# UBS House View

## Investment Strategy Guide: Managing exceptionalism

**May 2025** | Chief Investment Office GWM | Investment research

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**May**

CIO Monthly Livestream

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# Dear reader

President Trump's "Liberation Day" tariffs were harsher than expected, with broad measures that unsettled markets, weighed on sentiment, and brought US exceptionalism into question. However, not all recent news has been negative, as the administration has signaled a willingness to adjust its approach if financial conditions deteriorate.

In our view, the US economy is likely to experience a slowdown in the second half of 2025, driven by weaker consumer confidence, the negative impact of tariffs—especially on Chinese goods—and other policy changes that will weigh on activity in the near term. Our base case calls for 1.5% US GDP growth on average in 2025, but risks are clearly skewed to the downside.

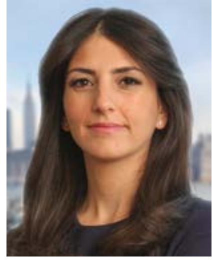
Still, we believe there are also shock absorbers in place that could help mitigate the risk of a more severe downturn. Notably, the labor market still looks solid, with payrolls growing by 456,000 in 1Q25, more job openings than unemployed workers, and wages rising. While we expect increased layoffs and slower payroll growth in the months ahead, the Fed is signaling its willingness to cut rates in response, even if tariffs push up inflation further above its 2% target in the near term. Additionally, progress in trade negotiations and a more market-sensitive approach from the administration should continue to support sentiment in the near term. President Trump's recent pause on certain tariff implementation signals that we may have reached peak policy uncertainty, which could be positive for stocks.

Against this backdrop, we recently upgraded US equities to Attractive. Although volatility is likely to persist, we expect the S&P 500 to rise to 5,800 by year-end, supported by selective trade carveouts, central bank rate cuts, and progress on a US budget reconciliation bill. Specifically, we have an Attractive view on information technology, communication services, health care, and utilities.

While enthusiasm for fixed income has moderated, we continue to see select compelling opportunities. Corporate balance sheets remain healthy, and we expect 10-year Treasury yields to trend lower toward 4.0% by year-end. We maintain a Neutral view on the asset class but continue to recommend high-quality bonds, including agency MBS and investment grade corporates, which still offer valuable diversification benefits.

As always, we recommend speaking with your UBS financial advisor to determine how these views fit within your broader financial plan.

Solita Marcelli



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Investing under Trump 2.0

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# Managing exceptionalism

### Still exceptional?

The concept of US exceptionalism is facing scrutiny. Policy uncertainty has added to the recent market volatility.

### Scope for a rebound

We expect the S&P 500 to recover over the balance of the year as tariff uncertainty eases and the Fed likely cuts interest rates.

### Balance risk and opportunity

Investors should consider regional diversification to balance innovation opportunities in the US with the risks to the market.

### Asset allocation

We rate US equities as Attractive. We also like quality bonds, and see gold and hedge funds as appealing portfolio diversifiers.

Mark Haefele
Global Chief Investment Officer
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Throughout history, US exceptionalism has been a significant theme in financial markets. However, this concept is facing scrutiny in 2025.

According to the Global Investment Returns Yearbook 2025, an investment of one dollar in US equities in 1900 would have grown to USD 2,911 in real (after inflation) terms by the end of 2024, compared to USD 194 for ex-US equities over the same period. From 2020 to 2024, US equities (MSCI USA) outperformed ex-US equities (MSCI AC World ex-US) by 72 percentage points, driven by a post-pandemic boom that saw nominal US GDP rise roughly 35% alongside strong corporate earnings growth and rapid technological advances.

Yet, US equities have underperformed ex-US equities by around 15 percentage points year to date. The US dollar and US Treasuries have deviated from historical patterns and declined amid recent volatility. The relative steepening of the US Treasury yield curve indicates that investors are demanding an additional risk premium on longer-term US government debt.

On the economic front, trade tariffs are expected to affect the US more significantly than most other global economies. Additional restrictions may limit the operations of US multinational companies globally. Beyond tariffs, Europe and China appear to be better positioned to provide monetary and fiscal stimulus, given the US deficit and central bank policy complications caused by tariff-driven inflation.

At the same time, the many innovative companies present in the US equity market are likely to remain a key driver of global profit growth in the years ahead. A well-diversified global portfolio should still include substantial exposure to the world's largest economy and most developed financial market. And nearer term, we see scope for a tactical recovery in US risk assets, as has often been the case historically following periods of high volatility and investor pessimism.

In the remainder of this letter, I consider the risks to US exceptionalism, why we believe US assets should nonetheless remain at the core of well-diversified global portfolios, and how investors can balance the risks and opportunities currently present in US assets.

Investors who are underexposed to US stocks can use the recent sell-off to progressively build strategic exposure.

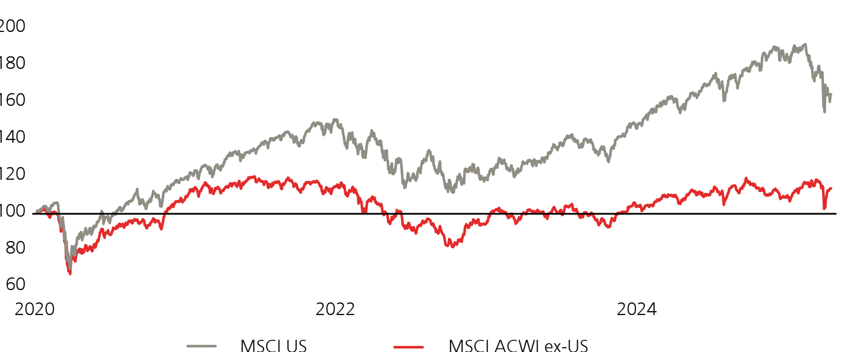
Changes in the global landscape should be a time for investors to pause, take stock, and consider their asset allocations. In short, we believe investors who entered 2025 underexposed to US stocks should use the recent sell-off to progressively build strategic exposure, while those with outsized exposure should look at global diversification opportunities.

To manage near-term volatility, we believe that investors should take advantage of attractive yields on US quality bonds to lock in durable income, while also considering diversifying to include gold, hedge funds, and other global fixed income markets. Finally, though the US dollar looks oversold in the near term, we believe investors should prepare to reduce US dollar exposure (including by hedging USD assets) in the event of near-term rallies, to improve the long-term risk-return profile of portfolios.

Figure 1

US equities outperformed ex-US equities since the start of the decade before underperforming in 2025

MSCI US and MSCI ACWI ex-US index, rebased, 31 December 2019 = 100




Source: Bloomberg, UBS, as of April 2025

**Exceptionalism under question**

*No longer "exceptional" growth*

US economic growth has outpaced that of other developed economies over the past 25 years.

Over the past 25 years, US economic growth has outpaced that of other developed economies, helped by relatively strong productivity gains, higher population growth, and rising investment. From 2000 to 2024, US real GDP grew at an average annual rate of approximately 2.2%, compared to 1.4% for the Eurozone and 0.7% for Japan.

Tariffs are likely to slow US economic growth.

Looking forward, we believe that tariffs are likely to have a relatively larger impact on the US economy than on most other large global economies. In our base case, we now expect US economic growth of 1.5% in 2025 versus the expectation of more than 2.0% growth we held earlier this year. We expect growth of 0.7% for the Eurozone in 2025 (around 0.2 ppt weaker than when we entered the year) and below 4% for China (roughly 0.5 ppt weaker).

If maintained, tariffs are also likely to adversely affect the US's long-term growth potential. The imposition of tariffs not only disrupts current trade flows, but is also likely to discourage investment and erode productivity in the US tradeable goods sector.

*US policy more constrained*

The ability for the US to provide additional fiscal and monetary stimulus appears more limited.

The US economy outperformed developed market peers after both the global financial crisis and the pandemic, in part owing to the effective combined use of monetary and fiscal stimulus. The US government's fiscal response to the pandemic totaled an estimated USD 5 trillion and the Federal Reserve cut interest rates to just 0.00-0.25%. But the ability for the US to provide additional fiscal and monetary stimulus to offset the current shock is more limited.

