise. We would expect the 10-year Treasury yield to rise to 5.0%, US equities to fall by around 15%, and European and emerging market equities to fall by around 20%.

Bear case: hard landing (10%). We also shouldn't neglect a background concern that US consumer spending finally "cracks"—for example, if unemployment rises significantly.

In such a scenario, we would expect rapid interest rate cuts as central banks attempt to support demand, the 10-year Treasury yield to fall to 2.5%, and global equities to decline by around 25%.

What are the key messages for investors?
Here are our key messages for investors looking to navigate this backdrop of diverse potential outcomes:

A resilient US economy and solid earnings growth should support equities.

Equities
We believe investors should position for *more to go in stocks*. Tariff risks, US fiscal policy concerns, and shifting expectations around inflation and Fed policy are likely to keep equity markets volatile in the near term. But we believe the combination of resilient US economic activity, solid earnings growth, lower borrowing costs, and the potential for greater capital market activity will lead stocks higher over the balance of 2025.

In our base case, we see the S&P 500 reaching 6,600 by the end of the year, and believe it could even hit 7,000 in the event of a strong growth scenario. We also see value in maintaining diversified exposure to Asia ex-Japan. In Europe, we like EMU small- and mid-cap stocks and Swiss high-quality dividend stocks.

We think investors should focus on continuing to *seize the AI opportunity*. In 2025, we expect high rates of investment in AI, including the USD 500 billion “Stargate” investment plan, to start to be followed by growth in applications. Investors should focus on listed megacaps and innovative private companies to capitalize.

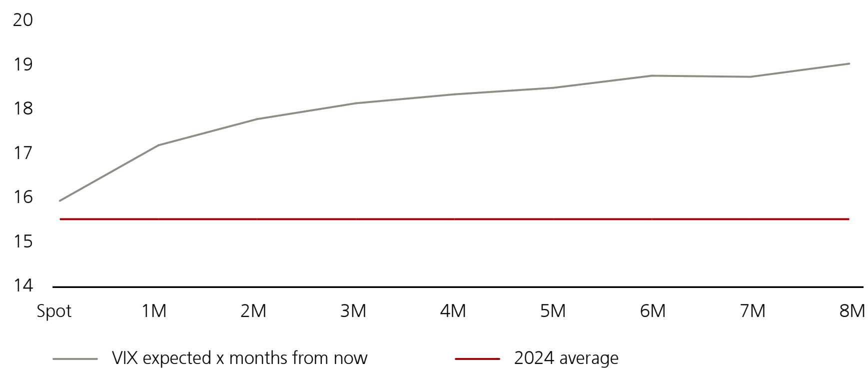
Investors can consider opportunities across the power and resources value chain.

We also like companies exposed to *power and resources*. A mixture of AI advancements, decarbonization, and economic development is boosting electricity demand. We believe the market is underestimating the opportunity this may create across the power and resources value chain, including in utilities, infrastructure, power equipment, and storage.

Figure 3

Markets expect a more volatile year

VIX index, x months from now based on futures, and average volatility in 2024



Source: Bloomberg, UBS, as of January 2025

We see an opportunity to lock in attractive yields on quality bonds.

Bonds

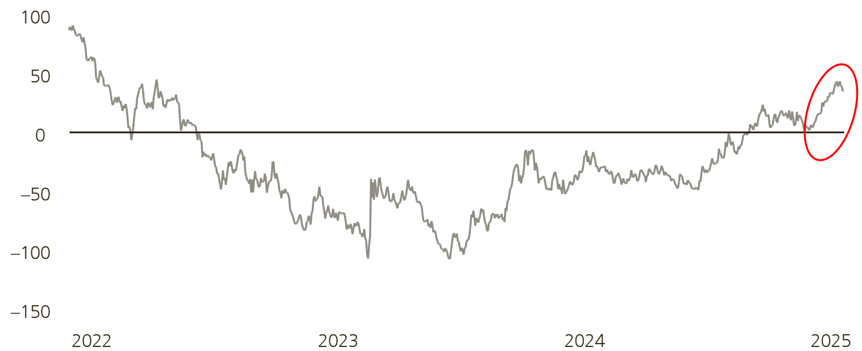
Long-end rates have moved higher since the US election owing to robust US economic data, a repricing of Fed rate-cutting expectations, and fiscal concerns. Yields have come off their peak, but we believe they remain attractive. We favor high-quality segments, particularly government and investment grade bonds.

We forecast lower yields over 2025 as inflation cools and the Fed gradually cuts policy rates. Given the recent curve steepening, we recommend investors to improve yields by switching from cash into medium-duration bonds.

Figure 4

The US yield curve has normalized

2-year/10-year Treasury yield spread, in bps



Source: Bloomberg, UBS, as of January 2025

In our base case, we expect the 10-year Treasury yield to fall to 4.0% this year.

In our base case, we expect the 10-year Treasury yield to fall to 4.0% in 2025. While yields could rise in the event of a tariff shock or a strong growth scenario, elevated starting yields should help cushion the total return outlook. And in a hard-landing scenario, quality bonds would likely rally sharply, helping offset the decline in equities.

We also see other opportunities for diversifying and boosting portfolio income, including through diversified fixed income strategies, senior loans and private credit, and equity income strategies.

