UBS House View

Investment Strategy Guide:
From liberation to de-escalation

June 2025 | Chief Investment Office GWM | Investment research

UBS

In this report

June

CIO Monthly Livestream

5 June 2025 at 1:00 p.m. ET

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Publisher
UBS Financial Services Inc.
CIO Global Wealth Management
1285 Avenue of the Americas
8th Floor
New York, NY 10019

This report was published
on 23 May 2025

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Dear reader

Markets found their footing over the past month after President Trump reversed many of his harshest trade measures. And on the economic front, while consumer sentiment has steadily soured, the sharp deterioration has not yet translated into a slowdown in hard economic data: Retail sales are still positive, the labor market remains resilient, and inflation has surprised to the downside. Additionally, the Atlanta Fed's GDPNow estimate for second quarter growth currently stands at 2.4%.

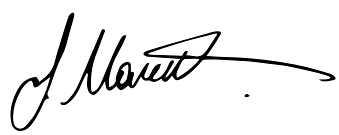
Still, the full effects of tariffs may become more apparent in the weeks and months ahead, particularly as inventories stockpiled ahead of policy changes begin to unwind, posing a risk to both inflation and growth. Given the 90-day tariff truce between the US and China, we believe the US effective tariff rate will settle at around 15%.

While these higher tariff levels would be a drag on growth, they are still not enough to cause a recession, in our view. Against this backdrop, we expect GDP growth to slow to around 1.5% in 2025, down from 2.8% in 2024, and our base case calls for 100 basis points of Fed rate cuts starting in September.

In terms of positioning, we recently downgraded US equities to Neutral from Attractive. We believe the risk-reward is now more balanced following the sharp rally. While trade momentum has been positive, the future path remains uncertain, as evidenced just today by fresh threats of a 50% tariff on the European Union starting 1 June. Despite the downgrade, we still recommend maintaining a full strategic allocation to US stocks. We also maintain our US sector preferences, with an Attractive rating on communications services, information technology, health care, and utilities.

While bond yields could rise further in the weeks ahead in anticipation of higher US fiscal deficits, we believe current yield levels offer an opportunity for investors to lock in durable portfolio income. High-quality bonds offer appealing risk-reward, in our view, and can help hedge against economic downturns. We prefer medium-duration bonds, given more elevated fiscal risks at the longer end of the yield curve.

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



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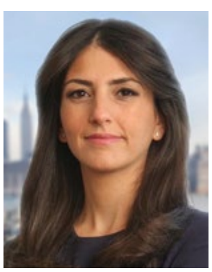

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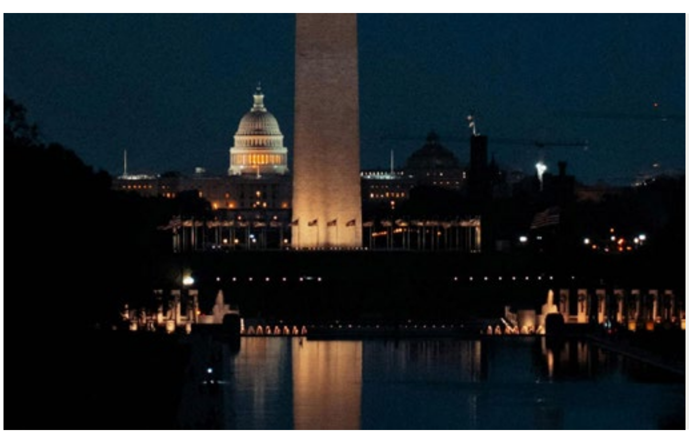

POTUS 47

Investing under Trump 2.0

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From liberation to de-escalation

Trade war de-escalates

The 90-day pause in "reciprocal" tariffs and signs of de-escalation in the trade war have given markets a reprieve following April's shock.

Policy risks remain

Trade and US fiscal uncertainty remain high, and both have the potential to drive renewed market volatility in the weeks ahead as tariff and budget negotiations continue.

Tactical US equity view

We recently downgraded US equities to Neutral after their strong rally. But we still recommend maintaining a full strategic allocation to equities.

Asset allocation

In equities, we favor growth themes like *AI, Power and resources,* and *Longevity*. We also like medium-duration quality bonds and gold. We downgrade the US dollar to Unattractive.

Mark Haefele

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The past year has been marked by market shocks followed by relatively swift reprieves: the August 2024 market panic sparked by the unwinding of yen carry trades, the launch of DeepSeek's low-cost AI model in late January, and President Trump's "Liberation Day" tariff announcements in early April. In each case, markets experienced sharp drawdowns followed by rapid recoveries. Such dynamics can be disconcerting, but they can also provide an opportunity to diversify and strengthen portfolios for the future.

In this letter, we review the recent de-escalation in the trade war, the potential US fiscal challenges ahead, how to position in stocks after the recent strong performance, and how to adapt portfolios for the current environment.

In short, in our base case, we expect the US effective tariff rate to settle around 15%. If sustained, this would be the economic equivalent of around a 2-percentage-point increase in sales taxes—a headwind to growth and boost to inflation, but not a big enough drag to drive the US economy into recession.

At the same time, uncertainties remain. On trade, the key questions are whether the 90-day pause in "reciprocal" tariffs will turn into longer-lasting policy and the extent to which tariff-related uncertainty thus far has weighed on economic growth. And on fiscal policy, the recent volatility in bond yields in response to budget negotiations and Moody's downgrade of US sovereign debt demonstrates the market's fears over the US fiscal deficit.

With equity markets now trading above pre-"Liberation Day" levels, we recently downgraded our Attractive view on US equities to Neutral. We see only limited upside in the near term and expect continued volatility. Looking ahead, we anticipate further gains in 2026, supported by structural earnings growth, a more stable policy environment, and lower US interest rates. Investors can use periods of volatility or pullbacks to gradually add to global equities or balanced portfolios.

We move the US dollar to Unattractive from Neutral.

We also move the US dollar to Unattractive this month. The dollar has stabilized recently, but we anticipate renewed weakness as the US economy slows and the focus on fiscal deficits expands. We favor using near-term dollar strength to reduce excess US dollar cash by diversifying into other currencies. For international investors, we would consider hedging US dollar exposure in US assets back into their home currencies.

We also believe recent volatility has reinforced the merits of diversifying portfolios more broadly into alternatives such as hedge funds and gold.

From liberation to de-escalation

Shifting tariff policies have led to significant market volatility.

Over the past two months, the Trump administration has gone further and faster in imposing tariffs—and further and faster in pausing them—than most investors had expected. This has led to significant volatility for financial markets, as well as to question marks about the Trump administration's trade ideology.

Since taking office, the Trump administration has cited a variety of goals for its trade policy, ranging from increasing revenue to promoting jobs in domestic manufacturing, improving self-sufficiency, and closing trade deficits. In broader terms, Trump has talked about addressing "unfairness," based around the idea that the current trading system is not working for the US from an economic or national security perspective.