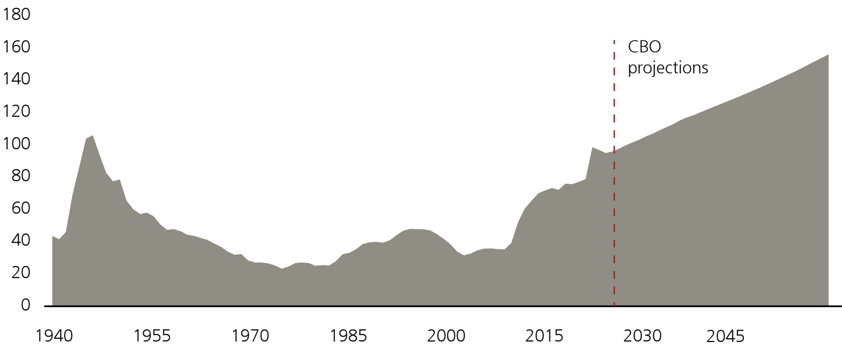
Our base case is that the Fed will cut interest rates by 75-100 basis points this year. But in the near term, the Fed's policy flexibility appears to be more limited as it has to balance growth concerns against the risk of a resurgence in inflation. Fed Chair Jerome Powell has stressed that he is keen to ensure that one-off price increases arising from higher tariffs do not drive second-round effects, which could lead to more sustained inflation. So, while the European Central Bank, Swiss National Bank, and Bank of England have cut rates already this year, it is likely that the Fed will need to wait until September for its next cut.

We also do not expect additional US fiscal stimulus this year. The US has run fiscal deficits of 5.3-6.3% of GDP for the past three years. With the US debt-to-GDP ratio at 123% as of December 2024, and amid growing concerns about the US fiscal trajectory both in Washington and on Wall Street, we do not expect the fiscal deficit to rise significantly. In our base case, we do see tax cuts introduced in 2017 being extended, but doing this would only represent the absence of fiscal tightening, rather than fresh stimulus.

Figure 2

The US federal debt-to-GDP ratio is at the highest level since 1946

Federal debt held by the public (i.e., debt excluding intragovernmental debt), % of GDP




Source: Congressional Budget Office, UBS, as of April 2025

There are signs of the structural outlook improving outside the US.

*Shifting growth narratives elsewhere?*
Part of the US "exceptionalism" narrative in recent years has also arisen from Europe and China facing structural growth challenges at the same time as the US was delivering robust growth. Part of the shift in the "exceptionalism" narrative in 2025 has been due to signs of improvements in the structural outlook for both Europe and China.

Recent developments point to a more constructive structural outlook for Europe, particularly as the US steps back from its traditional geopolitical leadership role. A key turning point has been Germany's decision to amend its debt brake, signaling a willingness to embrace more flexible fiscal policy to invest in defense and infrastructure. While it is early, this shift could also catalyze broader reforms across the Eurozone.

In the financial sphere, rising global demand for an "alternative reserve asset" and the need to fund higher defense spending may prompt the Eurozone to reconsider common bond issuance, a move that could deepen capital markets and strengthen the euro's international role. The recent Draghi report on EU competitiveness, which advocates for productivity-enhancing reforms, offers a blueprint for change.

China is accelerating its push for self-reliance.

Meanwhile, China is accelerating its push for even greater self-reliance, emphasizing advancements in high-tech industries, artificial intelligence, and clean energy. The government has also gone further in recent months to acknowledge the critical role of the private sector in driving technological innovation.

## Why the US cannot be ignored

The US tech sector has been a major driver of equity performance in recent years.

*The world's biggest growth opportunities*
In recent years, a key driver of US equity market exceptionalism has been the performance of the US technology sector. Since the launch of ChatGPT in November 2022, the Magnificent 7 stocks have accounted for close to 60% of the S&P 500's gains.

Looking forward, we believe that the trend of innovation as a driver of long-term US—and, by extension, global—equity market performance will continue, despite potential near-term economic challenges and tariff headwinds.

We expect US companies to remain among the leaders in driving global corporate profit growth as they supply innovative products to the global economy. We have identified AI, Power and resources, and Longevity as three themes that will likely deliver a significant share of global corporate profit growth in the years ahead. US companies comprise about 80% of our AI, just over 50% of our Power and resources, and more than 70% of our Longevity Transformational Innovation Opportunities.

We see attractive opportunities in AI, Power and resources, and Longevity.

Following the recent sell-off, many of these companies are now more attractive, in our view. Global tech's 12-month forward price-to-earnings ratio is now approaching the low 20s, around 20% below last year's peak.

While tariffs will be a near-term overhang, it is important to see this in the context of strong longer-term growth. For technology, we expect tariffs to contribute to earnings-per-share cuts of 3-5% for 2025. But this means tech earnings should still grow by a mid-teens percentage this year, in our view. We expect strong global AI spend to continue, growing by 60% in 2025 to reach USD 360bn, and 33% in 2026 to reach USD 480bn.

Companies in our Power and resources opportunity currently trade on a forward P/E of 18x compared to the MSCI ACWI's 23x, despite our expectations for superior and more durable profit growth. Several formerly well-performing electrical equipment stocks in the strategy now trade at or below their respective sector averages, which we believe is unmerited taking into account a wide range of AI data center capex scenarios. We note that both Microsoft and Apple have reiterated their 2025 capex figures for data center infrastructure buildout.

In our Longevity opportunity, we note that US firms remain at the cutting edge of innovations in treating metabolic diseases like obesity and diabetes, particularly through GLP-1 drugs. Metabolic disease revenue is expected to grow at a 12% compound annualized growth rate (CAGR) through 2030. The health care sector is a primary beneficiary of the longevity trend, with a projected market opportunity of USD 2.2 trillion by 2030, according to UBS estimates.

USD quality fixed income remains an important part of portfolio diversification.

*Deep fixed income markets*
USD quality fixed income will also remain an important part of portfolio diversification for investors, providing liquidity, income, and portfolio stability, in our view.

US Treasuries sold off in tandem with equities following President Trump's "reciprocal" tariff announcements in early April. Question marks about Fed independence have also contributed to volatility in recent days. But although a "risk premium" is being priced into Treasuries, we believe there is a limit to how far this will rise, and we do not believe that Treasuries have fundamentally become a "risk asset."

In the event of a steeper slowdown in US growth, we believe that Treasuries would rally sharply and target a yield of 2.5% on the 10-year Treasury in our downside scenario (4.0% in our base case). The market also remains far more liquid than global alternatives, and Fed officials have signaled their readiness to intervene if market functioning were to become impaired.

We see scope for a recovery in US risk assets over the balance of the year.

*Scope for a tactical recovery*
Over the balance of 2025, we also see scope for a tactical recovery in US risk assets.

We believe the fact that the Trump administration changed its tariff stance in response to equity and bond market turbulence indicates some sensitivity to market stress, and points to the existence of a "Trump put" in some form. With many countries expressing a desire to negotiate with the US on tariff policy, and the Trump administration now somewhat pressured to demonstrate "success," we expect a variety of deals or sector carveouts to materialize within the 90-day pause period. The latest CNBC All-America economic survey

found that President Trump now has a net negative approval rating on the economy (43% approval, 55% disapproval) for the first time.

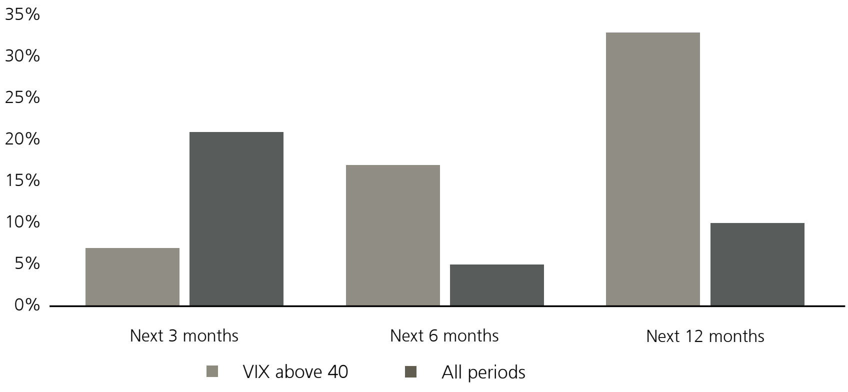
Negative sentiment toward US equities also suggests scope for a rally over the next 12 months. In March, the American Association of Individual Investors' (AAII) weekly survey showed that, on average, only 22% of investors expected stocks to rise over the next six months. Historically, the S&P 500 has averaged a 16% return in the 12 months following instances where bullish sentiment readings were below 25%, compared with an average return of just over 9% in all periods.