Key targets for December 2025	Spot*	Bull case: strong growth	Base case: growth despite tariffs	Bear case: tariff shock	Bear case: hard landing
MSCI AC World	1,061	1,240 (+17%)	1,140 (+7%)	890 (–16%)	800 (–25%)
S&P 500	6,086	7,000 (+15%)	6,600 (+8%)	5,100 (–16%)	4,500 (–26%)
EuroStoxx 50	5,206	5,900 (+13%)	4,900 (–6%)	4,000 (–23%)	3,800 (–27%)
SMI	12,208	14,200 (+16%)	12,200 (–0%)	10,500 (–14%)	10,200 (–16%)
MSCI EM	1,082	1,250 (+15%)	1,160 (+7%)	870 (–20%)	850 (–21%)
Fed funds rate (upper bound)	4.50	4.50	4.00	4.00	1.00
US 10y Treasury yield (%)	4.61	5.25	4.00	5.00	2.50
US high yield spread**	259bps	250bps	300bps	450bps	700bps
Euro high yield spread**	301bps	300bps	340bps	500bps	700bps
US IG spread**	70bps	55bps	70bps	120bps	180bps
Euro IG spread**	96bps	90bps	105bps	160bps	200bps
EURUSD	1.04	1.10 (+6%)	1.06 (+2%)	0.98 (–6%)	1.05 (+1%)
Commodities (CMCI Composite)	1,853	2,000 (+8%)	1,935 (+4%)	1,725 (–7%)	1,600 (–14%)
Gold***	USD 2,771/oz	USD 2,550/oz (–8%)	USD 2,850/oz (+3%)	USD 3,050/oz (+10%)	USD 3,150/oz (+14%)

* Spot prices as of market close of 22 January 2025. Developed market constituents of the MSCI All Country (AC) World index display in the local currency. The MSCI EM index displays in US dollar. Values in brackets are expected percentage changes from the quoted spot levels. Dividends, share buybacks and other sources of carry are not included.

** During periods of market stress, credit bid-offer spreads tend to widen and result in larger ranges.

*** Gold is considered a safe-haven asset whose price tends to rise when risk assets, such as equities, fall, and vice versa.

Note: The asset class targets above refer to the respective macro scenarios. Individual asset prices can be influenced by factors not reflected in the macro scenarios.

Currencies

Robust US economic data and ongoing uncertainty around the extent and nature of tariffs are likely to keep the US dollar strong in the near term. But elevated investor positioning and the dollar's high valuation still favor a reversal of first-half gains as we move toward the latter part of the year. In our base case, we forecast EURUSD at 1.02 in June and 1.06 in December.

Elsewhere, we downgrade the Swiss franc to Neutral given the prospect that Swiss interest rates remain far lower than in other regions. We also move the British pound to Neutral given our expectation for US dollar strength in the near term.

Harvesting currency volatility can enhance portfolio income.

We like using the higher volatility in currency markets to enhance portfolio income. Over one to three months, we like yield pickup opportunities by selling the upside in EURUSD and the downside in USDCHF. Over six months, we like selling the upside in CHFJPY, EURGBP, and EURAUD, and selling the downside in GBPUSD, GBPCHF, and AUDUSD.

We believe gold remains appealing as a portfolio hedge.

Commodities
We continue to *go for gold*. We expect central bank purchases and falling real interest rates to underpin strong demand, and we believe gold remains appealing as a portfolio hedge amid residual inflation, fiscal, and persistent geopolitical concerns. We expect gold to rally to USD 2,850/oz later this year in our base case. We also see upside for silver prices in 2025.

Risks to oil prices remain skewed to the upside in the short term, in our view. Current prices do not offer sufficient incentives for US producers to increase their output, despite President Trump's "drill baby drill" mantra. We also do not expect OPEC+ to increase its output, and believe the group is only likely to adjust its production policy if supply disruptions materialize. We continue to forecast Brent crude to trade around USD 80/bbl this year and like to sell its downside price risks.

Risk management
As the Trump administration's policy agenda takes shape, investors should prepare for market volatility and consider portfolio diversification and hedging approaches. In equities, capital preservation strategies can help manage downside risks. Investors should manage allocations to long-duration bonds carefully, given the fiscal risks in the US. We think long USDCNY could be an effective hedge against trade risks, while oil prices could move higher if sanctions on Iran are stepped up. We also continue to see gold as an effective hedge against geopolitical and inflation risks.

Mark Haefele
Chief Investment Officer
Global Wealth Management

Global forecasts

Economy

Real GDP y/y, in %

	2023	2024E	2025E
US	2.9	2.8	2.1
Canada	1.1	1.2	2.0
Japan	1.5	-0.2	1.1
Eurozone	0.5	0.7	0.9
UK	0.4	0.8	1.1
Switzerland	0.7	1.4	1.3
Australia	2.1	1.0	1.9
China	5.2	4.8	4.0
India	8.2	6.3	6.3
EM	4.7	4.3	4.0
World	3.4	3.2	3.0

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

	2023	2024E	2025E
US	4.1	3.0	2.6
Canada	3.9	2.4	2.2
Japan	3.3	2.6	2.2
Eurozone	5.5	2.4	2.2
UK	7.4	2.5	2.4
Switzerland	2.1	1.1	0.5
Australia	5.6	3.2	2.5
China	0.2	0.4	0.1
India	5.4	4.8	4.2
EM	7.3	8.1	3.9
World	6.1	5.7	3.2

Source: Bloomberg, UBS, as of 23 January 2025. Latest forecasts available in the *Global forecasts* publication, published weekly.