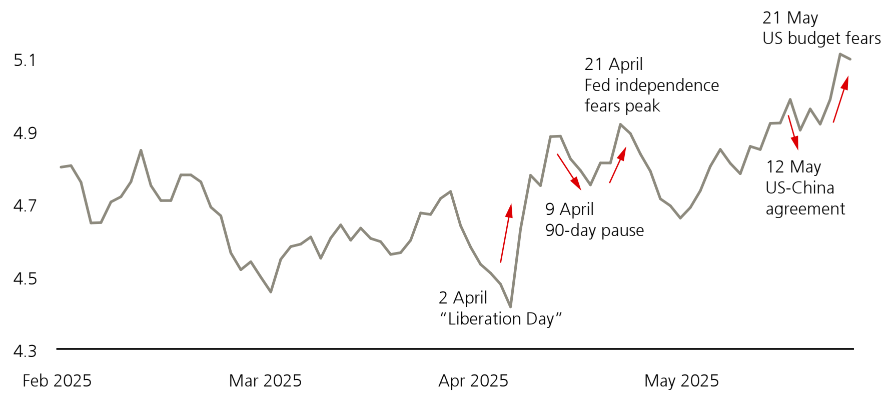
At the same time, market volatility has demonstrated to the administration that: (1) Achieving all of the stated goals at once may not be possible; (2) some market participants believe that the approach may make some problems worse; and (3) using tariffs as a blunt instrument to drive long-term economic transformation has the potential to cause the US significant short-term pain.

We believe that the tariff pauses and increased appetite for deals in recent weeks show that the Trump administration has not given up on an aggressive, tariff-based trade policy, but has become more sensitive to short-term risks.

Figure 1

Long-term US Treasury yields have been sensitive to policy uncertainty

30-year US Treasury yield (%)



Source: Bloomberg, UBS, as of May 2025

In our base case, we see the US effective tariff rate settling close to 15%.

In our base case, we see the effective US tariff rate settling close to 15% (i.e., around the current level) by year-end. This view is predicated on the 10% "baseline" tariff becoming "hardcoded" in US trade policy, the continuation of a variety of industry-specific tariffs, a sustained pause of "reciprocal" tariffs for the rest of the world, and tariffs on China settling around 30-40%.

The US administration, according to its statements, is currently preparing the groundwork for a more surgical increase in sector-level tariffs beginning this summer following trade investigations into strategic industries like pharmaceuticals, critical minerals, lumber, copper, and semiconductors. These sectors were initially excluded from the 10% "baseline" tariff because, as President Trump remarked, the White House intends to levy separate tariffs to reduce the US's reliance on foreign producers by encouraging domestic production.

Product tariffs are likely to be more durable because they are focused on strategic sectors.

Product tariffs are likely to be more durable because they are focused on strategic sectors. Section 232 of the 1962 Trade Expansion Act also provides a sturdier legal basis for levying tariffs compared to the International Emergency Economic Powers Act because it has an historical precedent, is more targeted, and is grounded in a Commerce Department investigation.

While the road toward a permanent removal of the "reciprocal" tariffs might be bumpy, and they could be reinstated for some countries, we believe growing political, business, and legal challenges will generally see them reduced or removed—or even declared illegal. And while the US-China strategic rivalry will continue, we believe both sides will seek to keep the effective rate within the 30-40% range by year-end, given the potential economic costs for both sides.

We believe this base case is consistent with US real GDP growth slowing to around 1.5% this year from 2.8% in 2024. We estimate the effect of a 10% "baseline" tariff with various industry-specific tariffs on top is broadly the equivalent of a 2-percentage-point increase in US sales taxes, which isn't big enough to drive the economy into a recession.

Elsewhere, policy stimulus in both Europe and China should partially offset the negative effect of tariffs on economic activity. We forecast economic growth of 0.7% in the Eurozone this year and 4.0-4.5% in China.

US budget negotiations are likely to become increasingly relevant for markets in the weeks ahead.

Onto the budget

In the weeks ahead, trade policy developments are likely to remain an important driver for markets, with the 90-day pause on "reciprocal" tariffs set to expire on 8 July. But US budget negotiations are also likely to become an increasingly relevant factor too, particularly if government bond yields, which have risen on easing recession risks, remain elevated.

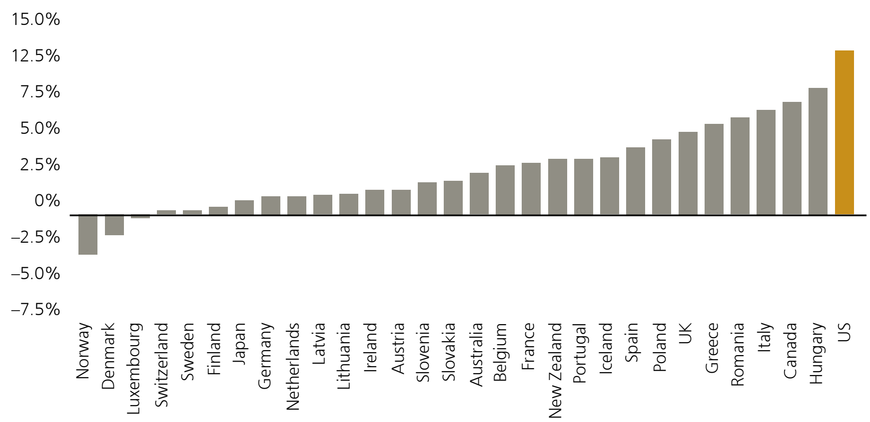
Work toward the passage of President Trump's "One, Big, Beautiful Bill" is ongoing. The House agreement combines increased spending on defense and immigration, a permanent extension to 2017 tax cuts, tax exemptions for overtime and for tip and social security income, business investment tax incentives, cuts to Medicaid and food aid spending, increases in the cap on state and local tax (SALT) deductions, and a USD 4 trillion increase in the debt limit.

All told, the plan would add USD 3.1 trillion to the US debt by 2034, according to an analysis by the Committee for a Responsible Federal Budget. Some of the bill's tax cuts are set to expire in 2028-29, and the impact on the debt level would be even greater if they were made permanent. Because the tax cuts are front-loaded but the savings from the spending cuts are back-end loaded, deficits would rise from an already elevated 6.3% of GDP in 2024 to more than 7% in both 2026 and 2027.

Figure 2

The US spends the highest share of revenues on interest

Net cost of debt to general government revenues

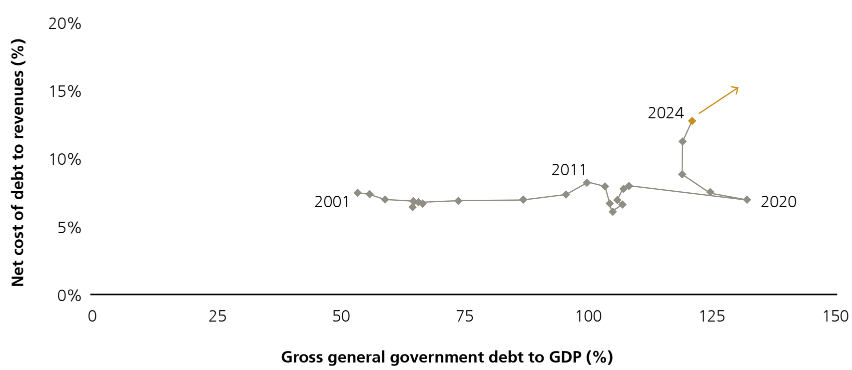


Source: UBS, IMF, as of 17 May 2025

Figure 3

The US public debt trajectory is on a worsening trend

Gross general government debt to GDP vs. net cost of debt to revenues



Source: UBS, IMF, as of 17 May 2025

Tariff revenue will serve to offset the rise in deficits from the budget reconciliation package, but will not lower deficits materially when other forces are pushing them higher. We estimate that a 15% effective tariff rate has the potential to net an additional USD 300-450 billion in revenue per year for the next decade depending on the impact on import volumes and the need to assist sectors harmed by retaliation. This represents 1.0-1.5% of 2024 GDP. It's worth noting that from a revenue perspective, lower tariffs may raise more income. The Peterson Institute for International Economics has estimated that a 10% tariff would net around double the revenue raised from a 20% tariff (which would reduce imports more significantly).