The S&P 500 has also performed well historically after periods of elevated market volatility. While each case is different, based on data going back to 1990, levels of the VIX above 40 (the index reached a high of 60 in early April) have been followed on average by one-year returns of more than 30% on the S&P 500.

Figure 3

S&P 500 forward returns have historically been strong when the VIX is high

Average S&P 500 price return when VIX above 40 vs. all periods, data since 1990




Source: Bloomberg, UBS, as of April 2025

**Investment views: balancing risks with opportunities**

*Look through volatility to build strategic exposure*

We believe investors who entered 2025 with low strategic exposure to US equities should use volatility to grow allocations.

With US companies likely to remain key drivers of global profit growth in the years ahead, we believe investors who entered 2025 with low strategic exposure to US equities should use continuing volatility to grow allocations. We expect the S&P 500 to rise to 5,800 by the end of 2025 as tariff uncertainty eases, the Fed cuts interest rates, and investors' focus shifts toward the prospect of a rebound in US earnings growth in 2026. We believe that phasing-in or capital preservation approaches can allow investors to benefit from medium-term growth while managing near-term timing risks.

We have also identified 20 US companies across a range of sectors that are higher quality, have solid business models, and which, after the recent sell-off, offer good longer-term value, in our view. We retain a high conviction view on the Transformational Innovation Opportunities of AI, Power and resources, and Longevity.

We also see diversification opportunities in Europe and Asia.

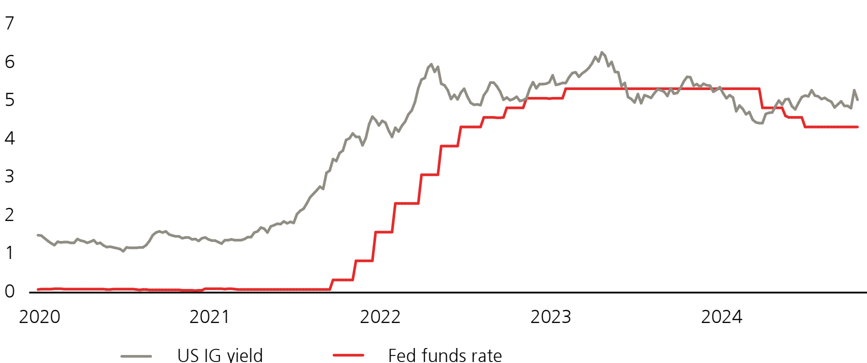
Investors who already hold adequate, or outsized, US exposure should consider diversifying into opportunities in Europe and Asia. Our “Six ways to invest in Europe” list focuses on defensive champions that can benefit from increased market volatility, as well as from likely higher European defense spending and fiscal stimulus. In Asia, we like India and Taiwan.

*Manage volatility with fixed income, gold, and hedge funds*
With bond yields relatively high, the yield curve steeper, and economic growth likely to slow, we see an opportunity for investors to switch cash into high-quality bonds and diversified fixed income portfolios to lock in yields, dampen overall portfolio volatility, and provide additional robust income. In our base case, we see the 10-year Treasury yield at 4.0% by year-end, and believe it could fall to 2.5% in a hard landing scenario.

Figure 4

US investment grade yields remain appealing

US IG (one- to 10-year) yield and federal funds effective rate, %



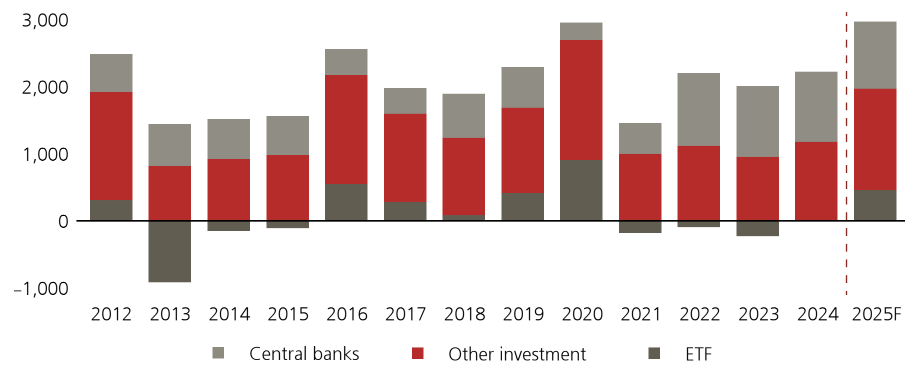

Source: Bloomberg, UBS, as of April 2025

At the same time, investors should remember that the long-term correlation between bonds and equities can vary, and the regime of consistently negative correlations between bonds and equities (which we saw through much of the 1990s, 2000s, and 2010s) has likely come to an end. This reemphasizes the importance of including alternative diversifiers into portfolios including hedge funds and gold.

Figure 5

Strong central bank demand, ETF buying are supportive of gold prices

Demand for gold from various sources, including UBS forecasts, in metric tons




Source: World Gold Council, UBS, as of April 2025

Gold has been the standout performer of 2025 so far. Purchases of exchange-traded funds (ETFs) have increased recently alongside ongoing central bank demand, supporting the precious metal. While our forecast stands at USD 3,500/oz at present, if US political uncertainty extends further, leading to greater demand for perceived "safe havens," we believe gold could rise toward our upside risk case (i.e., adverse macro scenario) of USD 3,800/oz.

*Prepare to reduce US dollar exposure*

The US dollar has sold off sharply and may stabilize in the near term.

After its notable recent sell-off, the US dollar may stabilize in the near term, in our view, especially with the Fed sounding caution on rate cuts at the same time as other central banks are cutting rates in response to the deteriorating growth outlook. In the absence of even greater US political uncertainty, current USD levels would require a sharp decline in US activity to be justified, in our view.

Over the medium term, however, we believe the trend of dollar weakness is likely to resume as the US economy slows more than elsewhere and elevated US twin deficits come into greater focus. As the Fed commences interest rate cuts, global investors are also likely to increase their FX hedge ratios, adding to USD downside pressure. So, we prefer using any periods of near-term dollar strength to reduce dollar allocations in favor of the Japanese yen, euro, British pound, and Australian dollar. Meanwhile, we like to sell the USD's upside potential for yield pickup.

Mark Haefele
Chief Investment Officer
Global Wealth Management

## Messages in Focus

**Seek durable income**
Despite the significant increase in downside risks to growth, bond yields have remained elevated. We believe this creates an opportunity for investors to seek durable portfolio income. High grade and investment grade bonds offer attractive risk-reward and can help hedge against market downturns. Wider credit spreads are improving the outlook for riskier credit; however, with economic visibility low, we prefer diversified portfolio income strategies—including senior loans, private credit, equity income, and higher quality credit.

**Navigate political risks**
Gold remains near record highs, reaffirming its value as a hedge amid ongoing geopolitical and political risks. With our price target raised to USD 3,500/oz through early 2026, we see gold well supported by "safe haven" demand and structural buying. We favor using dips as buying opportunities or entering defensively to protect gains. For investors seeking to preserve gains while retaining upside, capital preservation strategies can also be applied in equities. Silver, meanwhile, offers a complementary position, with investment demand expected to support prices alongside gold.

**Phase into equities**
While we expect near-term volatility to remain high, we anticipate equities will rise by year-end as the Trump administration strikes deals to reduce tariffs, and as rate cuts and potential fiscal support improve investor sentiment. Investors can navigate near-term volatility and position for longer-term upside by phasing into US equities or balanced portfolios, or by utilizing capital preservation strategies.

