UBS House View

Investment Strategy Guide:
Five things to watch in the second half

July 2025 | Chief Investment Office GWM | Investment research

In this report

July

CIO Monthly Livestream

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Dear reader

The first half of 2025 was marked by ongoing geopolitical and policy uncertainty, resulting in sharp swings across asset classes. In recent weeks, however, sentiment has steadied as easing trade concerns, cooler inflation data, and a more dovish Fed have propelled markets back near all-time highs.

Looking ahead to the second half of the year, we expect more stable conditions, shaped by clearer US trade and fiscal direction, Fed easing, and lower Treasury yields. Still, risks to the outlook remain. Elevated fiscal deficits and renewed trade tensions could dampen investor confidence and global demand. But in our view, they are unlikely to push the US into a recession. We forecast GDP growth to slow to around 1.5% in 2025, down from 2.8% in 2024, as the impact of tariffs and other policy changes becomes more apparent.

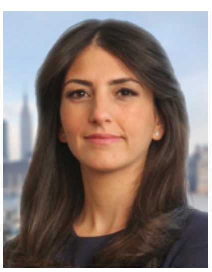
Nonetheless, with the labor market data hinting at further softening ahead and inflation showing signs of cooling, we still expect the Fed to cut rates by 100 basis points, starting in September, which should provide a supportive backdrop to financial markets.

We maintain a Neutral view on US equities. Stocks are already pricing in a significant de-escalation in trade frictions and geopolitical tensions. But we do expect another resilient earnings season ahead. We've increased our 2025 and 2026 S&P 500 EPS estimates by 6% and 7.5%, respectively. This leads us to raise our year-end S&P 500 price target to 6,200 from 6,000 and our June 2026 target to 6,500 from 6,400. Additionally, we have upgraded Financials to Attractive from Neutral, driven by deregulation, improving net interest margins, and solid continued growth in payments.

In fixed income, Treasury yields have fallen recently, and we expect further declines as the Federal Reserve resumes easing. Proposed changes to bank capital requirements should also improve liquidity in the Treasury market, supporting valuations. While fiscal deficits remain a concern, we believe the US can manage its debt for the time being, supported by deep capital markets and the dollar's reserve currency status. Against this backdrop, we favor high-quality investment grade bonds in the intermediate area of the yield curve as they offer attractive risk-return profiles and allow investors to lock in yields at historically attractive levels.

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

Solita Marcelli



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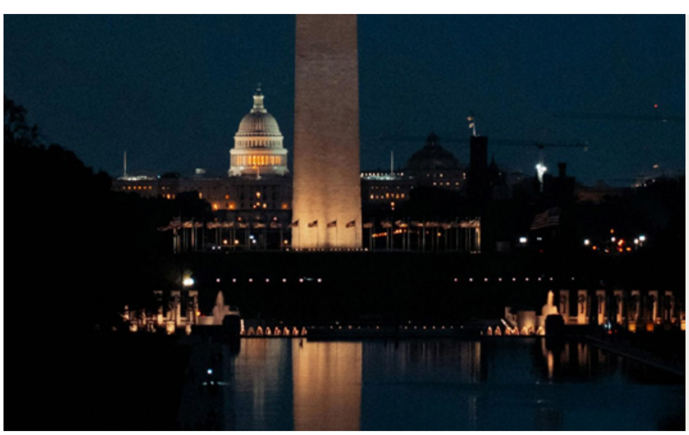

POTUS 47

Investing under Trump 2.0

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Five things to watch in the second half

Toward policy stability

After a volatile first half of 2025, we expect greater stability in US trade and fiscal policy to emerge in the second half.

Geopolitics in focus

Geopolitical risk remains a feature of the current environment. For investors, effective hedging and diversification strategies are key.

Fed to resume cuts

The Fed is likely to resume cutting interest rates in the second half. We expect lower rates to support bond markets.

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 see the US dollar as Unattractive.

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Entering the second half of 2025, investors find themselves at a crossroads between recent market volatility and the emergence of potentially stabilizing trends. In the first half, investors contended with shifting policy, swings in sentiment, and geopolitical events. Yet, beneath the surface, the outlines of a more constructive environment are taking shape.

We see five key factors that we expect to drive investment outcomes in the months ahead:

First, US trade and fiscal policies are gradually taking shape. While the expiration of the US "reciprocal" tariff pause and legal debates around the basis for tariffs risk near-term volatility, we expect the final contours of US trade policy to become clearer in the weeks ahead. Meanwhile, Treasury and legislative actions, including the likely passage of the One Big Beautiful Bill Act, should provide greater clarity on fiscal policy. Elevated tariffs and persistent deficits may periodically unsettle markets, but we do not expect them to end the broader economic expansion or trigger a sustained market drawdown.

Second, geopolitical risk remains a feature of the current environment. Ongoing conflicts in the Middle East and Eastern Europe pose tail risks. The challenge for investors is how to effectively diversify and hedge the risk of further escalation.

Third, we expect interest rates and bond yields to fall. The Federal Reserve has been on hold in the first half of the year, but we expect it to resume cutting in the second half. We believe lower rates, lower growth, slower inflation, and "safe-haven" flows will lead to lower high grade bond yields by year-end.

We expect the longer-term trend of "de-dollarization" to persist.

Fourth, we expect further US dollar weakness. After a significant decline in the first half, the pace of further depreciation may moderate, but we expect the longer-term trend of "de-dollarization" to persist.

Finally, we believe structural growth trends—particularly artificial intelligence, power and resources, and longevity—will continue to drive equity market returns, supported by further innovation, adoption, and monetization in the second half and beyond.

Against this backdrop, we recommend that investors align portfolios with these key drivers while managing the risk of renewed volatility.

For those under-allocated to equities, progressively increasing exposure to diversified global stocks or balanced portfolios can help position for stronger potential returns in the years ahead. In the near term, we see comparatively greater upside potential in the US and emerging markets than in Europe. We favor exposure to structural growth opportunities to capitalize on expected short- and long-term performance.

With cash rates already low, and/or set to fall, we recommend deploying cash into quality bonds and diversified income strategies, which can help enhance yield and improve income durability. We also see now as a good time to review currency exposures and consider reducing excess dollar holdings through hedging or diversification.

Finally, we view gold as an effective hedge against geopolitical risks. The metal is also likely to be further supported by a weaker US dollar, declining real interest rates, and central bank and investment demand. With traditional diversifiers like the US dollar and US Treasuries proving less reliable, we believe investors should also consider alternative assets, including hedge funds and private markets.

Five drivers of market outcomes in the second half

1. US trade and fiscal policy: Toward greater stability

Uncertainty around US trade and fiscal policy has been elevated.

The first half of 2025 was marked by considerable uncertainty around US trade and fiscal policy. As we enter the second half, the focus is on the expiration of the US "reciprocal" tariff pause on 9 July and the Court of Appeals hearings on the validity of the International Emergency Economic Powers Act (IEEPA) as the basis for tariffs later in July.

These events may generate headlines and short-term volatility. President Donald Trump has demonstrated a willingness to shock the market with tariff demands that he later modifies. He may choose to do this again. But we do not expect this to materially alter the longer-term policy or market trajectory.

Treasury Secretary Scott Bessent's recent remarks suggest that an extension of the tariff pause for countries engaged in "good-faith negotiations" is "highly likely." As discussed later, the US is also unlikely to want tariffs much higher than current levels that would ultimately reduce trade and hence tariff revenue.