The bill is likely to undergo further changes when the Senate takes it up.

When the Senate takes up the bill after it leaves the House, it will likely undergo further changes before it is sent back to the House for a further approval and finally sent to President Trump. Some Senate Republicans have voiced concern that the cuts to social programs are too large, as are some of the additional new business and personal income tax cuts.

Deep US capital markets, the dollar's reserve currency status, and the significant wealth held by US households mean that the US's ability to repay debt is not in question, in our view. But at a time when investor trust in US markets has been dented, and with tariffs likely to lead to a short-term boost to inflation, the prospect of an even greater increase in already high Treasury issuance to fund bigger deficits may not be taken well by the bond market.

That said, the Trump administration has demonstrated sensitivity to higher bond yields. Also, the Federal Reserve is considering changes such as reforming bank regulations so that banks can hold Treasuries without it affecting their capital ratios—which could create new demand for Treasuries and help bring yields down.

While there is a risk that deficit fears lead to progressively higher yields in the weeks ahead, and 10-year Treasury yield levels above 4.75% may also begin to weigh on equity markets, we believe that the Fed and/or Trump administration would likely make adjustments in the event of much higher yields. In our view, this means high quality and investment grade bonds represent good value at current levels.

The tactical outlook for US stocks

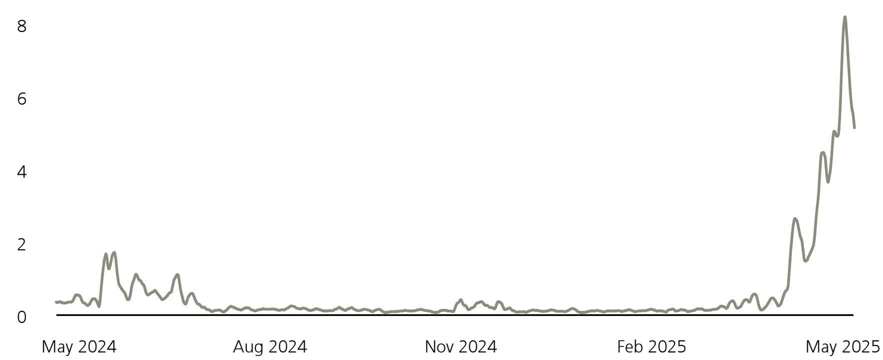
We hold a Neutral tactical view on US equities.

We previously held an Attractive view on US equities, based on the belief that too much trade-related fear was priced into the market. But we downgraded our tactical view on US equities to Neutral on 12 May. The S&P 500 is now around 3% above the levels when President Trump announced his "Liberation Day" tariffs and around 17% above the subsequent low. Trade and fiscal uncertainty remain high, and both have the potential to drive renewed volatility in the weeks ahead.

Figure 4

US trade uncertainty has declined from the peak, yet remains elevated

Bloomberg Economics US Trade Policy Uncertainty Daily (20-day moving average)



Source: Bloomberg, UBS, as of May 2025

The US corporate earnings backdrop remains supportive.

That said, the earnings backdrop remains supportive. As the first-quarter earnings season was stronger than we expected, we have raised our 2025 earnings per share forecast for S&P 500 companies to USD 260 (4% y/y growth, from 0%) and our 2026 EPS forecast to USD 280 (8% y/y growth). Results from megacap tech companies suggest the AI growth story—a key driver of equity performance in recent years—remains intact. We also expect the Fed to resume cutting interest rates from September.

In our base case, we now see the S&P 500 ending the year at around 6,000—modestly above its January level—and at 6,400 by June 2026 amid a pickup in earnings growth, increasing capital markets activity, and potentially more growth-friendly policies from the US government. In other words, our tactical Neutral view is not bearish, nor is it a call to sell equities. We expect US stocks to move higher over the next 12 months and recommend maintaining a full strategic allocation to US equities as well as other regions.

In an upside scenario, US equities would rally more sharply if we see a larger-than-expected rollback in tariffs, or if the impact of AI on productivity and earnings growth proves larger and comes sooner than we expect. In this event, we could see the S&P 500 reaching 6,700 by year-end. Conversely, in a downside scenario, in which the pause in tariffs ultimately does not hold and tit-for-tat retaliation resumes, we would expect equities to re-test April lows.

Investment ideas

Equities

We expect equities to move higher over the next 12 months.

Phase into equities. We anticipate relatively limited upside for equities by year-end, following strong recent performance and amid residual uncertainty about trade policy, fiscal policy, and economic growth. But we expect further upside into 2026, supported by structural earnings growth, a more stable policy environment, and lower Fed interest rates.

Investors should review their current allocation to equities and consider using periods of volatility or pullbacks to progressively address portfolio gaps relative to strategic allocations, including by phasing into global equities or balanced portfolios.

We focus on select US sectors—including technology and health care—alongside mainland China's tech sector, India, and Taiwan. In Europe, we favor our "Six ways to invest" theme and EMU small- and mid-caps.

Investors can also use capital preservation strategies, through structured solutions or options strategies such as put spreads, to manage volatility.

We see structural growth opportunities in *AI, Power and resources*, and *Longevity*.

Invest in transformational innovation. We maintain strong conviction in the long-term potential of our Transformational Innovation Opportunities, including *Artificial intelligence, Power and resources,* and *Longevity*.

The health care sector, a significant part of our *Longevity* opportunity, has been under pressure in the past month amid concerns about US pharma tariffs, drug pricing policy, and the health insurance sector. But we believe the recent sell-off is overdone at current valuations, particularly given the legal challenges that President Trump's intended actions on drug pricing will likely face.

Meanwhile, the recent earnings season has reinforced our positive view on AI. Megacap tech companies largely maintained their spending outlook amid signs of still-robust AI demand. Meta, for example, increased its capex guidance for 2025, citing additional data center investments to support its AI efforts, and said it is having a hard time meeting the demand for compute resources. Separately, Taiwan Semiconductor Manufacturing Co. also maintained its capital spending projections and expects AI-related sales growth to double this year. We expect global AI capex to grow by 60% this year to USD 360 billion and by another 33% in 2026 to USD 480 billion.