**Seek sell-off opportunities**
Recent volatility has created select attractive opportunities at the single stock and market level, with various companies with strong long-term prospects now trading at more attractive valuations. In the US, we have identified 20 companies across sectors that are higher quality, have solid business models, and offer good long-term value. In Europe, our "Six ways to invest in Europe" list focuses on defensive champions benefiting from market volatility, higher defense spending, and fiscal stimulus. In Asia, we favor India and Taiwan.

**Sell dollar rallies**
Following a recent sell-off, we expect the US dollar to stabilize in the near term, as the Federal Reserve remains cautious on rate cuts while other central banks ease policy in response to weaker growth. In our view, current dollar levels are only justified if there is a significant deterioration in US economic activity or a major increase in political uncertainty. Over the medium term, we anticipate renewed dollar weakness as the US economy slows and focus shifts to the US's large deficits. We prefer using any periods of near-term dollar strength as an opportunity to reduce USD allocations in favor of currencies such as the yen, euro, pound, and Australian dollar.

**Invest in transformational innovation**
We maintain strong conviction in the long-term potential of our Transformational Innovation Opportunity themes, including Artificial intelligence, Power and resources, and Longevity. While recent market volatility has weighed on these sectors, we see this as an opportunity for long-term investors to build exposure to what we believe will be among the world's fastest-growing industries. Phasing into investments or using capital preservation strategies can help manage short-term risks. We also see compelling opportunities for sustainability-focused investors, particularly in energy and health care, given the ongoing global emphasis on energy security and improved health outcomes.

**Diversify with alternatives**
More uncertain markets make diversification even more critical—both across and within alternative assets. In hedge funds, we favor low net equity long/short, macro, and multi-strategy approaches. Within private markets, we prefer private credit, value-oriented buyouts, and secondaries, including infrastructure. Thematically, we favor software, health, and climate. We also see a bright outlook for quality assets in global residential and commercial real estate, particularly in logistics, data centers, and multifamily housing.

**Strengthen your core**
Periods of market volatility can quickly reveal parts of a portfolio that may not be working effectively toward long-term goals. We generally recommend that investors implement a "core" portfolio, well-diversified across asset classes, geographies, and sectors, designed to grow wealth steadily over time. This "core" can be held alongside more opportunistic "satellite" investments, allowing investors to stay on course for long-term goals even as markets and "satellite" investments become more volatile.

# Global forecasts

## Economy

### Real GDP y/y, in %

| | 2024E | 2025E | 2026E |
|---|---|---|---|
| **US** | 2.8 | 1.5 | 0.8 |
| **Canada** | 1.2 | 2.0 | 2.0 |
| **Japan** | 0.1 | 0.8 | 0.3 |
| **Eurozone** | 0.8 | 0.7 | 1.0 |
| **UK** | 1.1 | 0.8 | 1.1 |
| **Switzerland** | 1.3 | 0.7 | 1.6 |
| **Australia** | 1.0 | 1.9 | 2.0 |
| **China** | 5.0 | 3.4 | 3.0 |
| **India** | 6.5 | 6.0 | 6.4 |
| **EM** | 4.4 | 3.5 | 3.5 |
| **World** | 3.3 | 2.5 | 2.5 |

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

| | 2024E | 2025E | 2026E |
|---|---|---|---|
| **US** | 3.0 | 3.2 | 3.8 |
| **Canada** | 2.4 | 2.2 | 2.1 |
| **Japan** | 2.7 | 3.0 | 1.2 |
| **Eurozone** | 2.4 | 2.1 | 1.9 |
| **UK** | 2.5 | 3.0 | 2.0 |
| **Switzerland** | 1.1 | 0.2 | 0.5 |
| **Australia** | 3.2 | 2.4 | 2.5 |
| **China** | 0.4 | -0.6 | -0.5 |
| **India** | 4.6 | 4.0 | 4.2 |
| **EM** | 8.1 | 3.8 | 3.0 |
| **World** | 5.7 | 3.3 | 2.8 |

Source: Bloomberg, UBS, as of 24 April 2025. Latest forecasts available in the *Global forecasts* publication, published weekly.

## Asset classes

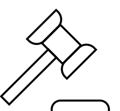
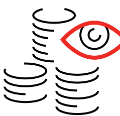
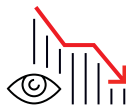
| | Spot | June-25 | Dec-25 |
|---|---|---|---|
| **Equities** | | | |
| S&P 500 | 5,376 | 5,500 | 5,800 |
| Eurostoxx 50 | 5,099 | 5,000 | 5,200 |
| FTSE 100 | 8,403 | 8,200 | 8,500 |
| SMI | 11,809 | 12,000 | 12,200 |
| MSCI Asia ex-Japan | 706 | 678 | 712 |
| MSCI China | 71 | 68 | 70 |
| Topix | 2,584 | 2,500 | 2,600 |
| MSCI EM | 1,096 | 1,050 | 1,100 |
| MSCI AC World | 968 | 980 | 1,030 |
| **Currencies** | | | |
| EURUSD | 1.14 | 1.14 | 1.16 |
| GBPUSD | 1.33 | 1.36 | 1.38 |
| USDCHF | 0.83 | 0.83 | 0.82 |
| USDCAD | 1.38 | 1.40 | 1.38 |
| AUDUSD | 0.64 | 0.64 | 0.68 |
| EURCHF | 0.94 | 0.95 | 0.95 |
| NZDUSD | 0.60 | 0.60 | 0.62 |
| USDJPY | 143 | 144 | 140 |
| USDCNY | 7.30 | 7.30 | 7.20 |

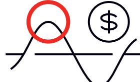
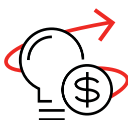
| | Spot | June-25 | Dec-25 |
|---|---|---|---|
| **Yields, in %** | | | |
| USD 2y Treasury | 3.87 | 4.00 | 3.75 |
| USD 10 year Treasury | 4.38 | 4.25 | 4.00 |
| CHF 2y Eidg. | 0.00 | 0.00 | 0.00 |
| CHF 10y Eidg. | 0.47 | 0.50 | 0.50 |
| EUR 2y Bund | 1.75 | 2.00 | 2.00 |
| EUR 10y Bund | 2.50 | 2.50 | 2.50 |
| GBP 2y Gilt | 3.92 | 3.75 | 3.50 |
| GBP 10y Gilt | 4.55 | 4.00 | 4.00 |
| JPY 2y JGB | 0.70 | 0.70 | 0.80 |
| JPY 10y JGB | 1.34 | 1.20 | 1.20 |
| **Commodities** | | | |
| Brent crude, USD/bbl | 66.1 | 68 | 68 |
| Gold, USD/oz | 3,288 | 3,500 | 3,500 |

Source: Bloomberg, UBS, as of 24 April 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 |
|---|---|---|
| **Phase into equities** | While we expect near-term volatility to remain high, we anticipate equities will rise by year-end as the Trump administration strikes deals to reduce tariffs, and as rate cuts and potential fiscal support improve investor sentiment.<br><br>Investors can navigate near-term volatility and position for longer-term upside by phasing into US equities or balanced portfolios, or by utilizing capital preservation strategies. | • Phasing in on equities and balanced portfolios |
| **Navigate political risks**  | Gold remains near record highs, reaffirming its value as a hedge amid ongoing geopolitical and political risks.<br><br>With our price target raised to USD 3,500/oz through early 2026, we see gold well supported by "safe haven" demand and structural buying.<br><br>We favor using dips as buying opportunities or entering defensively to protect gains.<br><br>For investors seeking to preserve gains while retaining upside, capital preservation strategies can also be applied in equities.<br><br>Silver, meanwhile, offers a complementary position, with investment demand expected to support prices alongside gold. | • Capital protected equity strategies<br>• Gold<br>• Silver |
| **Seek durable income**  | Despite the significant increase in downside risks to growth, bond yields have remained elevated.<br><br>We believe this creates an opportunity for investors to seek durable portfolio income.<br><br>High grade and investment grade bonds offer attractive risk-reward, in our view, and can help hedge against market downturns.<br><br>With economic visibility low, we prefer diversified portfolio income strategies—including senior loans, private credit, equity income, and higher quality credit. | • Agency MBS, municipal, sustainable and investment grade bonds<br>• Select credit opportunities in Asia and Europe<br>• Diversified portfolio income strategies (incl. senior loans, private credit, equity income, Swiss high-quality dividends) |
| **Seek sell-off opportunities**  | Recent volatility has created select attractive opportunities at the single stock and market level, with various companies with strong long-term prospects now trading at more attractive valuations.<br><br>In the US, we have identified 20 companies across sectors that are higher quality, have solid business models, and offer good long-term value.<br><br>In Europe, our "Six ways to invest in Europe" list focuses on defensive stocks benefiting from market volatility, higher defense spending, and fiscal stimulus.<br><br>In Asia, we favor India and Taiwan. | • Select pharma, medical devices, health care services<br>• Select consumer and financial services<br>• Select real estate |