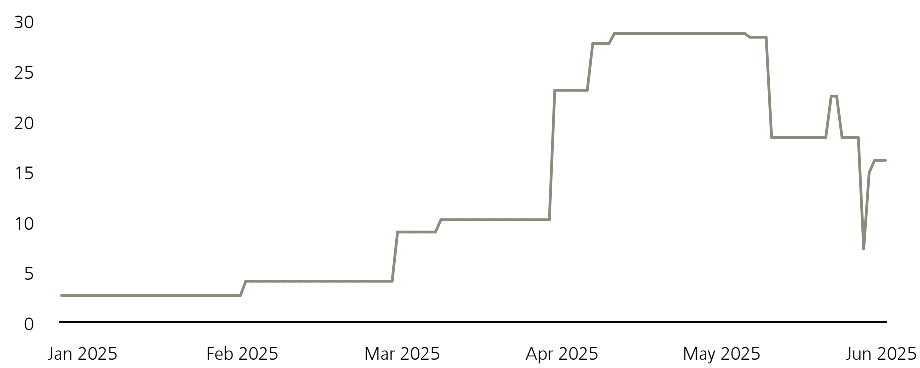
We see the US effective tariff rate settling around 15%.

Meanwhile, even if the courts ultimately rule against the IEEPA basis for tariffs, we would expect the US administration to pursue alternative legal avenues (including product-specific tariffs), keeping the eventual effective size and scope of tariffs largely similar. In our base case, we see the US effective tariff rate settling around 15%—up from 3% last year but down from the post-"Liberation Day" peak of 28%—with a higher 30-40% rate applied to Chinese imports.

Figure 1

The Trump administration's tariffs have been volatile

US effective tariff rate, in %



Source: The Budget Lab, UBS, as of 4 June 2025

We believe the impact of tariffs on US growth and inflation will be moderate.

While these elevated tariffs represent the highest levels since the 1930s, we believe the impact on US growth and inflation will be moderate. A 15% effective tariff rate is likely to act as a headwind to growth and a modest boost to inflation, but we do not expect it to trigger a recession. The resilience of the US consumer and the adaptability of global supply chains should help cushion the blow.

On fiscal policy, we expect the Senate to pass the One Big Beautiful Bill Act (OBBBA), extending the 2017 personal income tax cuts, increasing state and local tax deductions, raising defense spending, and reducing Medicare outlays. Recent Senate amendments to Section 899—which cap the increase in withholding taxes at 15 percentage points, clarify their scope (excluding interest payments), and delay implementation to 2027—should also provide more certainty for investors.

The US fiscal deficit was 6.4% of GDP in 2024 and, under current policy, would have decreased over the next few years as tax cuts expire. Instead, we expect that the bill's spending and lower tax provisions will lead to higher deficits over the 2025-28 window.

An elevated fiscal deficit increases the US's dependence on pursuing high-nominal growth/stock-friendly policies.

The good news is that an elevated fiscal deficit increases the US's dependence on pursuing high-nominal growth/stock-friendly policies. Currently, there is no political consensus in Washington DC for the degree of spending cuts and/or tax increases that would be required to achieve a primary budget surplus. The Fed's credibility, the US dollar's reserve status, deep and liquid Treasury markets, and measures to adjust issuance, Fed balance sheet holdings, or bank capital regulations could all help finance the deficit, but do not resolve the underlying problem in the absence of budget surpluses.

That leaves economic growth as a key means of managing and improving the country's debt-to-GDP ratio, an imperative that has been recognized by the Trump administration. Treasury Secretary Bessent has stated that, "What is important is that the economy grows faster than the debt […] then we will stabilize our finances and grow our way out of this."

In our view, this constraint makes it more likely that trade policies or threats that risk a recession are ultimately negotiated lower. While tariff revenues are needed to help offset spending provisions in the OBBBA, it is not likely to be in the administration's interest to have tariffs so high that they ultimately reduce trade, growth, and tax revenues.

Key takeaway: While persistent deficits and high tariffs could periodically unsettle equity and bond markets, we do not currently see either as a catalyst for a sustained market sell-off owing to specific measures to help fund the deficit as well as an increased focus on growth-oriented policies.

2. Persistent geopolitical risks

The Israel-Iran conflict escalated in recent weeks.

The conflict between Israel and Iran escalated in recent weeks, with the US launching air-strikes targeting Iranian nuclear facilities. Iran's response to the US strikes was relatively measured. President Trump subsequently announced a ceasefire between Israel and Iran, though the truce remains fragile.

Thus far, the recent escalation in the Middle East conflict has had a limited impact on financial markets, which is in line with historical experience. During the past 11 major geopolitical events (starting with the first Gulf War and ending with the Russia-Ukraine conflict), on average, the S&P 500 was just 0.3% lower one week after the event and 7.7% higher 12 months later.

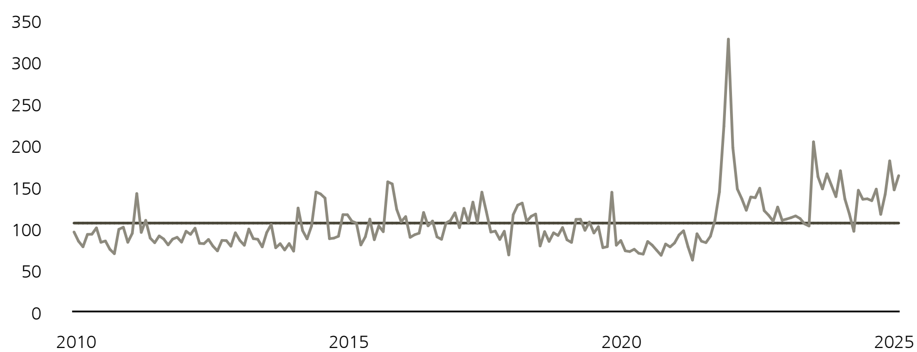
Oil remains the primary channel through which Middle East tensions affect the global economy and markets. Key questions are whether Middle East energy exports—especially oil shipments through the Strait of Hormuz—will be affected, and whether other major powers will be drawn into the conflict.

Iranian attacks on US bases, allies, or regional energy infrastructure are a risk. Threatening maritime traffic through the Strait of Hormuz, or mining this crucial chokepoint, remains a possibility. A further concern is whether US involvement could draw in other countries, particularly Russia, which might see prolonged oil disruptions as leverage in its negotiations over Ukraine.

Figure 2

Geopolitical risk in this decade is higher than the average of the past 15 years

Geopolitical Risk Index, including 15-year average line



Source: Dario Caldara and Matteo Iacoviello, Geopolitical Risk index, UBS, as of June 2025

In our base case, we do not expect the Iran-Israel conflict to escalate into a broader, prolonged war.

In our base case, we do not expect the Iran-Israel conflict to escalate into a broader, prolonged war that would materially disrupt global oil supplies.

In our view, President Trump is focused on the nuclear threat more than regime change. We also do not expect Russia to intervene directly. Despite a recent "Comprehensive Strategic Partnership" with Iran and condemnation of Israeli actions, Russia's military is stretched by the war in Ukraine, and direct involvement risks provoking tougher US sanctions or increased support for Ukraine.

The risk case is that energy supplies from the region are disrupted, sending oil prices higher and leading to negative consequences for growth and inflation. Risk assets would likely sell off in this scenario, especially if and when the first disruptions to energy supplies are reported. However, Iran's military capabilities are already degraded and suggest that a further escalation that disrupts energy supply is more likely to be short-lived than prolonged, which should allow risk assets to recover quickly.

Market swings can provide investors with an opportunity to build or rebalance risk positions where appropriate. Nevertheless, the risk of escalation or miscalculation, or the emergence of new flashpoints cannot be discounted. In addition to the Middle East and the ongoing Russia-Ukraine war, tensions in the South China Sea, the Korean Peninsula, and the Taiwan Strait bear close monitoring.

Key takeaway: Geopolitical risk is likely to remain a key feature of the investment landscape. We believe that markets will continue to differentiate between headlines and events with lasting economic impact. Nonetheless, investors should explore measures to manage geopolitical risks to portfolios. Exposure to gold, US Treasuries, and other perceived "safe-haven" assets can help cushion portfolios against periods of heightened uncertainty or escalation.