Recent deal commitments—like those announced during President Trump's visit to the Gulf States—also underscore the broadening of AI demand as new entrants (including neoclouds, and enterprise and sovereign cloud providers) increase their investment in the technology. As part of a US economic partnership with Saudi Arabia that could see the kingdom invest USD 600 billion in US companies, NVIDIA will supply advanced AI chips to the country's new AI venture Humain, while major tech firms including Google, Oracle, and AMD will invest USD 80 billion in transformative technologies in both countries.

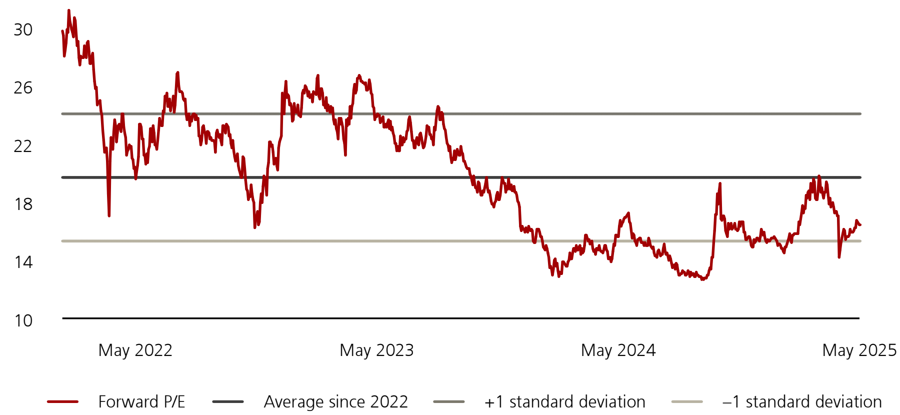
We see opportunities in the Chinese tech sector.

Meanwhile, we believe Beijing's focus on achieving AI self-sufficiency also points to investment opportunities in China's tech sector. Developing an independent AI ecosystem has become more critical for China in light of the tech export controls imposed by the US, and we expect investments in the domestic AI compute segment to grow strongly in the coming years. We estimate China's AI compute self-sufficiency could improve from just over 33% in 2024 to 90% by 2029, translating to a localization AI compute opportunity of USD 81 billion, from USD 6 billion.

Figure 5

Hang Seng Tech index valuations are below their average level since 2022

Historical trend of HSTECH forward price-to-earnings (P/E) ratio



Source: Bloomberg, UBS, as of May 2025

Fixed income

We see opportunities to lock in yields on medium-duration quality bonds.

Seek durable income. While bond yields could rise further in the weeks ahead in anticipation of higher US fiscal deficits, we believe current yield levels offer an opportunity for investors to lock in durable portfolio income. Also, we would expect central banks to intervene (or the Trump administration to adjust policy) in the event of a disorderly or unsustainable rise in yields.

High quality and investment grade bonds offer appealing risk-reward, in our view, and can help hedge against economic downturns. Despite rising US fiscal risks, we still see Treasuries as the highest quality USD credit. We prefer medium-duration bonds, given more elevated fiscal risks at the longer end of the yield curve, and believe that non-US investors should consider currency risks carefully (see below).

Higher yields have improved the outlook for riskier credit though for now, with economic and fiscal visibility still low, we like diversified portfolio income strategies—including across senior loans, private credit, equity income, and higher quality credit.

Currencies

We expect renewed US dollar weakness over the medium term.

Sell dollar rallies. We downgrade the US dollar from Neutral to Unattractive this month. We anticipate renewed dollar weakness as the US economy slows and as focus shifts to a potential expansion of the already large US fiscal deficit. We believe the recent stabilization in the dollar presents a good opportunity to assess dollar needs and use dollar strength to diversify.

We like to use near-term dollar strength as an opportunity to reduce excess USD cash allocations by diversifying cash in favor of other currencies including the Japanese yen, euro, British pound, and Australian dollar. For international investors, ahead of prospective dollar weakness, we would consider strategic currency allocations and taking the opportunity to hedge the dollar exposure in US assets back into domestic currencies if necessary.

Commodities

Gold remains appealing as a portfolio hedge.

Navigate political risks. Gold has reaffirmed its value as a hedge this year, and we continue to see value in the metal as a longer-term portfolio diversifier against downside scenarios. Earlier this year, the gold price surged to an all-time high of USD 3,500/oz but recently the gains were pared back as investor appetite shifted to riskier assets with an easing in policy uncertainty.

However, as we write, gold has regained more than USD 100/oz in just a couple of days, sparked by the downgrade of the US credit rating by Moody's, the reemergence of tensions in the Middle East, and a reassessment by investors of the pace of deterioration in the US fiscal position. Sentiment also found support from ongoing central bank buying alongside a surge in Chinese imports in April. Total imports reached more than 127 metric tons, which was the most in nearly a year and 73% higher month over month.

We maintain our target of USD 3,500/oz, as geopolitical risks are unlikely to disappear completely, and we expect real interest rates to decline alongside a weaker US dollar.

To build strategic exposure to gold, we would see price setbacks of a similar magnitude to what we have recently witnessed as an opportunity to add exposure. A mid-single-digit percentage allocation to gold within a broadly diversified USD portfolio is appropriate to manage different risks, in our view.

Alternatives

We recommend diversifying portfolios with alternative assets.

Diversify with alternatives. More uncertain markets make diversification even more critical—both across and within alternative assets, for investors who are able to tolerate the associated risks (which include illiquidity and lower transparency). 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.

Mark Haefele
Chief Investment Officer
Global Wealth Management

Global forecasts

Economy

Real GDP y/y, in %

	2024E	2025E	2026E
US	2.8	1.6	1.2
Canada	1.2	2.0	2.0
Japan	0.2	0.6	0.5
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	4.0	3.5
India	6.5	6.0	6.4
EM	4.5	3.8	3.7
World	3.3	2.7	2.7

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

	2024E	2025E	2026E
US	3.0	3.0	3.3
Canada	2.4	2.2	2.1
Japan	2.7	3.1	1.7
Eurozone	2.4	2.1	1.9
UK	2.5	3.1	2.0
Switzerland	1.1	0.2	0.5
Australia	3.2	2.4	2.5
China	0.2	–0.3	–0.3
India	4.6	3.9	4.2
EM	8.0	4.0	3.1
World	5.7	3.4	2.8

Source: Bloomberg, UBS, as of 22 May 2025. Latest forecasts available in the *Global forecasts* publication, published weekly.

