

UBS House View

Investment Strategy Guide: Charting new highs

September 2025 | Chief Investment Office GWM | Investment research



UBS

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September

CIO Monthly Livestream

4 September 2025 at 1:00 p.m. ET

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Lead authors

Mark Haefele
Ulrike Hoffmann-Burchardi

Authors (in alphabetical order)

Jason Draho
Leslie Falconio
Wayne Gordon
Michael Gour
David Lefkowitz
Nadia Lovell
Barry McAlinden
Brian Rose
Dominic Schnider
Frank Sileo
Giovanni Staunovo
Thomas Veraguth

Cover image

UBS

Editors

Jess Hoeffner
Steven Faucher
Laura Amoroso
Aaron Kreuscher

Project management

John Collura
Shawn Awan
Samantha Infantino

Design

John Choi
Helena Powers
Cheryl Seligman
Sunil Vedangi
CIO Content Design

Dear reader

Markets have continued to climb, with equities setting a string of all-time records this summer. Robust second-quarter earnings, easing trade tensions, and the prospect of Federal Reserve rate cuts have supported this momentum. However, investors should remain vigilant as tariff-related margin pressures and inflation risks begin to filter through to prices, posing potential headwinds in the near term.

While inflation is likely to move further above the Fed's 2% target in the months ahead, slowing shelter inflation, which is the largest item in the CPI basket, should help to limit the increase. Moreover, the labor market is exhibiting signs of deterioration, as recent data revealed slower-than-expected job growth. In our view, the downside risks of the labor market will outweigh inflation concerns, opening the door to easing. Federal Reserve Chair Jerome Powell's remarks at the Jackson Hole Economic Policy Symposium on 22 August reinforced this outlook, as he delivered a more dovish tone on rate cuts. We believe Powell is likely to advocate for easing at the September meeting unless incoming data, such as a strong August labor report or unfavorable inflation trends, provide a reason to remain on hold. Against this backdrop, we anticipate four quarter-point rate cuts through January 2026, starting in September.

On the equities front, second-quarter earnings have been a bright spot, particularly for AI-exposed companies, with broad-based beats and upbeat guidance offsetting broader macro concerns. We therefore raised our S&P 500 price targets to 6,600 for year-end, 6,800 for June 2026 in our base case, and 7,500 in our June 2026 bull case, reflecting a supportive monetary policy backdrop and capex cycle over the medium term. Reflecting the resilience of US

corporates, we also increased our S&P 500 EPS estimates to USD 270 for 2025 (8.0% growth) and USD 290 for 2026 (7.5% growth).

Valuations are currently at the higher end of their historical ranges. Concerns about potential bubbles have been raised, which is not uncommon during periods of enthusiasm around new technologies. Some signs of froth have emerged, including the strong performance of meme stocks and surging IPOs. However, we believe that investor sentiment remains balanced and that valuations are underpinned by robust earnings growth, with companies continuing to beat expectations.

This leads us to conclude that markets are not currently in a bubble, but we would highlight that investors should be aware of the possibility of still meaningful upside for US stocks. The combination of Fed rate cuts when financial conditions are already easy as well as the continued boom in AI investment spending echoes the policy mix that was in place in 1998. We have incorporated some of this thinking in our June 2026 bull case S&P 500 price target. In fixed income, yields remain at or near their highest levels since before the Global Financial Crisis (GFC). With spreads at their tightest in recent years, yield is a key driver of returns, and we maintain our expectation for the 10-year Treasury yield to trend lower—albeit not in a straight line—providing a meaningful benefit to investors. Both fundamental and technical conditions remain broadly supportive across sectors, and we continue to favor high-quality fixed income in this environment, with preferences for investment grade credit and agency MBS, in the intermediate area of the yield curve.

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



Ulrike Hoffmann-Burchardi
Chief Investment Officer Americas and
Global Head of Equities
UBS Global Wealth Management

Follow me on LinkedIn

[linkedin.com/in/ulrike-hoffmann-burchardi-ubs](https://www.linkedin.com/in/ulrike-hoffmann-burchardi-ubs)

Ulrike Hoffmann-Burchardi



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Charting new highs

Riding high

The AI trade has helped propel US equities to record highs. While a period of “indigestion” is a near-term risk, we see exposure to AI as a key driver of long-term portfolio growth.

Bubble concerns?

Equity valuations are at the upper end of historical ranges. But they are backed by strong earnings growth, and we expect the bull market to remain intact.

Stay diversified

Diversification remains key to managing any near-term setbacks. Ahead of likely Fed rate cuts, we see good value in quality fixed income.

Asset allocation

In equities, we favor structural growth themes like AI, Power and resources, and Longevity. We also like quality bonds and gold, but rate the US dollar as Unattractive.