3. Lower bond yields and interest rates

Central banks in Europe cut interest rates in the first half.

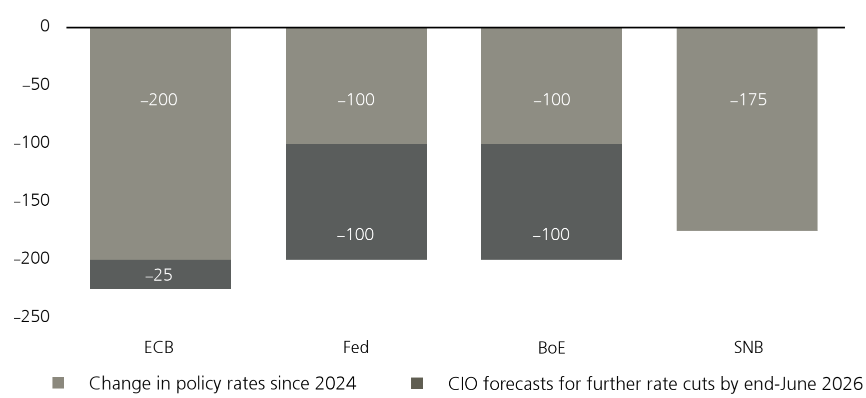
The European Central Bank (ECB) cut interest rates four times in the first half of 2025, while the Swiss National Bank (SNB) and the Bank of England (BoE) each cut rates twice. In contrast, the Fed has maintained its policy rate, citing stickier inflation, continued economic resilience, and uncertainty over the effect of tariffs on price pressures.

Looking ahead, we expect the ECB to deliver one additional rate cut this cycle, while the SNB (having already lowered rates to zero) is likely to remain on hold. In the US, however, we anticipate the Fed will resume cutting rates as growth slows. We expect further cuts of 100 basis points, likely starting in September. This shift in the focus of monetary easing—from Europe to the US—supports our relative equity preference for the US market and our Unattractive view on the US dollar.

Figure 3

The Fed looks set to cut rates more than others

Change in policy rates since 2024, including CIO expectations for upcoming changes, in bps



Source: Bloomberg, UBS, as of June 2025

Higher long-term bond yields are a risk, particularly in the US, UK, and Japan, where fiscal and inflation uncertainties are more pronounced. However, our base case is for 10-year bond yields to fall in most major currencies by year-end, as slower growth, declining inflation, and renewed demand for high-quality assets drive inflows into government bond markets.

Key takeaway: While lower rates may limit returns from cash and short-duration fixed income, we expect good performance from most high-quality government and investment grade corporate bonds as yields fall. We also favor diversified fixed income strategies.

4. Ongoing "de-dollarization"

The US dollar weakened during the first half.

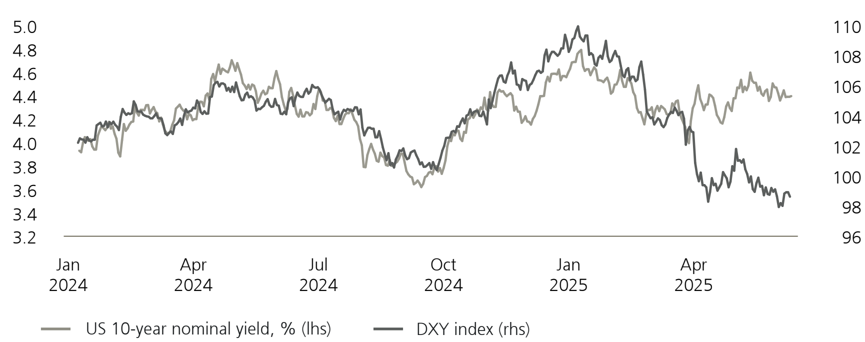
The US dollar has depreciated by approximately 6% year-to-date on a trade-weighted basis, in part reflecting concerns about the US tariff and fiscal policy outlook and the perceived safe-haven characteristics of the dollar. Although the pace of depreciation could slow in the second half, we still see further dollar weakness as likely over the next 12 months; we expect EURUSD to rise to 1.20 by June 2026.

US growth is likely to slow as the fiscal impulse wanes and higher tariffs weigh on activity, and the Fed may cut rates more than other major central banks. We also expect the trend of de-dollarization—the gradual diversification of global reserves and international investor portfolios away from the US dollar—to continue.

Figure 4

Nominal yields have risen but the US dollar has declined

US 10-year Treasury yield, % (lhs), vs. DXY index (rhs)



Source: Bloomberg, UBS, as of June 2025

Global central banks may now be less willing to accumulate US dollar reserves.

In Asia, for example, central banks have been willing to accumulate US dollar reserves to prevent rapid appreciation of their currencies. They may now be less willing to accumulate reserves to avoid being labeled as a "currency manipulator" by the Trump administration.

Equally, reassessment of longer-term prospects outside the US might also be prompting some reallocation away from the dollar; for example, the prospect of better structural growth in Europe on the back of less restrictive fiscal policy and increased defense spending.

Nevertheless, we do not see the de-dollarization trend as being driven by a wholesale exit from US assets. The US still offers high exposure to the areas of the equity market that we expect to drive performance, particularly artificial intelligence (AI). Equity investors outside the US are likely to (and should, in our view) continue to seek exposure to these growth drivers.

Key takeaway: While the dollar is likely to retain its dominant role in global finance for the foreseeable future, we expect global investors to make incremental shifts toward other reserve currencies, including the euro, Swiss franc, British pound, and Australian dollar, as well as select Asian currencies. We favor a proactive approach to managing excess USD exposure, including the use of hedges and diversification as appropriate.

5. Structural growth opportunities

Structural growth themes are likely to be a key driver of portfolio performance.

We expect structural growth themes—including our Transformational Innovation Opportunities (TRIOs) of *Artificial intelligence*, *Power and resources*, and *Longevity*—to be central to portfolio performance in the second half of 2025 and beyond.

Artificial intelligence: Tech stocks have rebounded from their April lows, buoyed by resilient earnings and strong spending from major firms—suggesting earlier worries about low-cost models may have been overstated. While risks remain from potential new tariffs on semiconductors and possible restrictions on AI-related chips under the US AI Action Plan, we continue to see strong underlying AI demand growth, supported by improving monetization trends and sustained pricing power. New large language model launches and Big 4 earnings updates in July could be key catalysts.

AI capex trends remain intact.

New entrants—including Chinese AI firms, neocloud providers, and enterprise and sovereign cloud players—are ramping up their investments in the technology. We expect global AI capex to rise to USD 360bn in 2025 (a 60% increase from last year) and to USD 480bn in 2026 (up 33% y/y).

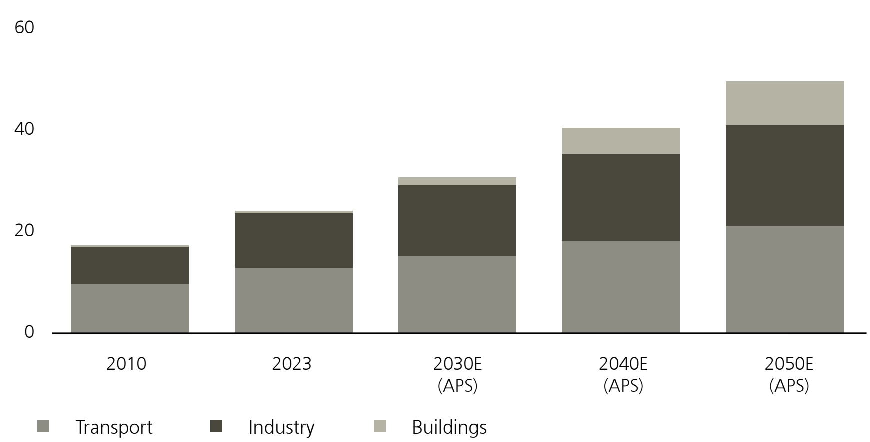
Power and resources: We estimate that rising electricity demand from data centers, manufacturing and automation, transportation, and climate initiatives will require USD 3 trillion in annual investment by 2030, up 50% from 2023. In our view, this confluence of trends should disproportionately benefit a relatively small group of companies providing the backbone of electrical infrastructure, supporting organic revenue growth and equity performance.