| MIFs | Elevator pitch | Investment ideas |
| --- | --- | --- |
| **Sell dollar rallies**<br> | In our view, current dollar levels are only justified if there is a significant deterioration in US economic activity or a major increase in political uncertainty.<br><br>Over the medium term, we anticipate renewed dollar weakness as the US economy slows and focus shifts to the US's large deficits.<br><br>We prefer using any periods of near-term dollar strength as an opportunity to reduce USD allocations in favor of currencies such as the yen, euro, pound, and Australian dollar. | • Reduce USD exposure on strength<br>• Increase allocations to JPY, EUR, GBP, and AUD |
| **Invest in transformational innovation**<br> | We maintain strong conviction in the long-term potential of our Transformational Innovation Opportunity themes, including Artificial intelligence, Power and resources, and Longevity.<br><br>While recent market volatility has weighed on these sectors, we see this as an opportunity for long-term investors to build exposure to what we believe will be among the world's fastest-growing industries.<br><br>We also see compelling opportunities for sustainability-focused investors, particularly in energy and health care, given the ongoing global emphasis on energy security and improved health outcomes. | • AI<br>• Power and Resources<br>• Longevity |

# 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**
- US Agency MBS
- US investment grade corporate bonds
- Senior Loans
- US equity
- Gold

## Implementation guidance

Concerns about the US economic growth trajectory have increased following "Liberation Day" and the subsequent tariff policy announcements in the weeks that followed. While economic policy uncertainty is elevated, hard data on consumption and the labor market continue to show resilience. We anticipate US GDP growth closer to 1.5% in 2025 versus our forecast for growth over 2.0% at the beginning of the year, but an outright recession remains our bear case.

Turning to the Federal Reserve, we push out our forecast for the first rate cut of the year to September, where we previously expected sufficient weakness in the labor market to push the Fed to resume lowering rates in June. The new tariffs put the Fed in a challenging spot since they make it more difficult to simultaneously achieve their price stability and full employment mandates. We expect the Fed to look through tariff-related price increases as a one-off level shift higher, rather than a signal that inflation is reaccelerating. This would allow them to cut rates 75bps toward the end of 2025 to help support the labor market.

In the months ahead we expect policy uncertainty and market volatility to normalize as tariff policy becomes increasingly clear and investors begin to price more market-friendly policy initiatives, such as the budget reconciliation bill that extends personal tax cuts and returns expired corporate tax breaks. Given this outlook, we recommend investors prepare their portfolios for near-term volatility while positioning for upside through the rest of the year.

We believe investors should consider using positions in precious metals like gold and silver to help **navigate political risks**. Headline risks can cause quick sell-offs in risk asset markets, boosting the appeal of relative "safe havens" in this environment. We also believe investors should **seek durable income** to help manage portfolio volatility. High-quality fixed income like Agency MBS or investment grade corporate bonds remain Attractive in our view, and the high yields currently available can help produce portfolio income and hedge against equity market declines. We also recommend looking at other diversifying fixed income assets, including private credit, senior loans, and equity income strategies.

Current equity market volatility is creating attractive entry points at the broad market level, and for investors with longer horizons who are able to look through currently elevated volatility should begin to **phase into equities**. As the Trump administration cuts deals to lower tariff rates, the Fed resumes cutting rates, and investors begin to price in potential 2026 earnings growth, markets should find support and end the year higher—we expect the S&P 500 to rebound toward 5,800 by the end of 2025 and keep our view on US equities as Attractive.

Within US equities, we remain neutral on value versus growth and make no changes to our sector preferences. We maintain our attractive view on communication services, health care, utilities, and information technology. Communication services is attractive owing to solid digital advertising trends and investor enthusiasm around AI. Health care should benefit from improved policy clarity, attractive valuations and potential earnings upside. Within the tech sector AI should remain a key driver of equity market returns over the coming years. Consequently, it's 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. Within a portfolio context we also like utilities, as they are defensive and should do well in the event of weaker economic activity.

Looking below the surface of the market, recent volatility has created select attractive opportunities at the individual stock and sector level, with several companies with strong long-term prospects now trading at much more attractive valuations. For investors **seeking sell-off opportunities** that take advantage of the current volatility, we have identified high conviction individual equities and equity market segments in the US, Europe, and Asia that have strong business models and offer good long-term value.

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

Note: Changes are based on the US asset class preferences table found in *UBS House View Monthly Extended April 2025: Second Interim Update*, published on 17 April 2025.

# US economic outlook

Policy changes raise recession risks.

**Brian Rose, PhD,** Senior US Economist

## Overview

The huge tariff increases implemented in April are threatening to push the economy into recession. We are paying close attention to the labor market data, which still look healthy but could deteriorate suddenly. As shown in Figure 1, initial jobless claims are still at historically low levels, so even though hiring has slowed, layoffs are still low enough to keep the economy near full employment. Reflecting this, wages continue to rise at a solid pace. Although consumer sentiment is down sharply, rising wage income is still supporting spending (see Figure 2). It remains to be seen what happens as tariffs start to be passed through to consumer prices (see Figure 3). The trade deficit has recently widened to record highs, boosted by gold imports and businesses trying to bring in extra imports ahead of the anticipated tariff hikes (see Figure 4). In our base case, we look for the economy to go through a soft patch in 2H25 while avoiding a full-blown recession.

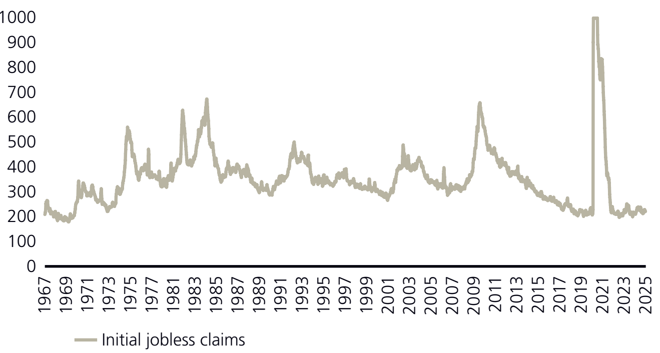
## Growth

Growth is off to a weak start in 2025, with consensus forecasts for Q1 GDP growth only slightly above zero. Policy uncertainty has weighed on activity, but in our view, some technical factors are likely causing GDP to understate the underlying pace of growth. As shown in Figure 2, consumer spending still appears to be holding up well, and as long as this is so, businesses should not feel much pressure to begin layoffs. However, the severe downturn in recent consumer sentiment surveys, especially regarding expectations of future economic developments, clearly points to downside risks to growth. Anecdotally, some consumers are front-loading purchases in anticipation of tariff-driven price increases, which may be setting up the economy to go through a soft patch in 2H25. In our base case, new trade deals, the aggregate strength of balance sheets, and the tailwind from AI-related activity should help to avoid a full-blown recession.