Asset classes

	Spot	June-25	Dec-25
Equities			
S&P 500	6,119	6,300	6,600
Eurostoxx 50	5,206	4,850	4,900
FTSE 100	8,545	8,100	8,200
SMI	12,208	12,000	12,200
MSCI Asia ex-Japan	702	748	780
MSCI China	64	62	68
Topix	2,737	2,870	2,910
MSCI EM	1,082	1,120	1,160
MSCI AC World	1,061	1,090	1,140
Currencies			
EURUSD	1.04	1.02	1.06
GBPUSD	1.23	1.23	1.29
USDCHF	0.91	0.91	0.88
USDCAD	1.44	1.44	1.40
AUDUSD	0.63	0.63	0.66
EURCHF	0.94	0.93	0.93
NZDUSD	0.57	0.54	0.56
USDJPY	156	156	149
USDCNY	7.28	7.50	7.50

	Spot	June-25	Dec-25
2-year yields, in %			
USD 2y Treas.	4.30	3.75	3.75
EUR 2y Bund	2.24	2.00	1.75
GBP 2y Gilts	4.35	3.75	3.50
CHF 2y Eidg.	0.13	0.10	0.10
JPY 2y JGB	0.70	0.80	1.00
10-year yields, in %			
USD 10y Treas.	4.61	4.00	4.00
EUR 10y Bund.	2.53	2.25	2.25
GBP 10y Gilts	4.63	4.00	4.00
CHF 10y Eidg.	0.40	0.30	0.30
JPY 10y JGB	1.20	1.20	1.20
Commodities			
Brent crude, USD/bbl	79	80	80
Gold, USD/oz	2,756	2,800	2,850

Source: Bloomberg, UBS, as of 23 January 2025. 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. 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
Navigate political risks	Investors should prepare for volatility and potential policy surprises, especially with respect to trade. We recommend using capital-protected equity strategies to reduce downside risks. Investors should manage allocations to long-duration bonds carefully, given fiscal risks. Oil and gold remain effective hedges against geopolitical and inflation risks, in our view.	• Capital protected equity • strategies • Manage long duration bond exposure • Gold • Oil
Lock in yields	High-quality fixed income offers compelling opportunities over the next 12 months. Our preferred duration is in the four- to five-year part of the curve. Investors should diversify fixed income allocations and consider intermediate duration Treasuries, Agency MBS, municipals, IG, and sustainable bonds.	• US intermediate duration Treasuries, investment grade bonds, municipals • Diversify portfolio income (diversified fixed income strategies, Agency MBS, senior loans, private credit, sustainable bonds, equity income strategies)
Go for gold	We expect gold to resume its rally in 2025. We see the trend of central bank reserve asset diversification continuing, with geopolitical risks, government debt concerns, and inflation uncertainty contributing to strong investor demand.	• Gold • Silver
More to go in stocks	The potential imposition of tariffs could lead to short-term equity volatility, but we see strong US growth and tailwinds from AI to be supportive for prices. AI innovations continue to drive growth, and we like US equities as beneficiaries, targeting 6,600 for the S&P 500 by year-end 2025. We favor small and mid-caps in Europe and diversified exposure in Asia, particularly Taiwan and India.	• US equities (particularly IT, financials, utilities and healthcare) • Asia ex-Japan (incl. India & Taiwan) • European small and mid caps

MIFs	Elevator pitch	Investment ideas
Invest in power and resources	A mixture of economic development, decarbonization, and AI advancements is boosting electricity demand. We believe this creates opportunity across the power and resources value chain, including in utilities, infrastructure, power equipment, and storage. We also see long-term opportunities in copper and in other transition metals as demand increases alongside rising investment in power generation, storage, and electric vehicles.	• Power equipment manufacturers • Regulated and deregulated utilities • Infrastructure facilitators • Storage • Copper and transition metals
Time for real estate	We believe the outlook for global residential and commercial real estate investments is bright. With constrained supply and rising demand, we see opportunities in sectors such as logistics, data centers, and multifamily housing. Investors should focus on quality assets and strategic diversification to capitalize on these favorable market dynamics.	• Commercial (US and Europe): Logistics, data centers, telecoms • Residential (broad exposure) • APAC REITs • Core-plus real estate managers • Real estate debt • Direct real estate (Canada, US, Continental Europe)
Harvest currency volatility	Higher volatility in currency markets provides investors with an opportunity to boost portfolio income, and/or earn additional yields in exchange for agreeing to make currency conversions at specific prices. In particular, we like yield pick-up opportunities selling upside in CHFJPY, EURGBP, and EURAUD, and downside in GBPUSD, GBPCHF, and AUDUSD. We expect the US dollar to remain well bid in the near term, though expect modest weakness over the balance of 2025, while we believe yen and pound weakness may be approaching their limits.	• USD: Sell on strength • EUR: Low expectations • CHF: Rate cuts almost complete • GBP and AUD: Preferred developed market carry currencies • JPY and CNY: Strength for yen, weakness for yuan

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

- Intermediate duration US Treasuries
- US Agency MBS
- US investment grade corporate bonds
- Senior Loans
- Global equity
- US equity
- US Large-cap equity
- US growth equity
- US value equity
- Oil
- Gold

Implementation guidance

Financial markets have had a strong start to 2025, supported by good economic data, and we expect this favorable macro environment to continue. The December US inflation print improved the outlook for a more dovish positioning from the Fed. Core CPI was 0.2% month over month, bringing the annual rate to 3.2% from 3.3%, previously. This was a relief for Treasury yields, with the 10-year currently around 4.60% versus the recent 4.80%. Economic growth remains strong in the US, with recent retail sales figures showing resilient consumption and the Atlanta Fed GDPNow tracker for Q4 currently at 3.0%.

With this strong economic backdrop and our expectation that the Fed will cut rates twice this year, the macro environment is supportive for risk assets, particularly equities. We maintain our December 2025 price target for the S&P 500 of 6,600, with an expectation of 9% earnings growth. 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 amongst European mid- and small-cap names.