In the second half of the year, we expect steady (or, in some cases, accelerating) year-over-year order growth for electrical equipment companies, assuaging residual investor concerns about the duration and magnitude of the current uptrend. Investors will also be highly attuned to the pace of data center construction and commentary from hyperscalers on their AI capex plans for the coming year.

Figure 5

Electricity consumption is set to rise

Global electricity consumption, split by segment, in TWh. Future consumption according to the IEA Announced Pledges Scenario (APS)



Source: IEA World Energy Outlook (2024), UBS, as of June 2025

We see a compelling entry point for our *Longevity* theme.

Longevity: The health care sector—a core part of our *Longevity* theme—remains volatile amid uncertainty over US tariffs on pharma (following Section 232 investigations) and Trump's Executive Order on Most Favored Nation pricing, which aims to align US drug prices with other developed markets. While we see it as unlikely that lower prices will be mandated (with rulemaking requiring Congressional approval), ongoing policy headlines are likely to fuel near-term sector volatility.

In the second half, investors will watch for clarity on tariffs and drug pricing reform, with any resolution likely to improve sentiment toward the pharma sector. In our view, depressed valuations, especially in pharma, combined with strong structural trends, make this a compelling entry point for the *Longevity* theme. We believe the global health care sector's market opportunity could reach USD 2.2 trillion by 2030, supported by rising demand for treatments targeting obesity, oncology, Alzheimer's, and cardiovascular disease.

Key takeaway: We believe carving out a distinct allocation to structural growth opportunities in portfolios can help investors outperform broad equity indices and diversify sources of return beyond the classic economic cycle.

Investment ideas

Greater policy clarity, falling interest rates, and structural growth trends should support markets.

While economic uncertainty and geopolitical risks may generate periodic market volatility in the second half, we believe that the emergence of greater policy clarity, falling interest rates, and enduring structural growth trends will provide a foundation for improved market performance in the years ahead.

Phase into equities. After a strong run for global markets and with uncertainty still high, we expect only modest returns for global equity indices by year-end. For example, we are targeting 6,200 for the S&P 500 by year-end, though we see the index rising to 6,500 by June 2026. For investors under-allocated to broad equity markets, we recommend gradually increasing exposure to diversified global stocks or balanced portfolios to position for stronger potential returns in 2026 and beyond.

We see more upside for US and emerging market (EM) indices than for European equities over the next half, and we expect the second-quarter results season, starting on 15 July, to be better than anticipated. We also expect more rate cuts from the Fed (and fewer from Europe) to support US and EM assets. Short-term investor sentiment also appears to be more positive on Europe relative to the US and EM, providing greater scope for a surprise.

Within US equities, we favor the technology, health care, and financial sectors.

In the US, we see the best opportunities in technology, health care, and financials. In emerging markets, we favor Taiwan, India, and mainland China's tech sector. While Europe as a whole may underperform the US and EM, we see value in European quality stocks, Swiss high-quality dividend stocks, and our "Six ways to invest in Europe" theme.

Invest in transformational innovation. We expect our TRIO themes—*Artificial intelligence, Power and resources*, and *Longevity*—to perform well. In *AI*, diversified exposure across infrastructure, semiconductors, and applications should capture accelerating adoption and monetization. We expect *Power and resources* to benefit from surging electricity demand and the global energy transition, driving investment in grids, renewables, and critical materials. *Longevity* is supported by demographic shifts and rapid innovation in health care, medtech, and wellness, with breakthroughs in obesity and cancer treatment reinforcing the theme.

Seek durable income. At times of low or falling cash interest rates, investors looking to increase potential portfolio income should consider taking on a degree of duration risk, credit risk, market risk, or liquidity risk. We see opportunities in high grade and investment grade bonds, diversified fixed income strategies including private credit, and equity income strategies.

Reduce excess dollar exposure. The US dollar's traditional role as a relative "safe haven" during periods of market uncertainty is under question. We believe that investors should review their currency allocations and consider diversifying US dollar holdings in excess of those required to meet liabilities or spending plans into currencies such as the euro and the Australian dollar.

We believe gold remains an effective hedge and diversifier within portfolios.

Navigate political risks. Gold remains an effective hedge against geopolitical risk, in our view, and we believe declining real interest rates and dollar weakness will likely continue to support gold prices. We maintain our USD 3,500/oz target and could see prices exceed this level if geopolitical risk escalates. Capital preservation strategies can help retain gains, while hedge funds can also help diversify portfolios against geopolitical risks.

Diversify with alternatives. Uncertainty about the diversifying power of perceived "safe havens" like US Treasuries and the US dollar increases the importance of alternative portfolio diversifiers. We recommend that investors consider an allocation to alternatives including hedge funds, private credit, value-oriented buyouts, and quality global real estate to help deliver returns, but also expose investors to a broader array of return drivers and enhance portfolio resilience. Investors should be aware of the various risks and drawbacks when investing in alternatives, including illiquidity, limited transparency, and the use of leverage.

Mark Haefele
Chief Investment Officer
Global Wealth Management

Global forecasts

Economy

Real GDP y/y, in %

	2024	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	1.4	0.9	1.4
Australia	1.0	1.7	2.1
China	5.0	4.0	3.5
India	6.5	6.4	6.7
EM	4.5	3.9	3.8
World	3.3	2.8	2.7

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

	2024	2025E	2026E
US	3.0	2.9	3.4
Canada	2.4	2.2	2.1
Japan	2.7	3.3	1.8
Eurozone	2.4	2.2	1.9
UK	2.5	3.2	2.1
Switzerland	1.1	0.2	0.5
Australia	3.2	2.4	2.7
China	0.2	–0.3	–0.3
India	4.6	3.5	4.2
EM	8.0	4.0	3.0
World	5.7	3.4	2.8

Source: Bloomberg, UBS, as of 26 June 2025. Latest forecasts available in the *Global forecasts* publication, published weekly.

Asset classes

	Spot	Dec-25	June-26
Equities			
S&P 500	6,092	6,200	6,500
Eurostoxx 50	5,252	5,200	5,600
FTSE 100	8,719	8,500	9,000
SMI	11,880	12,200	12,600
MSCI Asia ex-Japan	799	806	836
MSCI China	77	79	81
Topix	2,782	2,800	2,900
MSCI EM	1,221	1,190	1,230
MSCI AC World	1,075	1,090	1,140
Currencies			
EURUSD	1.16	1.16	1.20
GBPUSD	1.36	1.38	1.40
USDCHF	0.81	0.82	0.79
USDCAD	1.37	1.34	1.32
AUDUSD	0.65	0.68	0.70
EURCHF	0.94	0.95	0.95
NZDUSD	0.60	0.62	0.64
USDJPY	146	140	136
USDCNY	7.17	7.10	7.00

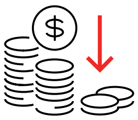
	Spot	Dec-25	June-26
Yields, in %			
USD 2y Treasury	3.78	3.75	3.75
USD 10 year Treasury	4.29	4.00	4.00
CHF 2y Eidg.	–0.10	0.00	0.00
CHF 10y Eidg.	0.37	0.50	0.50
EUR 2y Bund	1.84	1.75	1.50
EUR 10y Bund	2.57	2.25	2.25
GBP 2y Gilt	3.86	3.50	3.50
GBP 10y Gilt	4.48	4.25	4.25
JPY 2y JGB	0.73	0.80	0.90
JPY 10y JGB	1.40	1.30	1.30
Commodities			
Brent crude, USD/bbl	67.7	68	68
Gold, USD/oz	3,333	3,500	3,500