Figure 1

Jobless claims are at historically low levels

Initial jobless claims, 4-week moving average in '000s

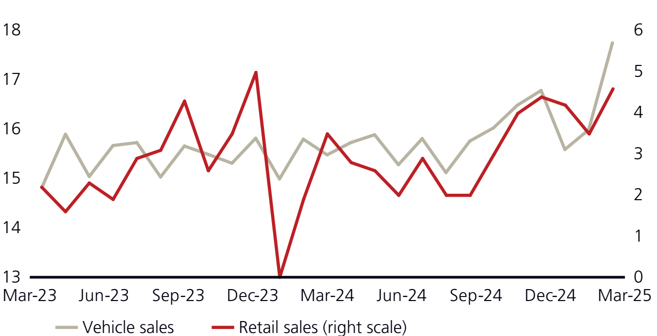



Source: FRED, UBS as of 23 April 2025

Figure 2

Consumers are still spending

Vehicle sales, annualized in mn, retail sales, y/y change in %




Source: Bloomberg, UBS as of 23 April 2025

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

**Read the report >**

## Inflation

As shown in Figure 3, core CPI inflation, which excludes food and energy, has slowed to a new low since prices first started to surge in early 2021. The data suggest that, in the absence of tariffs, inflation would have likely trended lower over the course of the year. However, it now appears likely that tariffs will instead push the inflation rate higher. There is a lot of uncertainty over tariff policy, and the extent to which tariffs will be passed through into consumer prices is also unclear. Stricter immigration policy could also end up stoking inflation by curtailing labor supply, causing supply/demand imbalances in the labor market that push up wage growth, as well as creating supply chain problems in sectors that rely heavily on immigrant labor. We expect core inflation to be around 4% at year-end, but we view the tariff impact as a one-off increase in the price level, and we do not expect sustained higher inflation over the medium term.

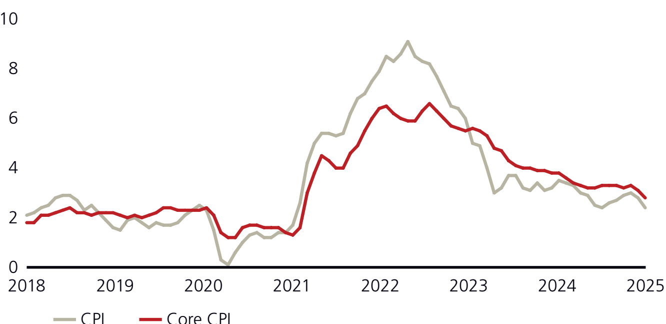
## Policy

President Trump has given various reasons for imposing tariffs, but the persistent trade deficit shown in Figure 4 is clearly an important motivating factor. While high tariffs should help reduce the trade deficit, at least in the near term, any improvement will likely be driven mostly by weaker demand for goods, rather than the substitution of imports with domestically produced goods. The most notable period in which the deficit narrowed sharply was late 2008-09, at the depths of the recession triggered by the global financial crisis. In a recession, consumers typically pull back on purchases of durable goods, while businesses cut investment, reducing demand for capital goods, many of which are imported. Similarly, with tariffs likely to boost inflation as noted above, the Fed is unlikely to cut rates unless it sees signs of economic weakness, especially in the labor market. In our view, the Fed is also unlikely to cut in response to pressure from the President.

Figure 3

Core inflation at a new low for the cycle

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




Source: Bloomberg, UBS as of 23 April 2025

Figure 4

Import demand drives trade deficit

Goods trade balance in USD bn

Source: FRED, UBS as of 23 April 2025

# Equities

We remain Neutral on global equities. While volatility is likely to remain elevated, we believe we are past peak uncertainty. The existence of a "Trump put" reduces the likelihood of severe downside scenarios and increases our confidence that the global economy will continue to grow. Recent volatility provides an opportunity to gradually increase exposure, in our view. Structural trends in AI and power and resources should also help equities trend higher throughout the year.

### Eurozone

NEUTRAL

| **EURO STOXX 50** (index points, current: 5,099) | December 2025 target |
|---|---|
| **House view** | **5,200** |
| Positive scenario | 6,000 |
| Negative scenario | 4,000 |

Note: All current values as of 24 April 2025

We rate Eurozone equities Neutral. Economic uncertainty has risen materially in the past month on the back of US trade tariff announcements. This likely delays the recovery in earnings that we had anticipated. The range of possible outcomes is especially wide and risks seem evenly balanced at current levels, with equities not yet pricing in a recession. We favor a selective approach to investing in Europe in segments that are relatively insulated from tariff risks, offer exposure to structural growth, and benefit from European monetary and fiscal support.

### Emerging markets

NEUTRAL

| **MSCI EM** (index points, current: 1,096) | December 2025 target |
|---|---|
| **House view** | **1,100** |
| Positive scenario | 1,240 |
| Negative scenario | 850 |

Note: All current values as of 24 April 2025

We maintain a Neutral stance on emerging market equities owing to ongoing geopolitical tensions and tariff volatility. The "Liberation Day" tariffs have intensified trade tensions between the US and China, with elevated uncertainty weighing on the risk premium of broader emerging markets. Within emerging markets, Taiwan and India remain our top market picks because of their structural growth trends and anticipated earnings recovery. We maintain a Neutral view on mainland China equities amid tariff escalation risks and potential growth impact driven by both external and domestic headwinds.

### Japan

NEUTRAL

| **TOPIX** (index points, current: 2,584) | December 2025 target |
|---|---|
| **House view** | **2,600** |
| Positive scenario | 2,820 |
| Negative scenario | 2,100 |

Note: All current values as of 24 April 2025

We remain Neutral on Japanese equities, as concerns over the trade conflict and the US economy are likely to remain in place for some time. While Japan appears to be at the forefront of resolving issues with the US, the recent share price rebound and the risk of renewed US pressure on exchange rates suggest limited short-term upside. We expect the Topix to remain rangebound until downward revisions to consensus earnings forecasts are fully absorbed. We anticipate the earnings trough will become apparent after the full-year results, or at the latest, following the June quarter results.

### UK

NEUTRAL

| **FTSE 100** (index points, current: 8,403) | December 2025 target |
|---|---|
| **House view** | **8,500** |
| Positive scenario | 10,000 |
| Negative scenario | 6,700 |

Note: All current values as of 24 April 2025

We rate UK equities Neutral. Economic uncertainty has risen materially in the past month on the back of US trade tariff announcements. We expect this to delay the recovery in earnings that we had anticipated, and now expect earnings to contract by a further 3% this year, dragged down by lower commodity prices, before recovering modestly by 5% next year. We favor a selective approach to investing in the UK in segments that are relatively insulated from tariff risks, offer exposure to structural growth, and benefit from easing monetary policy and European fiscal plans.

# US equities

We have an Attractive view on US equities. President Trump's pause on tariff implementation suggests that he is attuned to the negative economic and market impact of tariff policies. We believe this suggests equity markets will place a lower likelihood on recessionary outcomes. In short, we may be passing peak policy uncertainty.

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

## US equities overview

ATTRACTIVE

**US equities**

Recent equity market volatility is challenging even the most seasoned investors. But we believe it is vital to take the emotions out of investment decision-making. When we do that, the data suggest upside for equities over the coming six to 12 months. Our data have shown that historically, stocks tend to move inversely with policy uncertainty. So if uncertainty declines, it will be a key tailwind for stocks. Other data points also suggest a favorable risk-reward. As we have pointed out previously, sentiment is poor and volatility is high. Both of these metrics tend to be contrarian indicators when they reach these extreme levels. So while we expect equity markets to remain choppy, the risk-reward for stocks is looking more appealing, especially now that we know Trump is attuned to the risks from his tariff policies.

**US equities – sectors**

Despite a few near-term headwinds, tech is still Attractive, as we believe spending on AI will remain largely intact, and the sector has a high-quality bias which should hold up better as economic growth slows. Continued secular growth in digital advertising trends should support communication services. Policy clarity and reasonable valuations should benefit health care. Utilities offer defensive exposure if economic growth slows further, and there is upside potential from AI power demand, in our view.

**US equities – size**

We have a Neutral view across size segments. Very few market segments have been spared in the tariff-induced sell-off, but not surprisingly, small caps have been hit particularly hard and have underperformed mid- and large caps year to date. While small-cap valuations remain compelling, profit trends are lagging other size cohorts. In addition, small-caps are more correlated to economic activity and the downtick in economic growth suggests a more challenging path for smaller companies. Nonetheless, smaller companies tend to be more domestic and would likely benefit from tax reform.