Asset classes

	Spot	Dec-25	June-26
Equities			
S&P 500	5,845	6,000	6,400
Eurostoxx 50	5,454	5,200	5,600
FTSE 100	8,786	8,500	9,000
SMI	12,380	12,200	12,600
MSCI Asia ex-Japan	764	785	807
MSCI China	76	79	81
Topix	2,733	2,800	2,900
MSCI EM	1,175	1,190	1,230
MSCI AC World	1,045	1,060	1,130
Currencies			
EURUSD	1.13	1.16	1.20
GBPUSD	1.34	1.38	1.40
USDCHF	0.82	0.82	0.79
USDCAD	1.38	1.38	1.34
AUDUSD	0.65	0.68	0.70
EURCHF	0.94	0.95	0.95
NZDUSD	0.60	0.62	0.64
USDJPY	144	140	136
USDCNY	7.21	7.10	7.00

	Spot	Dec-25	June-26
Yields, in %			
USD 2y Treasury	4.02	3.75	3.75
USD 10 year Treasury	4.60	4.00	4.00
CHF 2y Eidg.	–0.17	0.00	0.00
CHF 10y Eidg.	0.38	0.50	0.50
EUR 2y Bund	1.87	2.00	1.75
EUR 10y Bund	2.65	2.50	2.25
GBP 2y Gilt	4.08	3.50	3.50
GBP 10y Gilt	4.76	4.00	4.00
JPY 2y JGB	0.72	0.80	0.90
JPY 10y JGB	1.53	1.20	1.20
Commodities			
Brent crude, USD/bbl	64.9	68	68
Gold, USD/oz	3,315	3,500	3,500

Source: Bloomberg, UBS, as of 22 May 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. 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 global equities and balanced portfolios • US: Technology, healthcare • Asia: China tech, India, Taiwan • Europe: Six ways to invest in Europe, Eurozone small- and mid-caps, utilities
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.	• Capital preservation strategies • Gold • Alternatives incl. hedge funds
Seek durable income	Bond yields remain elevated amidst US fiscal concerns. We believe this creates an opportunity for investors to seek durable portfolio income. High quality and investment grade bonds offer attractive risk-reward, in our view, and can help hedge against market downturns. 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 • Select credit opportunities in Asia and Europe • Diversified portfolio income strategies (incl. senior loans, private credit, equity income, Swiss high-quality dividends)

MIFs	Elevator pitch	Investment ideas
Sell dollar rallies	The US dollar has stabilized after tariff pauses and interim trade agreements. Looking ahead, we anticipate renewed dollar weakness as the US economy slows and the focus on fiscal deficits expands. We recommend using near-term dollar strength to reduce excess US dollar cash by investing or diversifying into other currencies such as the yen, euro, pound, and Australian dollar. International investors should also review their strategic currency allocations and consider hedging US dollar exposure in US assets back into their home currencies.	• Reduce excess USD cash exposure • Hedge USD exposure implicit in US assets • Increase allocations to JPY, EUR, GBP, and AUD
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. 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 • Power and Resources • 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
- Gold

Implementation guidance

Concerns about the US economic growth trajectory have softened in recent weeks, as incremental progress toward striking trade deals to reduce tariff levels have lowered downside risks. At the same time, investor focus has shifted to the fiscal bill working its way through Congress. The current version of the bill is marginally more stimulative for growth in 2026 than investors had expected, but it could also result in larger deficits. The combination of lower growth risks and potentially bigger deficits has contributed to the recent rise in rates, which we don't expect to be sustained all year.

While economic policy uncertainty remains elevated, hard data continue to show resilience. Consumption patterns are increasingly noisy and reacting to trade news—the 1.1% monthly increase in retail sales in March came before the tariff announcement, but then fell to 0.2% in April. Inflation is likely to rise owing to tariff-induced price shocks. However, it is not yet evident in the hard data—US Core PCE sits around 2.6% annualized, but the concerns show up in the University of Michigan one-year forward inflation expectations, which jumped to 7.3% versus 6.5% the prior month. We expect growth to be more resilient than survey data suggests, and a slowdown is likely, a recession is not our base case.

Turning to the Fed, we still expect the first rate cut to come in September but now expect between 50-75bps of rate cuts this year. Several FOMC participants have suggested the current level of rates is appropriate until there is additional clarity around the price and labor market impact of new tariff levels. The new tariffs put the Fed in a challenging spot since they make it harder 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.

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 provides additional 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 and into 2026.

We believe investors should continue to consider using gold as a hedge to help **navigate political risks, including both tariff-related and fiscal concerns**. 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, such as private credit, senior loans and equity income strategies.

Current equity market volatility is creating attractive entry points at the broad market level, so 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 remain volatile, but move towards 6,000 by the end of 2025. We also introduce a June 2026 price target of 6400.

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 will likely remain a key driver of equity market returns for 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.

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. Changes are based on the US asset class preferences table found in *UBS House View Monthly Extended May 2025 – Interim update*, published on 12 May 2025.

US economic outlook

Policy changes raise recession risks.

Brian Rose, PhD, Senior US Economist

Overview

The downturn in sentiment reflected in Figure 1 remains a major source of concern for the economic outlook. If consumers and businesses start to act in line with these sentiment readings, it would spell trouble for the economy. Meanwhile, the solid payroll growth shown in Figure 2 is a positive sign that the economy has, at least so far, managed to avoid a recession. Weekly jobless claims also remain low by historical standards, but we continue to hold our breath ahead of each data release. The recent inflation data (Figure 3) have also been somewhat reassuring, although we are only at the very beginning of adjusting to higher tariffs. Against the backdrop of Republicans trying to get their reconciliation budget through Congress and on the President's desk by the 4 July, Figure 4 is a reminder of the outsized budget deficits experienced since the pandemic and, going a bit further back to 2009, the global financial crisis.

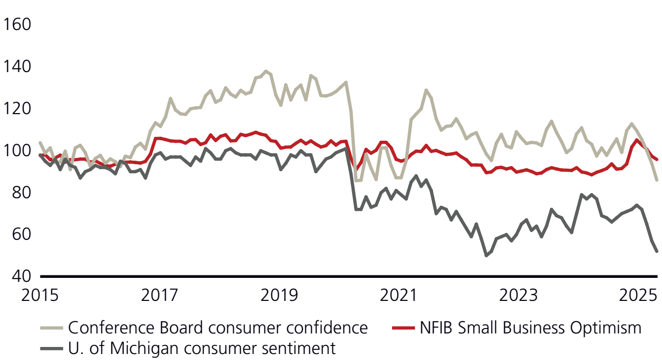
Growth

GDP growth turned negative in Q1 at -0.3%, but in our view this was technically driven by surging imports. We believe Q2 should look much better, and the Atlanta Fed's GDPNow tracking estimate currently stands at 2.4%. We expect more persistent weakness in the second half of the year as tariffs, government spending cuts, and stricter immigration policy combine to weigh on economic activity. The US-China agreement to roll back most of the April bilateral tariff hikes reduces downside risks and should result in a soft patch rather than an outright recession. We are keeping a close watch on the labor market. So far, layoffs have remained low, helping to maintain solid payroll growth (see Figure 2) and low unemployment. In turn, rising labor income continues to provide a base of support for consumer spending, which is holding up reasonably well despite the weak sentiment shown in Figure 1. We expect payroll growth to slow in the months ahead as immigrants contribute less to the overall labor supply.