Within US equities, we remain Neutral on value versus growth and this month upgrade the health care sector to Attractive from Neutral, as recent underperformance, improved policy clarity, attractive valuations, and potential earnings upside should lead to a rebound for the sector. Elsewhere, we maintain our Attractive view on financials, communication services, and consumer discretionary. Financials should benefit from lower funding costs, cooling regulatory pressures, and a pickup in capital markets activity. Communication services is attractive owing to solid digital advertising trends and investor enthusiasm around AI. Consumer discretionary should benefit from Fed rate cuts that will 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 recommend that investors **seize the AI opportunity**, as we expect AI to be a key driver of equity market returns for several years. As 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 mega-caps, which are well positioned across the value chain.

With the Fed having started its rate cuts and global central banks loosening policy, we recommend investors **lock in yields**. High-quality fixed income assets offer a compelling risk-reward over the next 12 months. Specifically, we like the five-year part of the Treasury curve and see value in investment grade bonds, Agency MBS, municipals, senior loans, sustainable bonds, and private credit.

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.

Last, as we look ahead, investors will need to consider how to **navigate political risks**. As President Trump's term gets under way, investors should prepare for market volatility and potential policy surprises, particularly with respect to trade policy, and should consider portfolio diversification and hedging approaches. Investors should buy market pullbacks in structural trends like AI and they should manage long-duration bond exposure, as these assets would be hurt by an unexpected rise in inflation if the market prices fewer rate cuts or potential rate hikes. We also recommend gold and oil as potential hedging options to protect against geopolitical flare-ups and inflation risks.

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		=	

Changes are based on the US asset class preferences table found in UBS House View Monthly Extended: January 2025, published on 12 December 2024.

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 five-tier rating system that is found in the *Equity Compass* into three tiers.

US economic outlook

Policy changes could have a big impact in 2025.

Brian Rose, PhD, Senior US Economist

Overview

Overall, 2024 was another good year for the economy, with robust GDP growth, low unemployment, and slowing inflation. AI-related activity continues to provide a strong tailwind, and left to its own devices, another good performance could be expected in 2025. However, potentially dramatic policy changes create a lot of uncertainty over the outlook. As shown in Figure 1, there was a historic surge in immigration under the Biden administration. While estimates vary, it appears that around 15% of the population now consists of immigrants, and it should be clear that any plan to dramatically reduce that number could have a big impact on the economy. In Figure 2, income growth has supported consumption, but a big chunk of that growth was generated by immigrants. Figure 3 reflects further progress on services inflation, suggesting that, from a starting point of severe labor shortages in 2022, immigrants on net helped to reduce inflation. Figure 4 refers to another potential big policy change on tariffs.

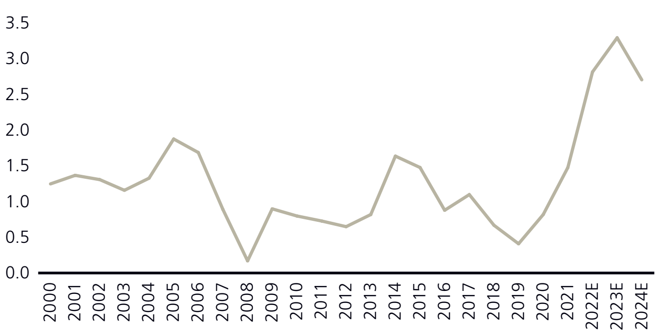
Growth

Recent data show growth continuing at a robust pace, boosted by strong consumer spending during the holiday season. As shown in Figure 2, consumer spending is supported by rising disposable income. There are, however, reasons to expect more moderate growth in 2025. Income growth is mainly driven by labor income, but growth in average hourly earnings has been slowing, and payroll growth is unlikely to match last year's 2.2 million pace. It appears that the great majority of job growth was among immigrant workers, which isn't surprising given that the native-born population is barely increasing and includes many people heading toward retirement age. The pace of immigrants crossing the southern border has been down sharply since mid-2024. With the new administration taking aggressive action to both reduce new undocumented immigration and to deport immigrants already in the country, labor supply will be further constrained. We still think average payroll growth of 100,000/month is achievable in 2025.

Figure 1

Immigration surge is over

Net immigration, in millions of people

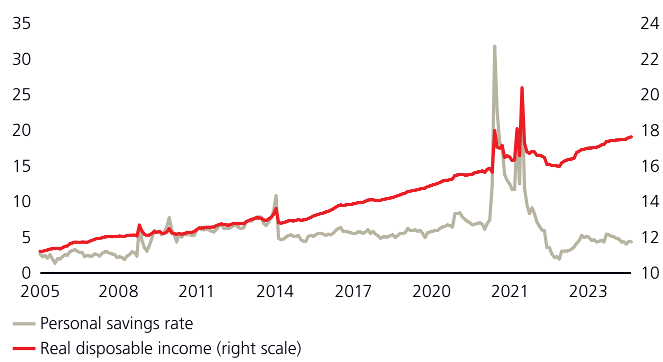


Source: CBO, UBS as of 22 January 2025

Figure 2

Consumer spending supported by rising income

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



Source: Bloomberg, UBS as of 22 January 2025

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

Read the report ›

Inflation

As shown in Figure 3, inflation has been trending toward pre-pandemic norms. Goods prices have been falling at a more gradual pace recently, with new and used vehicle prices both rising amid strong demand. Services inflation is still elevated, but continues to trend lower. Wage growth has slowed and this should help to reduce inflationary pressure on services. 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 on a sustained basis, which should help to constrain overall inflation in the months ahead. The possibility of higher tariffs on imported goods is a big risk factor. Our base case looks for policies not too different from Trump 1.0, with the focus on China and a limited inflation impact. However, universal tariffs could have a much bigger impact. For many goods, there is little domestic production capacity to substitute for imports, and therefore tariffs are likely to quickly feed into higher prices.