Source: Bloomberg, UBS, as of 26 June 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	After a strong run for global markets and with uncertainty still high, we expect only modest returns for global equity indices by year-end. For investors under-allocated to equities, we recommend gradually increasing exposure to diversified global stocks or balanced portfolios to position for stronger potential returns in 2026 and beyond.	• Phasing in on global equities and balanced portfolios • US: Technology, healthcare and financials • Asia: China tech, India, Taiwan • Europe: Six ways to invest in Europe, Eurozone quality stocks
Navigate political risks	Gold remains a highly effective hedge against geopolitical risk, and declining real interest rates and dollar weakness should continue to support gold prices. We maintain our USD 3,500/oz target and do not rule out the potential for prices to exceed this level if geopolitical risk escalates. Capital preservation strategies can help retain gains, while hedge funds can help diversify portfolios.	• Capital preservation strategies • Gold • Alternatives incl. hedge funds
Seek durable income	With cash rates already low or set to fall further, investors seeking higher income should consider the merits of adding duration, credit, market, or liquidity risk. We expect most global high-quality bond markets to rise by year-end, with attractive opportunities in high grade and investment grade bonds, diversified fixed income strategies (including private credit), and equity income strategies.	• Agency MBS and investment grade bonds • Select credit opportunities in APAC and Europe • Diversified portfolio income strategies (incl. private credit, equity income, Swiss high-quality dividends) • Yield-generating structured investments

MIFs	Elevator pitch	Investment ideas
Reduce excess dollar holdings 	Slower US growth, a high budget deficit, and questions around the dollar's "safe-haven" status mean investors should review their currency allocations and consider reducing excess dollar holdings. This could include hedging currency risk in US equity exposure, switching some US fixed income to EUR bonds, or diversifying excess US dollar cash into other major currencies such as the yen, euro, pound, or Australian dollar.	• EUR, AUD • Hedge USD exposure implicit in US assets • EUR IG
Invest in transformational innovation 	We expect structural growth ideas—AI, power and resources, and longevity—to continue outperforming. In AI, diversified exposure across infrastructure, semiconductors, and applications captures accelerating adoption and monetization. Power and resources benefit from surging electricity demand and the global energy transition, driving investment in grids, renewables, and critical materials. Longevity is supported by demographic shifts and rapid innovation in health care, medtech, and wellness, with breakthroughs in obesity and cancer treatment reinforcing the theme.	• 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
- Gold

Implementation guidance

Recent weeks have seen markets focused on US policy decisions, from ongoing debate around the One Big Beautiful Bill (OBBB) to US involvement in the conflict between Israel and Iran. The next couple weeks will see a renewed focus on tariff policy as the initial 90-day pause is set to end on 9 July and decisions will have to be made to either grant additional pauses or increase pressure on nations that haven't yet struck a deal with the US. While these policy decisions have been major drivers of market movements in the first half of the year, we expect that going forward the focus will shift towards the macroeconomic data and how the growth and inflation trajectories are playing out.

We continue to believe that US economic growth will slow, but not enough to trigger a recession. As tariff-driven price inflation increasingly gets passed on to end consumers, spending is expected to pull back, dampening growth. The timing and sequencing of this is important and we expect to start seeing meaningful tariff impacts on inflation data starting in the next couple of months. Given there is typically a lag between higher prices and the pullback on consumption, we are anticipating weaker growth into the end of the year.

Turning to the Fed, we still expect the first rate cut to come in September as several FOMC participants have expressed the view that tariff-induced inflation should be seen as a one-off price increase that shouldn't begin a pattern of higher price adjustments going forward. Given that view and the likely weaker economic growth, we forecast the FOMC to cut by 25bps at four consecutive meetings starting in September, for a full 1% reduction in policy rates by Q1 of next year. This is under our assumption that there will likely be volatile headlines around tariffs, but that the ultimate effective rate will settle around current levels of approximately 15%. In our view, this won't be high enough to trigger a recession. Given our outlook, there are a few ways we are recommending investors position their portfolios. First, we think investors should continue to consider using positions in 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 safe havens in this environment. We also think investors should **seek durable income** to help manage portfolio volatility. High-quality fixed income like Agency MBS or investment grade corporate bonds remains 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 yield-generating assets, including private credit and equity income strategies.

Equity market volatility is likely to create attractive entry points at the broad market level, and investors with longer horizons who are able to look through currently elevated volatility should begin to **phase into equities**. As the Trump administration makes trade deals and the tariff picture becomes clearer, the Fed resumes cutting rates, and investors begin to price in 2026 earnings growth, markets should find support and end the year higher; we expect the S&P 500 to remain volatile, but to grind higher towards 6,200 by the end of 2025. We forecast S&P 500 earnings growth this year of 6%, bringing EPS to USD 265. We also forecast an additional 8% earnings growth in 2026 and have a June 2026 price target on the S&P 500 of 6,500.

Within US equities, we remain Neutral on value versus growth and make one change to our sector preferences: this month we upgrade financials to Attractive. The sector should benefit from ongoing deregulatory initiatives, and could see further scope for shareholder capital distribution following the latest round of stress test results. Elsewhere, 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 is expected to remain a key driver of equity market returns over the coming years. Consequently, we believe 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 owing 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. For CIO's intramonth change, see *Global credit strategy: Closing out Attractive view in Senior loans*, 13 June 2025.

US economic outlook

Waiting for policy clarity

Brian Rose, PhD, Senior US Economist

Overview

Policy uncertainty remains unusually high, but we may have greater clarity soon as some critical deadlines are approaching. We view the labor market data as crucial: as shown in Figure 1, the data we have so far still looks healthy, but some new entrants have been struggling to find jobs and we expect payroll growth to slow soon. Noisy GDP data have us putting more weight on soft data and anecdotal evidence which, as suggested by Figure 2, seem to indicate that growth is slowing. The recent inflation data (Figure 3) have been more subdued than expected, although we are only at the very beginning of adjusting to higher tariffs and inflation is likely to rise in the second half of the year. Republicans are trying to find a combination of policy choices that would allow their reconciliation budget to pass Congress. Figure 4 indicates a lack of consensus on monetary policy as well, but we still expect the Fed to resume rate cuts by year-end.

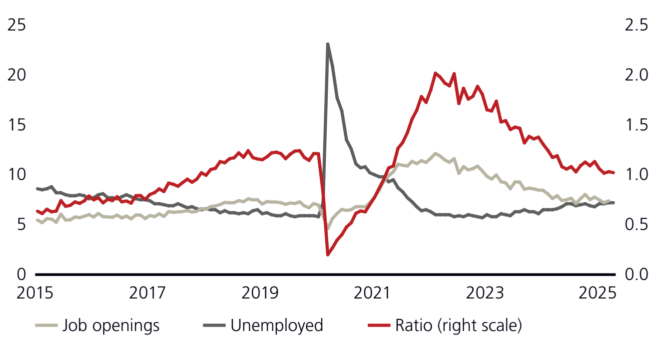
Growth

GDP data have been distorted by the heavy front-loading of imports ahead of the tariff hikes, making it difficult to judge what really happened to growth in the first half of the year. First quarter GDP was revised down to -0.5% in the third estimate, with an unusually large downgrade to consumption growth, which now stands at just 0.5%, down from 1.2% previously. The second quarter should look much better when the initial estimate is released at the end of July, and the average of Q1 and Q2 will likely end up only modestly below the economy's 2% trend growth rate. As shown in Figure 2, the ISM PMIs were a bit below 50 in the latest reading, and the Fed's most recent Beige Book was, in our view, the weakest since the recovery started five years ago. We expect further softening in the second half of the year with growth only slightly positive, but AI-related activity and overall healthy private-sector balance sheets should help to avoid an outright recession.