Figure 1

Sentiment very weak in recent readings

Sentiment indexes

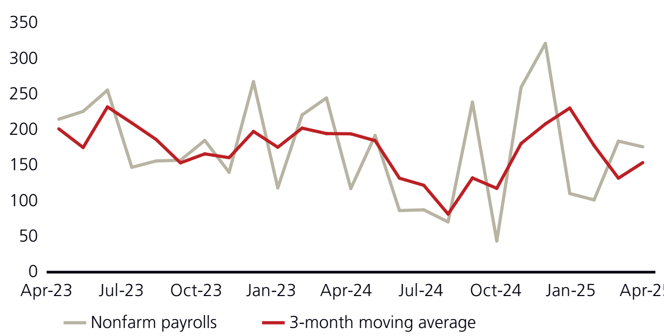


Source: Bloomberg, UBS as of 21 May 2025

Figure 2

Labor market is supporting household income

Nonfarm payrolls, month-over-month change, in '000s



Source: Bloomberg, UBS as of 21 May 2025

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

Read the report ›

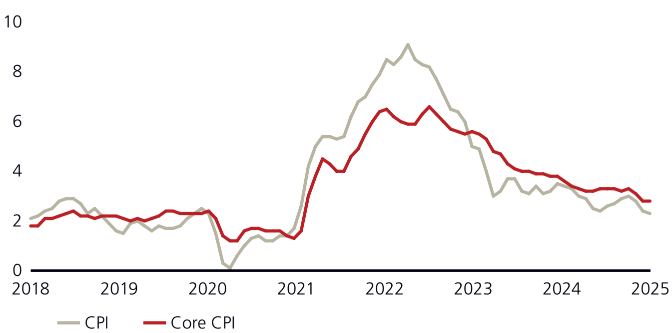
Inflation

The inflation data for March and April were softer than expected. As shown in Figure 3, the data suggest that, in the absence of tariffs, inflation would have likely trended lower over the course of the year. However, we urge caution against an overly optimistic interpretation of these data. There is a lot of uncertainty over tariff policy, and the extent to which tariffs will be passed through into retail prices is also unclear. Additionally, there is likely to be a lag between the reality of higher prices and the reflection of that reality in the CPI data. Higher inflation prints are probably still a few months away, and it could take until the end of 2025 before we can reasonably gauge the final tariff impact. We expect core inflation to be around 3.5-4.0% at year-end, but we view the tariff impact as a one-off increase in the price level and do not expect sustained higher inflation over the medium term.

Figure 3

Inflation was slowing before tariff hikes

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



Source: Bloomberg, UBS as of 21 May 2025

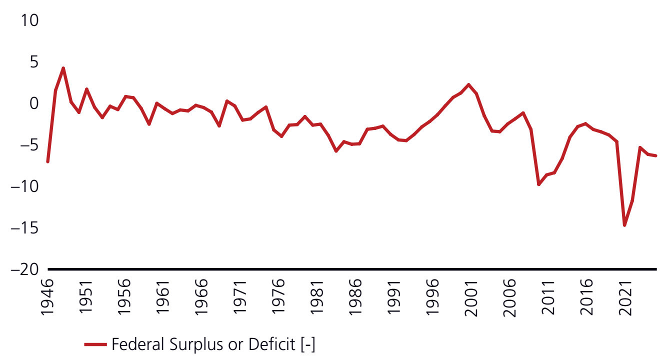
Policy

House Republicans managed to pass the One Big Beautiful Bill Act, sending it on to the Senate. While additional changes are likely before final passage, it appears that the budget deficit in 2026 may increase by around USD 250 bn. beyond the cost of simply extending the expiring 2017 tax cuts. In our view, the deficit expansion is not likely to provide much of a boost to growth. As shown in Figure 4, the federal budget deficit, which increased dramatically during the pandemic, remains unusually large. With the economy already near full employment, and markets concerned about the long-run sustainability of public finances, additional stimulus may result in more inflation and higher interest rates rather than better economic growth. On the monetary side, we maintain our base case of 75-100 bps of Fed rate cuts starting in September, but given the inflation outlook, we believe that the Fed will not be willing to start cutting unless it first sees signs of weakness in the labor market.

Figure 4

Budget deficit remains large after post-pandemic recovery

Federal Surplus or Deficit [-] as Percent of GDP



Source: FRED, UBS as of 21 May 2025

Equities

We are Neutral on global equities and recently downgraded US equities to Neutral. Optimism about market-friendly trade negotiations is already high, while weaker economic data might follow as the economy adjusts to higher tariffs. However, we still expect global equities to rise over the next 12 months. Central bank cuts globally, clarity on US tax and de-regulation policies, and defense/infrastructure spending in Europe should support markets. We expect global earnings growth to slow to low to mid-single digits in 2025 and reaccelerate to high single digits in 2026.

Eurozone

NEUTRAL

EURO STOXX 50 (index points, current: 5,454)	December 2025 target
House view	**5,200**
Positive scenario	6,000
Negative scenario	4,000

Note: All current values as of 22 May 2025

We rate Eurozone equities as Neutral. We see further modest downside to consensus earnings forecasts on the back of weak corporate guidance and currency headwinds. 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. This supports our preference for our "Six ways to invest in Europe" theme, Eurozone small- and mid-cap stocks, and our preferred sectors of industrials, IT, and real estate.

Emerging markets

NEUTRAL

MSCI EM (index points, current: 1,165)	December 2025 target
House view	**1,190**
Positive scenario	1,280
Negative scenario	890

Note: All current values as of 22 May 2025

We maintain a Neutral stance on EM equities. We revise our December 2025 MSCI EM forecast back to 1190, as tariff pauses ease escalation fears, but negotiations remain protracted. Valuations are undemanding and USD weakness is supportive, though weakening PMIs and earnings revisions are headwinds. Within EM, we favor markets with robust fundamentals and structural growth drivers, particularly Taiwan and India. China tech stands out as an opportunity. In Latin America, equities may offer relative opportunities owing to tariff relief and redirected commodities demand.

Japan

NEUTRAL

TOPIX (index points, current: 2,717)	December 2025 target
House view	**2,800**
Positive scenario	2,950
Negative scenario	2,200

Note: All current values as of 22 May 2025

We remain Neutral on Japanese equities. We expect market conditions to remain choppy and rangebound until the cycle of downward earnings revisions is complete. We anticipate the earnings trough to become evident in June or September quarter results. We currently maintain a balanced portfolio, combining select global cyclical names with high ROE and oversold stocks in health care, machinery, and technology, alongside domestically oriented sectors such as certain IT services and real estate names.

UK

NEUTRAL

FTSE 100 (index points, current: 8,739)	December 2025 target
House view	**8,500**
Positive scenario	10,000
Negative scenario	6,700

Note: All current values as of 22 May 2025

We rate UK equities as Neutral. Lingering global growth uncertainty, lower commodity prices, and the stronger GBP are likely to weigh on UK earnings in the near term. 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. This supports our preference for our "Six ways to invest in Europe" theme, and the industrials, IT, and real estate sectors.

US equities

We have a Neutral view on US equities. After the market surge following the initial 90-day pause on "reciprocal" tariffs, we believe the risk-reward for US equities now appears more balanced. Nevertheless, we also believe the bull market remains intact and expect further gains over the coming year.