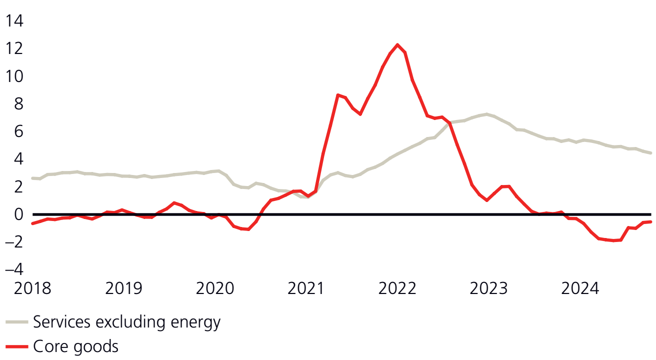
Policy

The Fed started a rate-cutting cycle last September, with three cuts totaling 100 basis points last year. However, following the December cut the Fed turned notably more cautious on additional cuts, signaling its intention to wait for better inflation data. The latest round of labor market data was solid, giving the Fed little reason to consider cuts right now. Our base case calls for 50 bps of cuts in 2025, but a wide range of outcomes is possible. On the fiscal side, President Trump stated that he is thinking of imposing tariffs on Canada, Mexico, and China in retribution for allowing immigrants and fentanyl to cross their borders. As shown in the chart, these three countries account for more than 40% of total imports; in our view, big tariffs would deliver a significant economic shock. Given a structural budget deficit of around USD 2 tr and the Republicans' narrow majority in Congress, in our view it will be difficult to implement significant new stimulus, while spending cuts could hurt growth.

Figure 3

Inflation trending toward pre-pandemic norms

Core CPI, services and goods, year-over-year change in %

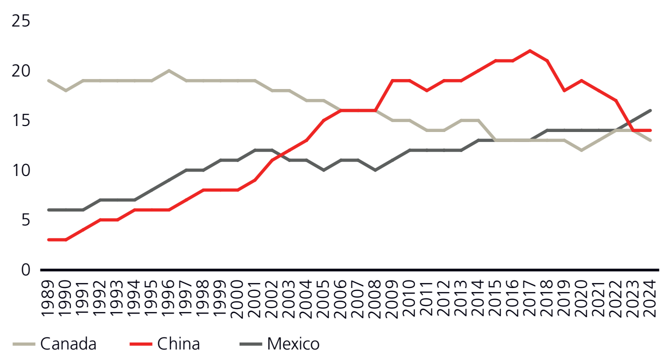


Source: Bloomberg, UBS as of 22 January 2025

Figure 4

Trump threatens tariffs on major trading partners

Share of total goods imports by country, in %



Note: 2024 is year-to-date as of November
Source: FRED, UBS as of 22 January 2025

Equities

We keep global equities at Attractive. While policy uncertainty is likely to inject volatility, we believe robust underlying fundamentals should prevail throughout the year. We expect earnings to grow in the high single digits this year and next. Contributions should broaden, but the tech sectors should remain the main engine of growth thanks to robust AI investments. Within regions, we prefer the US and Asia ex-Japan. We also recommend taking exposure to the beneficiaries of AI.

Eurozone

NEUTRAL

EURO STOXX 50 (index points, current: 5,206)	December 2025 target
House view	**4,900**
Positive scenario	5,900
Negative scenario	3,800

Note: All current values as of 23 Jan 2025

We are Neutral on the region. Current valuations are reasonable, earnings are bottoming out, and global monetary policy is easing, but the earnings recovery is likely to be slow and a Trump presidency raises risks to growth from tariffs and headwinds to valuations from higher US bond yields. Within Europe, we prefer segments that are relatively insulated from the threat of trade tariffs, offer exposure to structural growth trends, or benefit from further rate cuts. We like Eurozone small and mid-caps, and the health care, IT, real estate, and utilities sectors.

Emerging markets

NEUTRAL

MSCI EM (index points, current: 1,082)	December 2025 target
House view	**1,160**
Positive scenario	1,250
Negative scenario	850

Note: All current values as of 23 Jan 2025

We remain Neutral on emerging market equities. Trade uncertainty, along with other policies from the second Trump administration and a less aggressive easing path from the Fed than initially expected, is likely to impact the near-term outlook for this asset class. However, we believe interest rates will continue to trend downward, albeit at a slower pace, and the implementation of stimulus measures in mainland China should provide additional support.

Japan

NEUTRAL

TOPIX (index points, current: 2,737)	December 2025 target
House view	**2,910**
Positive scenario	3,250
Negative scenario	2,200

Note: All current values as of 23 Jan 2025

We are Neutral on Japanese equities despite supportive fundamentals. Lingering tariff concerns could cause volatility, given the cyclicality of the asset class and its sensitivity to the global economy. In our view, a higher return on equity (ROE) remains key for Japanese equities to attract foreign investors back to Japan in 2025. We recommend Japanese banks as a core sector in 2025, focusing on high-quality and domestic stocks in 1H25 and shifting to cyclicals in 2H25 as the global manufacturing cycle recovers.