**US equities – style**

We have a Neutral view on growth and value stocks. After performing very well for many years, growth stocks are struggling. Their elevated valuations made them more vulnerable in a downturn. However, valuations now look more reasonable for these generally high-quality companies that have good secular growth. Value stocks have a larger mix of defensive companies that should be able to weather the storm. On net, we have a balanced allocation between growth and value stocks.

| **S&P 500** (index points, current: 5,376 ) | December 2025 target |
|---|---|
| **House view** | **5,800** |
| ↗ Upside | 6,500 |
| ↘ Downside | 4,500 |

Note: All current values as of 23 April 2025

Figure 1

### Selective in our positioning

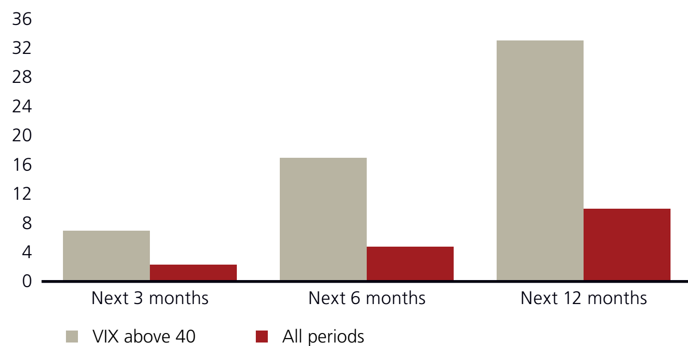
| | Unattractive | Neutral | Attractive |
|---|---|---|---|
| **US equities** | | | |
| Communication services | | | + |
| Consumer discretionary | | = | |
| Consumer staples | | = | |
| Energy | | = | |
| Financials | | = | |
| Health care | | | + |
| Industrials | | = | |
| Information technology | | | + |
| Materials | | = | |
| Real estate | | = | |
| Utilities | | | + |

Note: S&P 500 sector preferences
Source: UBS, as of 24 April 2025

Figure 2

Forward returns have been strong when VIX is high

Average S&P 500 price return when VIX above 40 vs. all periods, in %




Source: Bloomberg, UBS, as of April 2025

# Bonds

Over the past month, downside risks to economic growth have intensified following the Trump administration's larger-than-expected "reciprocal" tariffs. These measures led to market dislocations, particularly in rates, before the announcement of a 90-day delay helped restore some stability. Nevertheless, the tariffs have increased downside risks to growth and added upward pressure on inflation. In our view, the Fed is likely to be more responsive to signs of slowing growth, rising unemployment, and financial instability, and will continue to lower the policy rate from the current range of 4.25-4.50% toward 3.00-3.25%. We continue to believe interest rates will decline further by year-end, and favor the belly of the yield curve.

**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: 4.33%) | December 2025 target |
|---|---|
| **House view** | **4.00%** |

Note: All current values as of 23 April 2025

The rapid rise in Treasury yields seen since the 2 April tariff announcement has resulted from a confluence of factors, including forced selling to cover redemptions and margin calls, investors reducing duration risk, and some foreign selling. A wide-scale unwind of the basis trade does not appear to have occurred. We set our short-term range for 10-year yields at 4.5-4.8% where we would look to extend duration. We continue to expect yields to trend toward 4.0% by year-end, as softening sentiment data flows into the hard data and economic growth slows.

## US investment grade corporate bonds

ATTRACTIVE

| **US IG SPREAD** (current: 108bps) | December 2025 target |
|---|---|
| **House view** | **110bps** |
| Positive scenario | 80bps |
| Negative scenario | 180bps |

Benchmark: ICE BofA
Note: Current values as of 23 April 2025

We hold an Attractive view. IG corporate bonds tend to be resilient in historical periods of growth slowdowns from a total return perspective, with credit spread widening is usually offset to a good degree by falling interest rates, as the recent period of market volatility illustrates. We find IG's yield of 5.4% to be appealing and believe investors with excess cash holdings should look to medium-duration IG bonds to lock in durable income. Fundamentals generally remain solid, and we expect limited credit quality deterioration in our base case.

## Emerging market bonds

| **EMBIG DIV. / CEMBI DIV. SPREAD** (current: 354bps / 276bps) | December 2025 target |
|---|---|
| **House view** | **425bps/325bps** |
| Positive scenario | 290bps / 210bps |
| Negative scenario | 550bps / 500bps |

Note: Current values as of 23 April 2025

We keep Emerging market credit as Neutral. Despite the recent correction, valuations remain historically tight, making lower-rated issuers more susceptible to potential setbacks. Bond spreads are expected to trend rangebound to slightly wider over the next six to 12 months, providing investors with a mid-single-digit interest rate carry. Key risks include policy uncertainty in the US, economic challenges in China, inflation concerns, and potential escalation of trade or geopolitical tensions.

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

## US high yield corporate bonds

NEUTRAL

| **USD HY SPREAD** (current: 375bps) | December 2025 target |
|---|---|
| **House view** | **400bps** |
| Positive scenario | 300bps |
| Negative scenario | 650bps |

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

We maintain a Neutral view on HY. Credit spreads have widened to reflect the implications of tariffs and the increased risk of a recession. We recently revised our base case target upwards, anticipating increased volatility that could provide a good entry point into HY. Fundamentally, credit metrics are strong for the asset class with leverage at 4.3x below its long term average. The 8.2% yield offers an attractive carry and is sufficiently high enough to help support returns, even if spreads widened further.

### Municipal bonds

NEUTRAL

We remain Neutral. The municipal market has seen a steep sell-off since 2 April. The market dislocation was driven by Treasury rate volatility, weak technicals, and policy uncertainties. While unnerving, it also brings opportunities, with attractive tax-equivalent yields, cheaper relative valuation, and a steeper curve. We maintain our barbell preference of the four- to eight-year and 17- to 30-year range on the AAA tax-exempt curve. Given the increased likelihood of an economic slowdown, we prefer large, higher-quality issuers in defensive sectors such as State GOs and utilities.

### Non-US developed fixed income

NEUTRAL

Over the past month, bond yields in non-US developed markets moved mostly lower as US tariffs raised concerns over global growth. On foreign exchange markets, the US dollar depreciated against most other major currencies, boosting the value of foreign currency bonds in dollar terms. These factors combined to produce strong returns for the month. With US bonds offering higher yields than in most other developed markets, we do not recommend a strategic asset allocation position on the asset class.

## 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 +13bps (versus +10bps last month)

### Mortgage-backed securities (MBS)

ATTRACTIVE

Agency MBS was one of the best-performing sectors in the first quarter, with a total return over 2.5%. But the April volatility dampened the spread compression trend, as current coupon spreads have reached back to 157bps, last seen in December 2023. While we recognize that we may sound like a broken record, agency MBS remains cheap to IG corporates. We do not look for a deep recession but continue to anticipate slower growth, an environment in which agency MBS has historically outperformed. The sector's liquidity and yield of 5.7% make this sector attractive.

| **AGENCY MBS SPREAD** (current: 157bps) | December 2025 target |
|---|---|
| **House view** | **100bps** |
| ↗ Positive scenario | 120bps |
| ↘ Negative scenario | 165bps |

Note: Current values as of 23 April 2025

### Preferred securities

NEUTRAL

As we start the second quarter, preferreds have been whipsawed by equity market volatility as cross-asset correlations rose. We continue to expect further volatility in the months ahead with full year returns that may struggle to rise much higher than mid-single digits. Even after the recent pullback, valuations are just in line with historical averages and the conditions that drove performance last year are less likely to provide the same degree of tailwind this year. Still, we expect the sector to find support from the benign rate environment and demand for high-quality yield.