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

US equities overview

NEUTRAL

US equities

Earlier this month, we downgraded US equities from Attractive to Neutral. This followed the de-escalation in trade frictions between the US and China and a sharp rise in US stocks over the prior month. Our Neutral stance reflects our view that the near-term risk-reward for US stocks looks more balanced. Current valuations tell a similar story, with the S&P 500's forward P/E above 21x. Nonetheless, we still believe the bull market is intact and stocks can continue to move higher over the coming year. After digesting the tariff impact, economic data should begin to improve later this year driven by a pickup in real wage growth, clarity on tax policy, deregulation, and potential Fed rate cuts. A solid first quarter earnings season and slightly higher expectations for GDP growth led us to raise our S&P 500 2025 EPS estimate to USD 260 from USD 250 (4% growth) and 2026 estimate to USD 280 from USD 275 (8% growth). We increased our year-end S&P 500 price target to 6,000 from 5,800 and initiated a June 2026 target of 6,400.

US equities – sectors

Tech remains Attractive, as we believe spending on AI will remain largely intact. Additionally, 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 attractive valuations should benefit health care. Utilities offer defensive exposure if economic growth slows further, and we believe there is upside potential from AI power demand.

US equities – size

We have a Neutral view across size segments. Small-caps are more correlated to economic activity and the likely downtick in economic growth suggests a more challenging path for smaller companies. Nevertheless, smaller companies appear inexpensive and we believe returns are likely to reward longer-term investors.

US equities – style

We have a Neutral view on growth and value stocks. Growth has led value during the market rebound and earnings growth should outpace that of value stocks. However, this already seems to be reflected in growth's valuation premium. Value stocks have a larger mix of defensive companies that have held up better in a down market. On net, we have a balanced allocation between growth and value stocks.

S&P 500 (index points, current: 5,842)	December 2025 target
House view	**6,000**
↗ Upside	6,700
↘ Downside	4,500

Note: All current values as of 22 May 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 22 May 2025

Figure 2

US equity valuations are now above recent averages

S&P 500 forward P/E

Source: FactSet, UBS, as of 22 May 2025

Bonds

Near-term recession concerns have dissipated with the delay to reciprocal tariffs and de-escalation between the US and China. This has seen a sharp pullback in Fed rate cut expectations and hence a shift higher in the yield curve. On top of this, fiscal policy remains on a troubling trajectory, with US budget negotiations currently underway. But we believe the government will pull available levers in order to support the US Treasury market, if necessary. With a much slower rate-cutting profile now priced in to the curve and a terminal policy rate expectation of 3.5%, which is restrictive, we see value in taking US interest rate exposure in the belly of the 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: 4.60%)	December 2025 target
House view	**4.00%**

Note: All current values as of 22 May 2025

While the Treasury market was able to shrug off the Moody's downgrade earlier this month, it could not so easily look through ongoing concerns around fiscal policy uncertainty and debt sustainability. Ten-year Treasuries have risen as high as 4.62% and are now in line with levels seen prior to Inauguration Day. Thirty-year yields reached back above 5% to their highest since September 2023. We set our short-term range for 10-year yields at 4.5-4.8% where we would look to extend duration. We have entered the lower end of that range with the 10Y yields now at 4.55%. We expect yields to trend toward 4.0% by year-end, as softening sentiment data flows into the hard data and economic growth slows, alongside 75bps of rate cuts from the Fed.

US investment grade corporate bonds

ATTRACTIVE

US IG SPREAD (current: 90bps)	December 2025 target
House view	**100bps**
↗ Positive scenario	80bps
↘ Negative scenario	180bps

Benchmark: ICE BofA
Note: All current values as of 22 May 2025

We hold an Attractive view. Over the past month, IG spreads have tightened by approximately 20bps, helping to offset the rise in government bond yields during this period. Historically, IG bonds have demonstrated resilience during periods of economic slowdown, as credit spread widening is often partially offset by declining interest rates, supporting total returns. 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

NEUTRAL

EMBIG DIV. / CEMBI DIV. SPREAD (current: 322bps/255bps)	December 2025 target
House view	**375bps/300bps**
↗ Positive scenario	290bps/210bps
↘ Negative scenario	550bps/500bps

Note: All current values as of 22 May 2025

We keep Emerging market credit as Neutral. Spreads retraced, valuations are back to historically tight levels, and the asset class remains vulnerable 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: 325bps)	December 2025 target
House view	**350bps**
↗ Positive scenario	300bps
↘ Negative scenario	650bps

Benchmark: ICE BofA
Note: All current values as of 22 May 2025

We have a Neutral recommendation on high yield. Credit spreads are back to the low end of their historical range, and we see limited spread compression potential. Fundamentally, credit metrics are strong for the asset class, with aggregate leverage at 4.3x being below its long-term average. CIO's forecast for the HY default rate is 2-3% for the next 12 months, suggesting low defaults at the index level. The 7.6% yield offers an attractive carry and is sufficiently high to help support returns, even if spreads widened again.

Municipal bonds

NEUTRAL

We remain Neutral. Volatility and yields have declined after spiking in April, helping muni funds to see strong inflows. The muni market is relieved, as the federal tax exemption was left untouched in the one big beautiful bill recently passed by the House. The index tax equivalent yield of 6.9% is attractive. The curve has steepened, as Treasury rate volatility risks and policy uncertainties remain elevated. We prefer the three- to seven-year and 17- to 30-year range on the AAA tax-exempt curve. Credit spreads remain tight. We prefer larger, higher-quality issuers.

Non-US developed fixed income

NEUTRAL

Over the past month, bond yields in non-US developed markets moved mostly higher, partially driven by rising yields in the US. On foreign exchange markets, the dollar was mixed against other major currencies. These factors combined to produce modestly negative 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 +10bps (versus +13bps last month).

Mortgage-backed securities (MBS)

ATTRACTIVE

Agency MBS spreads currently sit at 157bps, last seen in December 2023, having settled in the 150-160bps range since April's volatility. We continue to see attractive relative value in agency MBS versus IG corporates, and current coupon yields at 5.9% are 50bps higher than IG's 5.4%, giving investors the opportunity to lock in attractive coupons. We continue to expect bank demand and falling rate volatility to be tailwinds into the end of the year. The sector's elevated yields and relative liquidity continue to inform our Attractive view on MBS.

AGENCY MBS SPREAD (current: 157bps)	December 2025 target
House view	**110bps**
Positive scenario	100bps
Negative scenario	185bps

Note: All current values as of 21 May 2025

Preferred securities

NEUTRAL

Preferreds enjoyed an equity-driven rally in April following the 9 April tariff pause announcement. However, May's surge in Treasury rates have halted any further advances. The sector is tracking a gain of about 1% for the month, which is cutting year-to-date (YTD) losses to roughly 0.5%. USD 25 pars continue to underperform USD 1000 pars, with the YTD performance gap widening, and illustrating the importance of intra-sector diversification. 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.

Treasury Inflation-Protected Securities (TIPS)

NEUTRAL

Thirty-year real yields have reached an all-time high of 2.76%, going back to when the index began in 2004, while 10-year real yields have reached 2.18% as inflation fears remain elevated following April's tariff volatility. Solid hard economic data, a strong labor market, and the expected impacts of tariffs have caused 10-year breakeven inflation expectations to rise to 2.35%. While they are cheaper than just a few weeks ago, we maintain our current allocations and look for real yields to rise above 2.25%.