UK

NEUTRAL

FTSE 100 (index points, current: 8,545)	December 2025 target
House view	**8,200**
Positive scenario	9,800
Negative scenario	6,600

Note: All current values as of 23 Jan 2025

We are Neutral on UK equities. We believe the underlying macroeconomic backdrop remains supportive, with domestic growth gradually accelerating, and the Bank of England has started to cut interest rates. But the earnings recovery is likely to be slow, and a Trump presidency raises risks to growth from tariffs as well as headwinds to valuations from higher US bond yields. Although the FTSE 100 currently trades at a discount, we view valuations as fair.

US equities

We have an Attractive view on US equities. Although the S&P 500 has experienced recent volatility, the index remains near its all-time high. We expect further gains over the next year driven by: (1) healthy earnings growth, (2) durable economic growth, (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

US equities will likely be more volatile this year owing to periodic concerns about the return on AI investment spending, tariffs, and, possibly, higher interest rates. But any dip will likely be a buying opportunity. In recent years, stocks have struggled when interest rates rose rapidly. As long as higher interest rates are primarily a function of solid economic growth—which we believe they are—US equities should be resilient. We expect good 4Q earnings results driven by solid economic growth. Finally, while valuations are higher than average, there is no clear relationship between valuation and returns over the next 12 months. Other factors—such as the Fed actions and earnings growth—are more important, in our view. We expect 9% S&P 500 EPS growth (to USD 248) in 2024 and another 9% growth (to USD 270) in 2025.

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 firmer consumer spending for segments within consumer discretionary. Financials are likely to benefit from a pickup in activity and deregulation. Policy clarity and attractive valuations should benefit health care over time. Utilities offer defensive exposure if economic growth falters and upside from AI powers demand.

US equities – size

We have an Attractive view on large-caps and Neutral views on mid-caps 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, but 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 remain favorable. Our positive views on the financials, health care, and utilities sectors suggest upside for value stocks.

S&P 500 (index points, current: 6,119)	December 2025 target
House view	**6,600**
↗ Upside	7,000
↘ Downside – tariff shock / US stagflation	5,100
↘ Downside – hard landing	4,500

Note: All current values as of 23 Jan 2025

Figure 1

Upgraded healthcare 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: S&P 500 sector preferences;
Changes are based on the US asset class preferences table found in UBS House View Monthly Extended: January 2025, published on 12 December 2024.
Source: UBS, as of 23 January 2025

Figure 2

Health care valuations appear very attractive

Healthcare vs. S&P 500, relative P/E based on next twelve months earnings

Source: FactSet, UBS, as of 22 January 2025

Bonds

Given ongoing US economic resilience and the uncertainty associated with the new administration's policies, the market has repriced higher than the Fed's endpoint to around 4%, which has resulted in yields rising across the curve. Although potential fiscal changes add upside risks to growth and inflation, we believe the risk-reward of adding duration is favorable. Specifically, we continue to see ongoing loosening of labor market conditions and the Fed having shifted priorities from inflation to ensuring full employment. Therefore, its bias to ease policy does not appear to have changed.

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 intermediate duration

ATTRACTIVE

US 10-YEAR YIELD (current: 4.61%)	December 2025 target
House view	**4.00%**

Note: All current values as of 23 Jan 2025

The Treasury market received some relief from a sell-off that began in September following the December CPI report and dovish commentary from Fed Governor Christopher Waller. Treasuries edged lower following the inauguration of President Trump as tariff threats were seen by the market as milder than expected. The only action taken so far has been a call for a review of trade practices due on 1 April. We continue to expect yields to trend toward 4% by year-end, but maintain a buy zone of 4.75-5.00% in 10-year yields. The trend downward will not be a straight line, and we would not be surprised by moves higher in the short term as policy implementation by the new administration becomes clearer. For now, we maintain a preference for Treasuries in the five-year area of the yield curve.

US investment grade corporate bonds

ATTRACTIVE

US IG SPREAD (current: 82bps)	December 2025 target
House view	**85bps**
Positive scenario	70bps
Negative scenario	180bps

Benchmark: ICE BofA
Note: Current values as of 17 Jan 2025

We hold an Attractive view on investment grade (IG) bonds. We find the outright level of yields appealing and believe investors with excess cash holdings should look to lock in attractive yields in bonds with medium durations. Fundamentals generally remain solid, and we expect limited credit quality deterioration in our base case. Resilient issuer credit profiles and yield-driven demand are supportive factors for our view of range-bound credit spreads. We believe the total return outlook for is mainly supported by carry, with upside from falling government bond yields.

Emerging market bonds

NEUTRAL

EMBIG DIV. / CEMBI DIV. SPREAD (current: 316bps / 236bps)	December 2025 target
House view	**325bps/225bps**
Positive scenario	290bps / 210bps
Negative scenario	550bps / 500bps

Note: Current values as of 23 Jan 2025

We keep emerging market credit as Neutral. Valuations look historically tight, making the asset class vulnerable to possible setbacks. However, in our soft-landing base case, we expect bond spreads to trend rangebound over the next six to 12 months, offering investors an appealing mid-single-digit interest rate carry. Key risks include renewed concerns about a US recession, deepening economic woes in China, resurging inflation fears, and an escalation of trade and/or geopolitical tensions.

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

US high yield corporate bonds

NEUTRAL

USD HY SPREAD (current: 259bps)	December 2025 target
House view	**300bps**
Positive scenario	250bps
Negative scenario	700bps

Benchmark: ICE BofA
Note: All current values as of 23 Jan 2025

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 7.2% provides solid 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 are at or near one-year highs. Tax-equivalent yields are particularly attractive for investors in the highest tax brackets. Given the combination of attractive carry, a hawkish Fed, and the possibility of long Treasury rates rising in the near term, we pivot to a barbell preference. We like the two- to five-year and 17- to 30-year range on the AAA tax-exempt curve. We recommend a portfolio effective duration of around seven years. High yield and BBB muni spreads remain compressed, so we prefer higher-quality bonds for going out further on the curve. Nevertheless, short dated HY and BBB yields look attractive for investors with higher risk tolerance. We remain Neutral.