Figure 1

Labor market remains well balanced

Job openings and unemployed workers, in millions

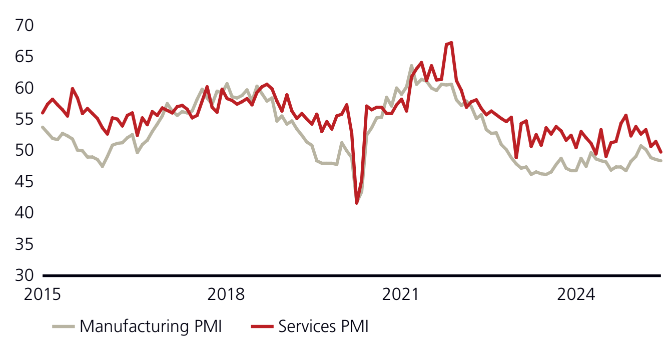


Source: Bloomberg, UBS as of 24 June 2025

Figure 2

ISM PMIs compatible with below-trend growth

ISM Purchasing Manager Indexes, 50 = neutral



Source: Bloomberg, UBS as of 24 June 2025

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

Read the report ›

Inflation

Inflation data have been on the softer side in recent months, with little impact from tariffs so far. As shown in Figure 3, core goods inflation, which excludes food and energy, is near zero and in line with pre-pandemic levels. Core services inflation is still somewhat elevated but has been trending lower, helped by slowing shelter inflation. We still expect tariffs to push prices up over the remainder of the year, with inflation reaching around 3.5% by year-end, but that outlook depends on what happens after the 90-day pause on reciprocal tariffs ends on 9 July. Relative to our initial expectations, it now appears that the passthrough of tariffs into retail prices will be more gradual, with some adjustments continuing beyond the holiday selling season and into 2026. More aggressive implementation of the administration's immigration policies could potentially lead to labor shortages and supply chain disruptions that add to inflationary pressure in the months ahead.

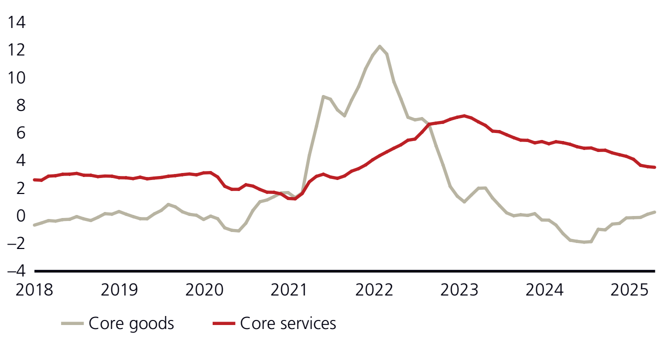
Policy

As shown in Figure 4, updated projections following the June FOMC meeting display a range of views on the appropriate path for Fed interest rate policy. A few members have recently suggested that rate cuts could be considered at the next meeting in July, while others expect policy to remain on hold until 2026. Our view remains that, with the labor market near full employment and inflation expected to rise in the months ahead, the Fed will need to see softer labor data before it cuts rates. However, it appears that even a small rise in the unemployment rate could trigger cuts. Our base case calls for rate cuts of100 basis points starting in September. On the fiscal side, we expect Republicans to get their reconciliation budget through Congress soon, but if they fail, there could be a scramble to find another way to raise the debt ceiling. A bipartisan deal on the ordinary budget will be needed to avoid a government shutdown after 30 September.

Figure 3

Core inflation near pre-pandemic levels

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

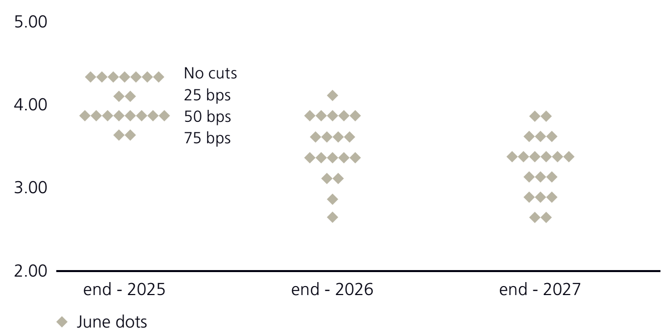


Source: Bloomberg, UBS as of 24 June 2025

Figure 4

A range of views among FOMC participants

Dots from FOMC Summary of Economic Projections, in %



Source: Fed, UBS, as of 24 June 2025

Equities

We are Neutral on global equities. While we see upside potential over the next 12 months, we believe the near-term risk-reward is less compelling headed into summer. The expiration of the 90-day tariff pause and the prospect of softer economic data could introduce some short-term volatility. Nevertheless, we expect Q2 earnings to remain resilient, and certain provisions of the One Big Beautiful Bill should support US corporate cash flows. So we modestly raise our global earnings forecasts and now anticipate growth of 5% this year and 6% next year.

Eurozone

NEUTRAL

EURO STOXX 50 (index points, current: 5,244)	December 2025 target
House view	**5,200**
↗ Positive scenario	6,000
↘ Negative scenario	4,000

Note: All current values as of 25 June 2025

We remain Neutral on Eurozone equities and recommend selective exposure. While we recognize a more positive medium-term outlook on the back of various positive European policy developments, the region faces near-term challenges given slowing growth/trade uncertainty, currency headwinds, the end of "good" ECB rate cuts, low gas storage levels, and potentially challenging budget discussions in the coming months. We favor selective exposure to the region, and recommend using pullbacks as opportunities to phase into European equities.

Emerging markets

NEUTRAL

MSCI EM (index points, current: 1,227)	December 2025 target
House view	**1,190**
↗ Positive scenario	1,280
↘ Negative scenario	890

Note: All current values as of 25 June 2025

We remain Neutral on EM equities and recommend a highly selective approach, focusing on markets with improving fundamentals and clear catalysts for further gains. With valuations no longer a clear tailwind, we advise adding exposure on pullbacks and closely monitoring earnings revisions as a trigger for increasing allocation. Our preferred markets are mainland China tech, India, and Taiwan, while we also upgraded Brazil to Attractive this month.

Japan

NEUTRAL

TOPIX (index points, current: 2,805)	December 2025 target
House view	**2,800**
↗ Positive scenario	2,950
↘ Negative scenario	2,200

Note: All current values as of 25 June 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: 8,736)	December 2025 target
House view	**8,500**
↗ Positive scenario	10,000
↘ Negative scenario	6,700

Note: All current values as of 25 June 2025

We remain Neutral on UK equities and recommend selective exposure. While we recognize a more positive medium-term outlook for the entire European region, we believe near-term growth uncertainty and currency headwinds for corporate profits as overseas earnings are converted back into GBP warrant a more cautious approach for the time being. However, the range of potential outcomes is particularly wide right now. We expect lackluster growth this year, even after the recent rise in oil prices. We favor selective exposure to the UK. Our preferences tilt to more resilient, higher-quality companies.

US equities

We have a Neutral view on US equities. In the near term, we think a period of weaker economic data as the economy adjusts to higher tariffs could be a modest headwind for equities. However, we believe that the bull market remains intact and that stocks will likely rise further over the next 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

US equities have continued to recover from the tariff induced sell-off in March and April, with the S&P 500 knocking on the door of new all-time highs. We think the recovery makes sense, considering that most large-cap companies should weather the tariffs reasonably well. Indeed, we think the upcoming Q2 earnings season will once again highlight the resilience of corporate profits. In addition, some of the provisions in the One Big Beautiful Bill Act should boost near-term corporate cash flows, which could be used for additional share repurchases or investment spending. We therefore increase our 2025 S&P 500 EPS estimate to USD 265 (6% growth) and our 2026 estimate to USD 285 (7.5% growth). This leads us to raise our year-end and June 2026 S&P 500 price targets to 6,200 and 6,500, respectively.