US 10-YEAR REAL YIELD (current: 2.18%)	December 2025 target
House view	**1.50%**
Positive scenario	0.75%
Negative scenario	2.30%

Note: All current values as of 21 May 2025

Figure 1

UBS CIO interest rate forecast

In %

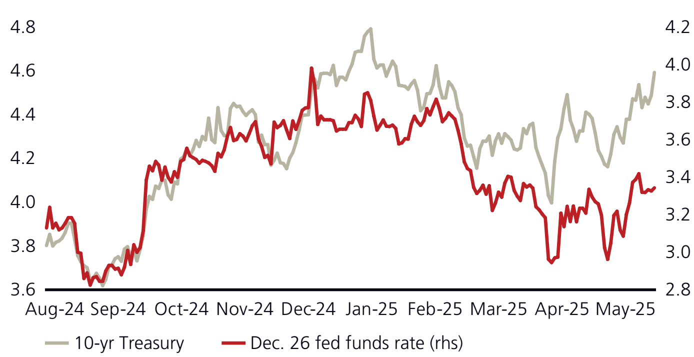
UST	Current	Sep-25	Dec-25	Mar-26	Jun-26
2-year	4.02	3.75	3.75	3.75	3.75
5-year	4.16	3.75	3.75	3.75	3.75
10-year	4.60	4.00	4.00	4.00	4.00
30-year	5.09	4.25	4.25	4.25	4.25

Source: Bloomberg, UBS, as of 22 May 2025

Figure 2

10-yr Treasury yields and short-term rate expectations have decoupled

Yield, in %



Source: Bloomberg, UBS, as of 21 May 2025

Commodities and listed real estate

Broad commodities have continued to recover in recent weeks, supported by a de-escalation of trade tensions between China and the US. Our benchmark, the UBS CMCI Commodity Total Return Index, is up nearly 3% this month and slightly more than 2% year to date. The main beneficiaries of reduced trade tensions have been the cyclical sectors, with energy up nearly 4% and industrial metals rising a bit more than 3%. Agriculture and livestock have also delivered positive performance in May.

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 3,295/oz) December 2025 target

ATTRACTIVE

House view	**USD 3,500/oz**
Positive scenario	USD 3,200/oz
Negative scenario	USD 3,800/oz

Note: All current values as of 22 May 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 has reaffirmed its value as a hedge this year, and we continue to see it as a valuable long-term portfolio diversifier against downside scenarios. Earlier, gold surged to an all-time high of USD 3,500/oz, but gains were recently pared back as investor confidence shifted to riskier assets amid easing policy uncertainty and expectations that US rate cuts will proceed slowly.

Base metals

LME copper prices have been recovering cautiously since the US administration's announcement of a 90-day pause on reciprocal tariffs. The prospect of weaker manufacturing activity remains a near-term headwind for copper prices, while constrained supply growth provides underlying price support. We expect copper prices to trade sideways into the third quarter, with room to recover toward year-end and into 2026.

Agriculture

Agriculture and livestock have delivered positive performance in May. We maintain a moderately positive outlook for the asset class this year, underpinned by several supportive structural factors.

BRENT (current: USD 64.44/bbl) December 2025 target

NEUTRAL

House view	**USD 68/bbl**

Note: All current values as of 22 May 2025

Crude oil

OPEC+ continues to unwind its production cuts and is likely to add more barrels in July. The early May OPEC press release cited healthy market fundamentals and low oil inventories as reasons for accelerating the pace of unwinding production cuts. Despite ongoing trade tensions and concerns about economic growth, we still expect a further seasonal increase in global oil demand over the coming months.

Listed real estate

RUGL Index (current: USD 5,983) December 2025 target

House view	**USD 7,500**
Positive scenario*	USD 7,500
Negative scenario*	USD 6,800

Note: All current values as of 22 May 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 companies trading at discounts offer above-average potential returns only if they manage to grow their activities. We expect real estate values to profit from further rental growth over the medium term. More interest rate cuts and increasing transaction volumes are supportive.

Foreign exchange

We downgrade the USD to Unattractive

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After a sharp rally in the EURUSD from near parity to 1.15, we noted last month that we preferred not to chase the move and will wait for a period of consolidation. A better-than-expected US-China trade deal has since been announced, allowing the USD to recover some ground. With the EURUSD now trading closer to 1.12, we view long positions as attractive while reducing or hedging USD exposure at current levels. We therefore move the USD to Unattractive. In recent months, sentiment toward the USD has shifted significantly. Once the favored currency, the greenback is now viewed as a "sell on rallies" by global investors reassessing their USD exposure. Previously, the USD was supported by a combination of expansionary fiscal policy and restrictive monetary policy. However, this dynamic is set to change: Fiscal policy is unlikely to become even more expansionary, and the lingering effects of the trade war are expected to prompt a more accommodative monetary stance. At the same time, Europe is transitioning from restrictive to supportive fiscal policy, while the ECB nears the end of its easing cycle. We believe these fundamental shifts on both sides of the Atlantic are likely to push EURUSD into the 1.15-1.20 range later this year.

Absent another major risk-off event, we believe low-yielding relative "safe haven" currencies such as the Swiss franc (CHF) and Japanese yen (JPY) are likely to underperform most other currencies on a total return basis through year-end. However, on a spot basis, we still see potential for decent returns versus the USD. Among high yielders, we continue to favor the Norwegian krone (NOK) and Australian dollar (AUD), both of which have lagged year to date and over a two-year horizon. The British pound (GBP) still offers an attractive carry, but after its recent rally, it appears more vulnerable in the second half of the year, as fiscal stimulus is expected to fade. The Swedish krona (SEK) and the euro should continue to benefit from the European reflation and defense narrative, though both remain susceptible to short-term setbacks given their strong performance year to date.

Finally, we shift the Chinese yuan from Unattractive to Neutral. Tit-for-tat trade tariff retaliation between US and China seems to be over, with both sides agreeing to a reduction of tariffs for 90 days. While reaching a US-China trade agreement over the 90-day window is by no means guaranteed, a positive outcome would provide a further tailwind for the CNY. In this context, we look for a gradual CNY recovery over the coming quarters, with a target of 7.1 versus the USD by year-end.

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: June 2025, published 22 May 2025

FX forecasts

	Current	Sep-25	Dec-25	Mar-26	Jun-26
EURUSD	1.13	1.16	1.16	1.18	1.20
USDJPY	144	142	140	138	136
GBPUSD	1.34	1.38	1.38	1.39	1.40
USDCHF	0.82	0.82	0.82	0.81	0.79
USDCAD	1.38	1.38	1.38	1.36	1.34
AUDUSD	0.65	0.66	0.68	0.70	0.70
NZDUSD	0.60	0.61	0.62	0.64	0.64
USDSEK	9.55	9.31	9.22	8.98	8.75
USDNOK	10.14	9.74	9.66	9.41	9.17

Sources: SIX Financial Information, UBS, as of 22 May 2025

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- Min Lan Tan
- Themis Themistocleous
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Appendix

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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.

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Nontraditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments).
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Version A/2025. CIO82652744

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