### Treasury Inflation-Protected Securities (TIPS)

NEUTRAL

Thirty-year real yields have reached an all-time high, going back to 2004, the first year of the index, while 10-year real yields reached as high as 2.25% during the volatility following the 2 April tariff announcements. Real yield curves have steepened back near highs last seen in 2021 and 2022, suggesting the market still sees inflation risks in the short end. We would look to go long 10-year real yields at 2.5% but wait for now.

| **US 10-YEAR REAL YIELD** (current: 2.03%) | December 2025 target |
|---|---|
| **House view** | **1.50%** |
| ↗ Positive scenario | 0.75% |
| ↘ Negative scenario | 2.30% |

Note: All current values as of 23 April 2025

Figure 1

## UBS CIO interest rate forecast

In %

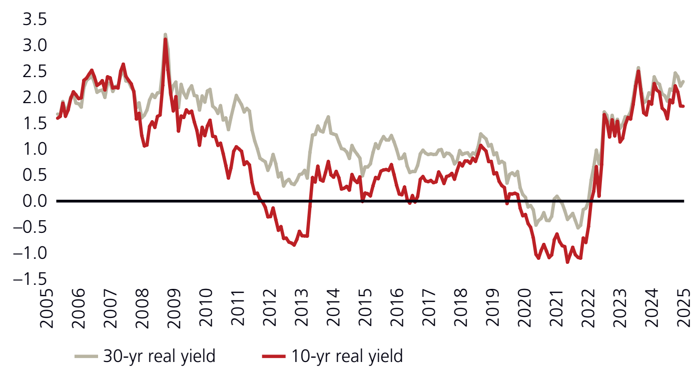
| UST | Current | Jun-25 | Sep-25 | Dec-25 | Mar-26 |
|---|---|---|---|---|---|
| 2-year | 3.9 | 4.0 | 3.8 | 3.8 | 3.8 |
| 5-year | 4.0 | 4.0 | 3.8 | 3.8 | 3.8 |
| 10-year | 4.4 | 4.3 | 4.0 | 4.0 | 4.0 |
| 30-year | 4.8 | 4.5 | 4.3 | 4.3 | 4.3 |

Source: Bloomberg, UBS, as of 23 April 2025

Figure 2

Long-dated Treasury real yields are at high levels

Real yield, in %




Source: Bloomberg, UBS as of 26 February 2025

# Commodities and listed real estate

We maintain our Neutral view on commodities and crude oil, while we still see gold as Attractive. Trade tensions have been negative for commodities, with the asset class temporarily giving up all its gains for the year in April. Our benchmark, the UBS CMCI commodity total return index, is up by 1.6% year to date. While we scale back some of our forecasts (e.g., crude oil, copper), we retain a moderately positive outlook for the asset class this year, underpinned by several supportive structural factors.

**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 3,288/oz) December 2025 target
ATTRACTIVE

| **House view** | **USD 2,850/oz** |
|---|---|
| Positive scenario | USD 3,200/oz |
| Negative scenario | USD 3,800/oz |

Note: All current values as of 24 April 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 recently reached another new record high, trading just above USD 3,500/oz. This historical rally is being fueled by a perfect storm of factors like escalating geopolitical tensions, fears of inflation, and a shifting interest rate outlook—the combination of which has driven stronger-than-expected demand from ETFs and speculators.

### Base metals

Rising tariffs and escalating US recession risks, which are a threat to copper demand, have triggered a midteens decline in copper prices from the year-to-date highs in March. Global growth concerns are overshadowing ongoing supply constraints, leaving copper prices vulnerable to renewed pullbacks in the short run, but we retain a positive outlook longer term.

### Agriculture

Agricultural markets have displayed a mixed performance year to date, driven by geopolitical uncertainties, uneven weather, and shifting demand patterns. Much of this is a result of the US-led trade conflict, which has wreaked havoc across traders and consumers alike. However, at the broad index level, agriculture and livestock performance remains positive (unlike energy and industrial metals).

**BRENT** (current: USD 66.12/bbl) December 2025 target
NEUTRAL

| **House view** | **USD 68/bbl** |
|---|---|

Note: Current values as of 24 April 2025

### Crude oil

Fears that the global economy could end up in a recession owing to the trade war have resulted in elevated volatility in financial markets and in oil markets. There's a high positive correlation between US equities and crude oil prices at present, which usually indicates that demand factors are driving prices. Tariffs together with the ongoing uncertainty over the US administration's next steps—that is, which tariffs are added next—are likely to weigh on economic growth. We have therefore reduced our 2025 global oil demand growth forecast by 0.4mbpd to 0.8mbpd.

## Listed real estate

**RUGL Index** (current: USD 5,907) December 2025 target

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

Note: All current values as of 24 April 2025
*Positive and Negative scenarios reflect December 2025 targets.

We like companies that seek growth and engage in acquisitions or accretive issuance that show strong pricing power, profitable pipelines, attractive yield gaps, and robust cash flows. We believe stocks trading at discounts offer above-average potential returns only if they manage to grow their activities. Because their average capital costs are still slightly increasing, selectivity is required. Real estate values are expected to profit from further rental growth over the medium term.

# Foreign exchange

JPY and AUD are Attractive, CNY is Unattractive

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

The year began with EURUSD trading near parity and a prevailing market consensus that US tariffs would support the US dollar. Just one quarter later, US tariffs have undermined confidence in the dollar's reserve currency status, and EURUSD is now trading close to 1.14. As the US announces new trade agreements, we anticipate confidence in the USD will be gradually restored. We expect EURUSD to trade in a 1.12-1.16 range in the coming months, with a bias toward the lower end as trade deals are signed.

Recent market volatility has also affected currency crosses. Currencies considered by many as "safe havens" such as the Swiss franc (CHF) and Japanese yen (JPY) have benefited the most, while more cyclical currencies like the Norwegian krone (NOK), Swedish krona (SEK), and Australian dollar (AUD) have underperformed. We continue to favor the JPY, as a narrowing US-Japan yield differential should support the currently undervalued yen throughout the year. The CHF has also been a key beneficiary of recent turmoil. Given the Swiss National Bank's (SNB) limited appetite for further CHF appreciation, we do not expect additional franc strength against the euro from current levels, while USDCHF should largely mirror EURUSD movements. Pro-cyclical currencies should recover as market sentiment stabilizes and trade agreements are reached. The AUD remains one of our top picks, followed closely by the Scandies and the pound.

Over the medium term, the fate of the dollar will depend on both the outcome of tariff negotiations and their broader economic impact. Tariffs are likely to fuel higher inflation and slower growth, putting the Federal Reserve in a challenging position. Should economic weakness intensify, we expect the Fed to respond with rate cuts—the extent of which will determine the degree of USD weakness. In general, US exceptionalism is facing increasing scrutiny after being a significant theme for decades.

Finally, we maintain our Unattractive view on the Chinese yuan. With no end in sight for the US-China trade war, the CNY is likely to remain a laggard relative to other major currencies. But specifically on the USDCNY, we believe the upside risk for this pair is mitigated by the stable daily fixings by the People's Bank of China (PBoC), as well as broader USD weakness gaining traction.

## 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: April 2025, published 23 April 2025

## FX forecasts

| | Current | Jun-25 | Sep-25 | Dec-25 | Mar-26 |
|---|---|---|---|---|---|
| EURUSD | 1.14 | 1.14 | 1.16 | 1.16 | 1.18 |
| USDJPY | 143 | 144 | 142 | 140 | 138 |
| GBPUSD | 1.33 | 1.36 | 1.38 | 1.38 | 1.39 |
| USDCHF | 0.83 | 0.83 | 0.82 | 0.82 | 0.81 |
| USDCAD | 1.38 | 1.40 | 1.38 | 1.38 | 1.36 |
| AUDUSD | 0.64 | 0.64 | 0.66 | 0.68 | 0.70 |
| NZDUSD | 0.60 | 0.60 | 0.61 | 0.62 | 0.64 |
| USDSEK | 9.62 | 9.56 | 9.31 | 9.22 | 8.98 |
| USDNOK | 10.44 | 10.09 | 9.74 | 9.66 | 9.41 |

Sources: SIX Financial Information, UBS, as of 23 April 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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This report contains statements that constitute "forward-looking statements," including but not limited to statements relating to the current and expected state of the securities market and capital market assumptions. While these forward-looking statements represent our judgments and future expectations concerning the matters discussed in this document, a number of risks, uncertainties, changes in the market, and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to (1) the extent and nature of future developments in the US market and in other market segments; (2) other market and macroeconomic developments, including movements in local and international securities markets, credit spreads, currency exchange rates and interest rates, whether or not arising directly or indirectly from the current market crisis; (3) the impact of these developments on other markets and asset classes. UBS is not under any obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

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

## Statement of risk

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.

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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