Non-US developed fixed income

NEUTRAL

Over the past month, bond yields in non-US developed markets were mostly higher, hurting the asset class. On foreign exchange markets, the dollar overall ended little changed against other major currencies after giving back earlier gains. These factors combined to produce slightly negative returns for the month. US bonds still offer higher yields than those in most other developed markets, but central bank rate cuts overseas 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 +9bps (versus +10bps last month)

Mortgage-backed securities (MBS)

MOST ATTRACTIVE

The relative value opportunity in agency MBS persists, as current coupon spreads remain wide of investment grade corporates. While there is the potential for slightly higher supply if 10-year yields trend toward our low 4% estimate throughout the year, we believe that demand will far outweigh supply. With bank deposits stabilizing and deregulation under the new administration, we believe bank demand, a key component to agency MBS performance, will continue to rise. This dynamic, on top of foreign buying and continued fixed income inflows via institutional investors, will be a tailwind to MBS performance.

AGENCY MBS SPREAD (current: 135bps)	December 2025 target
House view	**100bps**
↗ Positive scenario	100bps
↘ Negative scenario	160bps

Note: Current values as of 23 Jan 2025

Preferred securities

NEUTRAL

The preferreds sector was a top performer last year with gains of roughly 9% despite a fourth-quarter pullback. We expect more modest returns in the year ahead. Even in a more range-bound rate environment, relative value remains the most limiting constraint and we expect more monthly return volatility. However, the lack of competitive yield alternatives may continue to bolster the preferred sector in 2025. Solid banking sector fundamentals and supply-demand dynamics are also likely to remain supportive. If the economy stabilizes without triggering a significant credit event, the rate and market yield backdrop is likely to remain supportive as well.

Treasury Inflation-Protected Securities (TIPS)

NEUTRAL

Real yields have risen, as investors seek compensation for potential forward inflation, and the market reprices a more hawkish Fed path for 2025. The December CPI report provided some relief, but 10-year real yields remain at 2.2%. As with our expectation of potential rising nominal yields over the short term, we look to add 10-year real yields near 2.5%.

US 10-YEAR REAL YIELD (current: 2.2%)	December 2025 target
House view	**1.50%**
↗ Positive scenario	0.75%
↘ Negative scenario	2.30%

Note: All current values as of 23 Jan 2025

Figure 1

UBS CIO interest rate forecast

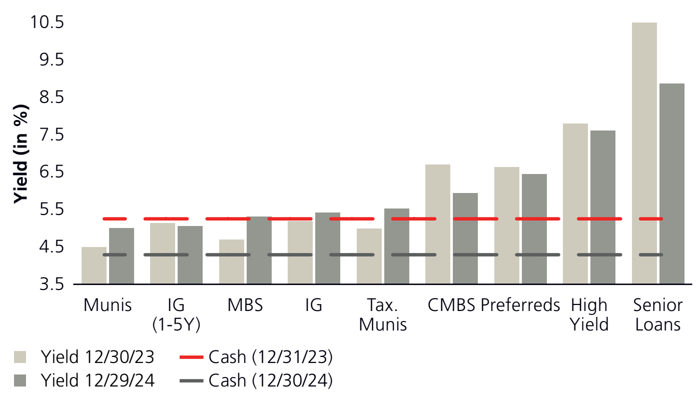
In %

UST	Current	Mar-25	Jun-25	Sep-25	Dec-25
2-year	4.3	4.0	3.8	3.8	3.8
5-year	4.4	4.0	3.8	3.8	3.8
10-year	4.6	4.3	4.0	4.0	4.0
30-year	4.8	4.5	4.3	4.3	4.3

Source: Bloomberg, UBS, as of 22 January 2025

Figure 2

Cash yields started 2025 below high quality fixed income



Source: ICE BofA, UBS as of 31 December 2024

Commodities and listed real estate

Commodity markets are facing several headwinds—primarily, Trump tariff threats alongside higher-for-longer US rates and US dollar. Our benchmark CMCI Index has still gained around 4% year to date, which is almost half our expected annual gain of around 11%. We expect more modest gains in the months ahead but accompanied by greater price volatility, particularly if tit-for-tat trade exchanges emerge (although not our base case). We prefer exposure via structured solutions for select commodities and staying long gold, and at the index level, we prefer active over passive strategies.

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 2,756/oz) — December 2025 target

ATTRACTIVE

House view	USD 2,850/oz
Positive scenario	USD 2,550/oz
Negative scenario	USD 3,150/oz

Note: All current values as of 23 Jan 2025. Gold is considered a safe-haven asset whose price tends to rise when risk assets, such as equities, fall, and vice versa.

Precious metals

Gold posted one of the best performances within the commodity sector in 2024, only surpassed by cocoa and coffee. The metal gained 27% last year, reaching an all-time high of USD 2,788/oz on 30 October. We believe the need for diversification has been key to gold's record-breaking rally. We expect another year of strong official sector gold purchases and diversification demand from less rate-sensitive parts of the investment community. We therefore remain long gold in our global strategy with a target of USD 2,850/oz by year-end and like to sell the downside price risks in platinum and silver.