US equities – sectors

This month, we upgrade financials to Attractive. Easing regulation, early signs of a pick-up in capital markets activity, and improving net interest margins/income should support a recovery in valuations. Tech remains Attractive as we believe spending on AI will remain largely intact. Continued secular growth in digital advertising trends should support communication services. Policy clarity and attractive valuations should benefit health care over time. Utilities offer defensive exposure if economic growth slows further, and there is upside 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 do appear quite cheap and returns are likely to reward longer-term investors.

US equities – style

We have a Neutral view on growth and value stocks. Growth's high-quality nature, good secular growth, and better relative earnings growth should prove to be resilient. The value index's larger mix of defensive companies should continue to provide more stable performance if the economy slows faster than expected.

S&P 500 (index points, current: 6,141)	December 2025 target
House view	**6,200**
↗ Upside	6,700
↘ Downside	4,500

Note: All current values as of 26 June 2025

Figure 1

Upgrading financials to attractive

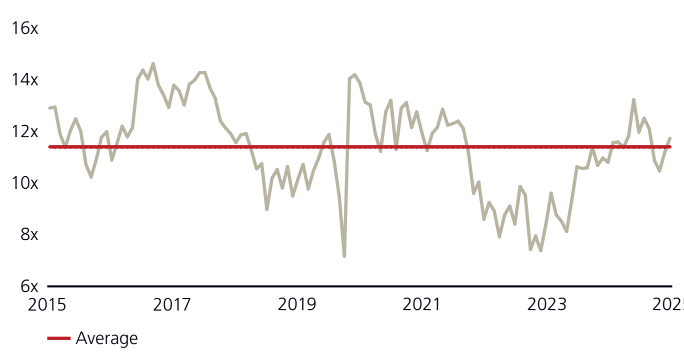
	Unattractive	Neutral	Attractive
US equities			
Communication services			+
Consumer discretionary		=	
Consumer staples		=	
Energy		=	
Financials			→ +
Health care			+
Industrials		=	
Information technology			+
Materials		=	
Real estate		=	
Utilities			+

Note: S&P 500 sector preferences
Source: UBS, as of 26 June 2025

Figure 2

US bank valuations have scope for further upside

KBWB ETF forward P/E



Source: FactSet, UBS, as of 25 June 2025

Bonds

Over the past month, expectations for rate cuts have increased owing to some weaker-than-expected economic data, limited evidence of tariff pass-through to inflation, and a subtle shift in communication from several FOMC members suggesting that further rate cuts may be forthcoming. These factors, along with geopolitical tensions, have pushed rates lower and boosted total returns. We continue to see value in taking interest rate exposure, particularly in the belly of the curve. While the ultra-long end has cheapened and now presents value, it remains more sensitive to fiscal developments and supply-demand dynamics.

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: 4.29%)	December 2025 target
House view	**4.00%**

Note: All current values as of 25 June 2025

Market dynamics around inflation expectations, Fed policy signaling, and demand for relative safe havens amid ongoing economic and geopolitical uncertainty have put Treasuries into a tug-of-war as 10Y yields touched 4.25%, the lowest since early May. The rally that followed US and Israeli airstrikes on Iran was sustained, as Fed rhetoric suggested the potential for a July rate cut—of which Chair Powell dampened hopes in his congressional testimony. At the same time, tensions in the Middle East subsided and the subsequent fall in oil prices have kept inflation expectations contained and have removed upward pressure on nominal yields. 10-year Treasury yields have mainly held a 4.3-4.6% range over the past several months, and we remain buyers on a dip with expectations of 4% 10Y yield at year-end.

Emerging market bonds

NEUTRAL

EMBIG DIV. / CEMBI DIV. SPREAD (current: 323bps/263bps)	December 2025 target
House view	**375bps/300bps**
Positive scenario	290bps/210bps
Negative scenario	550bps/500bps

Note: All current values as of 25 June 2025

We keep Emerging market credit as Neutral. Valuations are back to historically tight levels, and the asset class remains vulnerable to potential setbacks, the lower rated issuers in particular. We expect rangebound to slightly wider spreads 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 investment grade corporate bonds

ATTRACTIVE

US IG SPREAD (current: 88bps)	December 2025 target
House view	**90bps**
Positive scenario	80bps
Negative scenario	180bps

Benchmark: ICE BofA
Note: All current values as of 25 June 2025

We hold an Attractive view. Over the past month, IG spreads have continued to grind tighter to 88bps, just 11bps above the post-GFC tight that was reached in 2024. With spreads at the low end of their historical range, we believe the total return outlook is mainly supported by carry, with potential upside from falling government bond yields. We find IG's yield of 5.1% to be appealing and believe investors with excess cash holdings should look to medium-duration IG bonds to lock in durable income.

US high yield corporate bonds

NEUTRAL

USD HY SPREAD (current: 304bps)	December 2025 target
House view	**350bps**
Positive scenario	300bps
Negative scenario	650bps

Benchmark: ICE BofA
Note: All current values as of 25 June 2025

We have a Neutral recommendation on high yield. Credit spreads have been resilient during the Middle East conflict and have not widened. We see limited spread compression as spreads have returned to the low end of their historical range. Fundamentally, credit metrics remain strong with aggregate leverage at 4.3x below its long-term average. CIO's forecast for the HY default rate is 2-3% for the next 12 months. The 7.2% yield should support total returns if spreads were to widen.

Municipal bonds

NEUTRAL

We remain Neutral. Munis held steady, as yields were little changed over the past month. Higher demand from seasonal redemptions has improved technicals and enabled the market to absorb elevated supply. Munis have rallied since the April sell-off but continue to underperform year to date. The index tax equivalent yield of 6.9% is attractive. The curve has steepened and munis have cheapened year to date. 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 lower, partially driven by falling yields in the US. On foreign exchange markets, the dollar was mostly weaker against other major currencies, boosting the value of non-dollar bonds in dollar terms. These factors combined to produce solid gains for the month. With US bonds offering higher yields than those of 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 +11bps (versus +10bps last month)

Mortgage-backed securities (MBS)

ATTRACTIVE

We continue to see attractive relative value in agency MBS versus IG corporates. Agency MBS spreads remain at 150bps, well wide of their corporate counterparts, which have now retraced most Liberation Day widening. Current coupon yields at 5.56% offer 55bps in yield over IG index yields at 5.01%, 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: 150bps)	December 2025 target
House view	**110bps**
↗ Positive scenario	120bps
↘ Negative scenario	165bps

Note: All current values as of 25 June 2025

Preferred securities

NEUTRAL

At midyear, year-to-date returns of roughly 1.5% are in line with our muted expectations. Even in a range-bound rate environment, sector valuation has been a limiting constraint. As tariff-related concerns roiled markets, preferred yield premiums rose in April and May, but they did so from historically low levels. And with stronger investor sentiment in June, spreads have tightened once again. On the other hand, the lack of competitive yield alternatives will likely continue supporting the preferred sector, along with a benign rate backdrop and supportive supply-demand dynamics.

Treasury Inflation-Protected Securities (TIPS)

NEUTRAL

Real yields have fallen nearly 30bps from their post-"Liberation Day" peaks with 10Y real yields now at 1.98%. The expectations of slowing growth and the likelihood of second half rate cuts have outweighed tariff and geopolitical impacts to inflation expectations. We maintain our current allocations for now and look for real yields to break through our 2.25% lower bound.