Base metals

Tariffs are back in vogue, with President Trump threatening 25% duties on Canadian and Mexican exports, alongside an additional 10% tariff on China in his first few days in office. We believe continued investment in the energy transition alongside additional Chinese stimulus would provide the necessary push for a step higher in prices. We like copper, then zinc, followed by aluminum. Nickel and lead prices are expected to lag again in 2025. Right now, we like to sell the price downside risks in copper and zinc.

Agriculture

2024 was another year of divergent performance between grains and soft commodities. Cocoa and coffee were the biggest winners for a second year running, while soybean and soybean products were the worst. Global inventories should remain ample across grains and oilseeds in 2025 assuming a low level of weather risks. Conversely, soft commodities remain tight, particularly coffee and cocoa. Live cattle remains our top pick in the livestock sector, with herd rebuilding globally and strong US beef demand reducing animal numbers in feedlots and cutting product inventories in cold storage.

BRENT (current: USD 79/bbl) — December 2025 target

ATTRACTIVE

House view	USD 80/bbl
Positive scenario	USD 100–120/bbl
Negative scenario	USD 40–60/bbl

Note: Current values as of 23 Jan 2025

Crude oil

Upside risks to our forecasts include destabilizing political events in oil-producing regions, such as Libya, Venezuela, Nigeria, and the Middle East, that trigger a sharp drop in supply for a sustained period. Downside risks include a deep recession, a hard landing in China, or renewed extended mobility restrictions that weigh on the oil demand recovery. We forecast the bullish price scenario would see Brent trading at USD 100-120/bbl, while the bearish scenario would see Brent at USD 40-60/bbl. Our base case is for Brent to trade at around USD 80/bbl in 2025.

Listed real estate

RUGL Index (current: USD 5,855) — December 2025 target

House view	USD 7,600
Positive scenario*	USD 7,800
Negative scenario*	USD 7,100

Note: All current values as of 23 Jan 2025
*Positive and Negative scenarios reflect December 2025 targets.

We like companies that seek growth and engage in acquisitions or accretive issuance and that show strong pricing power, profitable pipelines, attractive yield gaps, and robust cash flows. We like Singaporean REITs, which should benefit from interest rate cuts. We also like cheaply valued Japanese developers but see challenges for their REIT counterparts. Continental Europe has suffered under short-term uncertainties, while improvements should gradually happen. The UK market looks comparatively cheap, but there is a lack of immediate triggers. We come back to US REITS after their underperformance. Australia is likely to take advantage of gradually decreasing financing costs.

Foreign exchange

We are Neutral on major currencies, while CNY is Unattractive.

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

In the near term, there seem to be limited headwinds holding the USD back. US exceptionalism has appeared to reassert itself, with US economic data likely to stay strong in the near term and risks to US inflation moving higher again. The latest growth and inflation dynamics have lifted US growth and inflation expectations, which could allow the Fed to stay on hold in 2025. At least in the short run markets are likely to think this way, while other key central banks are likely to cut rates further. The potential for monetary policy divergence is a powerful driver, which leads to trending FX markets and the potential for overshooting exchange rates. US tariffs are also looming large, weighing on sentiment.

As highlighted in our December update, we think it's hard for markets to look at the macro impact from an equilibrium perspective—taking all the drivers into consideration. Instead, the market is taking incoming news one step at the time. While this favors the US and the USD for now, we should not extrapolate it through the full year. Hence, we still believe 2025 could be a story of two halves—strength in 1H, and partial or full reversal in 2H. The fact that the USD is trading at multi-decade highs in strongly overvalued territory and that investor positioning (like speculative accounts in the futures market) is elevated underpin this narrative, in our view.

We stay Neutral on the Japanese yen. In the near term, a further rise in the USDJPY toward 160 cannot be ruled out, especially if US bond yields keep rising. We also lowered our view of the appreciation potential of the yen. The year endpoint for USDJPY stands now at 149 (prev. 145). Broader JPY gains require a more decisive BoJ, potentially from March onward, for the US-Japan yield differential to narrow in 2025. From a political perspective we note that before being sworn in earlier this week, President Trump previously criticized the yen for being too weak, while Japanese policymakers do not desire further material yen weakness either. Mutual US-Japanese interests could be well served by a stronger yen.

We keep our Least Preferred view on the yuan. Tariff rates on the country are expected to be aggressive, while the CNY has only partially moved lower against the USD, implying potential downside to come. We reiterate our USDCNY forecast of 7.50. If greater stimulus in China emerges during 2025, we believe the AUD has room to outperform European currencies into the latter part of the year. The Mexican peso will likely remain in focus over the coming months as trade and immigration were key issues during Trump's campaign. Central and eastern European currencies are exposed to potential US tariffs on Europe and an overall worse outlook for global trade. One currency that retains significant carry appeal and benefits from sound domestic policies is the Turkish lira—a good addition to diversified portfolios, in our view.

FX strategy

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

Changes are based on the Foreign exchange preferences table found in UBS House View Monthly Extended: January 2025, published on 12 December 2024.

FX forecasts

	Current	Mar-25	Jun-25	Sep-25	Dec-25
EURUSD	1.04	1.00	1.02	1.04	1.06
USDJPY	156	160	156	153	149
GBPUSD	1.23	1.19	1.23	1.25	1.29
USDCHF	0.91	0.93	0.91	0.89	0.88
USDCAD	1.44	1.46	1.44	1.42	1.40
AUDUSD	0.63	0.62	0.63	0.65	0.66
NZDUSD	0.57	0.54	0.54	0.55	0.56
USDSEK	11.01	11.50	11.18	10.87	10.66
USDNOK	11.28	11.80	11.47	11.15	10.85

Sources: SIX Financial Information, UBS, as of 23 Jan 2025

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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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.

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-US 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 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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