US 10-YEAR REAL YIELD (current: 1.98%)	December 2025 target
House view	**1.50%**
↗ Positive scenario	0.75%
↘ Negative scenario	2.30%

Note: All current values as of 25 June 2025

Figure 1

UBS CIO interest rate forecast

In %

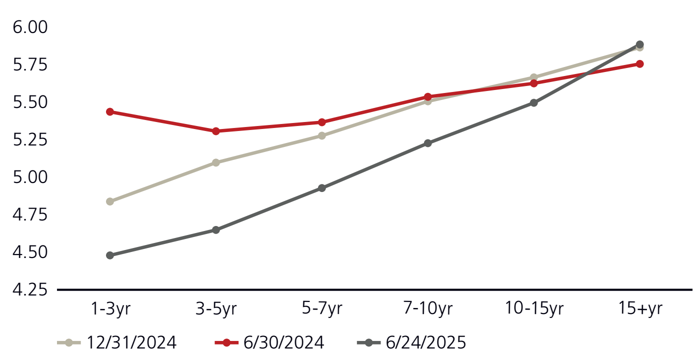
UST	Current	Sep-25	Dec-25	Mar-26	Jun-26
2-year	3.8	3.8	3.8	3.8	3.8
5-year	3.9	3.8	3.8	3.8	3.8
10-year	4.3	4.0	4.0	4.0	4.0
30-year	4.9	4.8	4.8	4.8	4.8

Source: Bloomberg, UBS, as of 25 June 2025

Figure 2

The IG corporate bond yield curve has steepend over the past year

Yield, in %



Source: ICE BofA, UBS, as of 24 June 2025

Commodities and listed real estate

Commodity markets face a wider range of outcomes in 2H25 and into 2026 than usual. We see three unique risks—the Iran-Israel tensions, the US-China trade dispute, and the US fiscal position—with effects that are inherently difficult to forecast. A fourth risk is more evergreen and related to ongoing supply constraints, which are either operational (metals), or weather and policy related (agriculture). The rise in commodity prices has compressed our expected spot returns for the asset class from here, which is now in the high single digits over 12 months.

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 3,328 /oz) — December 2025 target

ATTRACTIVE

House view	USD 3,500/oz

Note: All current values as of 25 June 2025. Gold is considered a safe-haven asset whose price tends to rise when risk assets, such as equities, fall, and vice versa.

BRENT (current: USD 67.73/bbl) — December 2025 target

NEUTRAL

House view	USD 68/bbl

Note: All current values as of 25 June 2025

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 allowed for a shift to riskier assets amid easing policy uncertainty and expectations that US rate cuts will proceed slowly. We forecast central banks will buy over 1,000 metric tons of gold again this year, which is double the rate of the decade ending in 2021. For those clients with an affinity for gold, we also see a mid-single-digit percentage allocation within a diversified portfolio as optimal and expect gold to reach USD 3,500/oz by end-2025.

Base metals

The US copper price premium over the LME has surged recently, with prices up 19% year to date in the US versus 13% at the LME. US tariff uncertainty suggests the premium will likely persist for now. Ongoing tightness in the copper concentrate market should lead to higher prices into year-end and through 2026. We favor selling the price downside in copper for a yield pickup in 2H.

Agriculture

Wheat prices rallied by more than 9% over 12-18 June. However, as talks of a ceasefire emerged, investors swiftly took profits, with prices retracing these earlier gains. USDA projections for the 2025-26 season have also provided a mixed outlook by setting a high bar for US corn and soybean yields, while adding to pressures on the global wheat market via production upgrades in key exporters. We believe yield downgrades in corn and soybeans are likely, with the emergence of a hotter and drier outlook for the Midwest over July and August.

Crude oil

Crude prices spiked as tensions in the Middle East flared, with Brent temporarily rising above USD 81 per barrel (bbl). Initially, concerns about potential supply disruptions, particularly regarding shipping via the Strait of Hormuz, spurred market participants to build in a significant geopolitical risk premium into spot prices. However, a de-escalation in tensions over recent days and no apparent supply disruptions saw markets roll back this view. For now, market-related indicators continue to suggest the physical market remains tight, but this could ease later this year if economic growth disappoints owing to ongoing trade tensions.

Listed real estate

RUGL Index (current: USD 6,181)	December 2025 target
House view	**USD 7,500**
↗ Positive scenario*	USD 7,800
↘ Negative scenario*	USD 6,800

Note: All current values as of 25 June 2025
*Positive and Negative scenarios reflect December 2025 targets.

We like companies that seek growth and engage in acquisitions or accretive issuance, while exhibiting strong pricing power, profitable pipelines, attractive yield gaps, and robust cash flows. We expect real estate values to recover and profit from further rental growth over the medium term. More interest rate cuts and increasing transaction volumes are supportive.

Foreign exchange

We downgrade JPY to Neutral. USD is Unattractive.

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

We keep our Unattractive view on the USD, as we expect a combination of macro and geopolitical drivers to keep the dollar under pressure. The effect of tariffs on the USD will depend on the US administration's next steps. If the proposed high "reciprocal" tariffs should be implemented after the 90-day pause, this would hurt the US economy, potentially leading to more rate cuts by the Federal Reserve and a weaker USD. We also believe global investors will continue to rethink their US exposure over the coming quarters.

The euro remains the default option for global investors diversifying out of the USD. Furthermore, the fiscal measures in Germany and increased European defense spending should give the EUR another boost. EURUSD has already reached our year-end target of 1.16 halfway through 2025, but we continue to like being long EURUSD at current levels, as we forecast the pair to rise from here. We therefore retain our Attractive rating on the euro.

We shift the Japanese yen from Attractive to Neutral, following the yen's 8% year-to-date gain versus the USD. While we still expect the yen to appreciate toward 136 against the dollar over the next 12 months, the yen's total return potential is in the low-single digits once negative carry costs are considered.

The Australian dollar should also profit from a weakening USD, as Australian yields remain among the highest in the G10, while Australia's low position on the US trade deficit list should limit the direct impact of the trade war. Despite the Swiss franc having the lowest yield in the G10, we remain Neutral on the currency, as Switzerland is still an attractive place to put money in such uncertain times. We continue to like the main Scandinavian currencies, the Norwegian krone and the Swedish krona, as both should profit from fiscal stimulus in Europe. The NOK in particular could shine on a total-return basis, given its high yield. A similar story applies to the British pound, as gradual rate cuts by the Bank of England should sustain its carry appeal for some time, while the UK also profits from European reflation.

We keep the Chinese yuan at Neutral, given our belief that the worst of the US-China trade tensions is likely behind us. In this context, we look for a gradual CNY recovery over the coming quarters, with a target of 7.10 versus the USD by year-end and 7.00 by mid-2026.

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

FX forecasts

	Current	Sep-25	Dec-25	Mar-26	Jun-26
EURUSD	1.16	1.16	1.16	1.18	1.20
USDJPY	146	142	140	138	136
GBPUSD	1.36	1.38	1.38	1.39	1.40
USDCHF	0.81	0.82	0.82	0.81	0.79
USDCAD	1.37	1.35	1.34	1.33	1.32
AUDUSD	0.65	0.66	0.68	0.70	0.70
NZDUSD	0.60	0.61	0.62	0.64	0.64
USDSEK	9.51	9.31	9.22	8.98	8.75
USDNOK	10.15	9.74	9.66	9.41	9.17

Sources: SIX Financial Information, UBS, as of 25 June 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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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.

Preferred securities: Prospective investors should consult their tax advisors concerning the federal, state, local, and non-U.S. tax consequences of owning preferred stocks. Preferred stocks are subject to market value fluctuations, given changes in the level of interest rates. For example, if interest rates rise, the value of these securities could decline. If preferred stocks are sold prior to maturity, price and yield may vary. Adverse changes in the credit quality of the issuer may negatively affect the market value of the securities. Most preferred securities may be redeemed at par after five years. If this occurs, holders of the securities may be faced with a reinvestment decision at lower future rates. Preferred stocks are also subject to other risks, including illiquidity and certain special redemption provisions.

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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