Mark Haefele

Global Chief Investment Officer
Wealth Management

Follow me on LinkedIn

[linkedin.com/in/markhaefele](https://www.linkedin.com/in/markhaefele)



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For investors, diversification remains key to managing any near-term setbacks.

Equity markets continued to record new highs in recent weeks. After a brief sell-off following signs of weakness in the US labor market, stocks resumed their rally amid robust corporate earnings, moderate US inflation data, and hopes for future Federal Reserve rate cuts.

We believe the equity bull market will remain intact. In our base case, we expect an economic soft landing, solid corporate earnings, and lower interest rates to support markets over the next 12 months.

In this letter, we take a closer look at one of the key drivers of surging markets—artificial intelligence (AI). We argue that while “capex indigestion” is a near-term risk, over the medium and long term, exposure to AI will prove not only additive to portfolio growth but essential to it.

We have also been getting more questions about whether stock markets are currently in a bubble. Valuations are currently at the upper end of historical ranges, and bubbles often coincide with excitement about new technologies. There are also some signs of froth, with meme stocks performing strongly and some IPOs surging in initial trading.

But investor sentiment is not overly exuberant, in our view, valuations are backed by strong earnings growth, and companies continue to beat expectations. This suggests to us that markets are not in a bubble. And with the Fed likely to embark on a new round of rate cuts in September, we expect US equities to remain supported.

How should investors navigate this environment? With AI potentially set to reshape the economy and markets, we believe that investors should not be out of the market for a prolonged period and underallocated investors should use market dips to add exposure. Broad, diversified exposure to equity markets should enable investors to participate in AI-driven growth, though we see greater opportunities at a single-security and thematic level.

There are still risks to the near-term outlook, so diversification remains key to managing any setbacks. Ahead of likely Fed rate cuts, we see good value in quality fixed income. We recently increased our price forecasts for gold and continue to see the metal as an effective portfolio diversifier and hedge against political risks. We also expect further US dollar weakness.

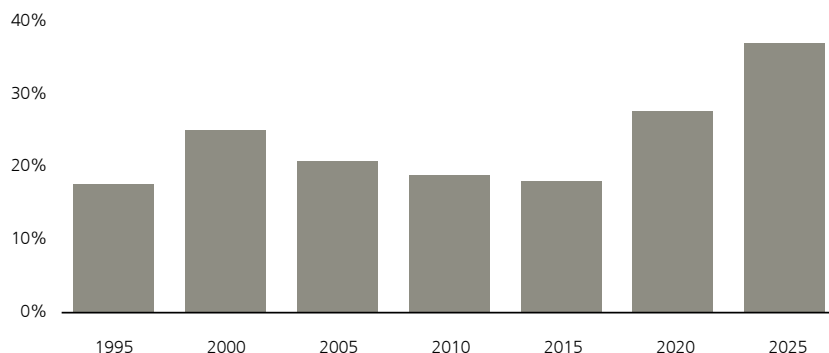
This letter also includes an update on our current thinking on cryptos in light of the changing US crypto regulatory environment.

The AI opportunity—the long and the short of it

US equity market concentration has risen in recent years.

Never before in the field of index investing has so much been invested by so many in so few stocks. The top 10 stocks by market cap now account for nearly 40% of the S&P 500. What's more, over the past six months, the Magnificent 7 stocks have been around 50% more volatile than the overall index.

Figure 1
US equity market concentration has increased
Weight of top 10 companies in S&P 500 index



Source: Bloomberg, UBS, as of August 2025

The good news is that this concentration has so far been helpful for investors. In the past three years, the largest 10 US companies have returned 106% (59% of the overall index performance) and over the past 12 months, the top 10 US firms have generated 55% of the index's net income growth. Optimism about the effect of artificial intelligence has been the key driver.

However, a new study from MIT's Nanda Initiative warned that 95% of corporations polled reported no measurable return from their generative AI investments to date. This cautionary note followed OpenAI CEO Sam Altman's recent public remarks that some investors are "overexcited" about AI.

Is too much hope now being placed in the fortunes of too few?

A period of "capex indigestion" is a risk in the near term.

In the short term, we believe that investors need to be mindful of the risk of a period of "capex indigestion." From 2022 to 2024, capex by the Big 4 tech firms rose from USD 151 billion to USD 228 billion, and we expect it to grow further in the year ahead. Yet so far, incremental revenue growth continues to lag incremental capex growth, which is pressuring margins. A number of large tech firms have cited the costs associated with scaling their AI capabilities, investing in AI-driven CRM tools, or personalized content as weighing on near-term profitability. Additionally, the sheer pace of recent investment growth means that year-over-year growth rates are likely to slow in the quarters ahead.

AI solution providers are making good progress converting usage into revenue.

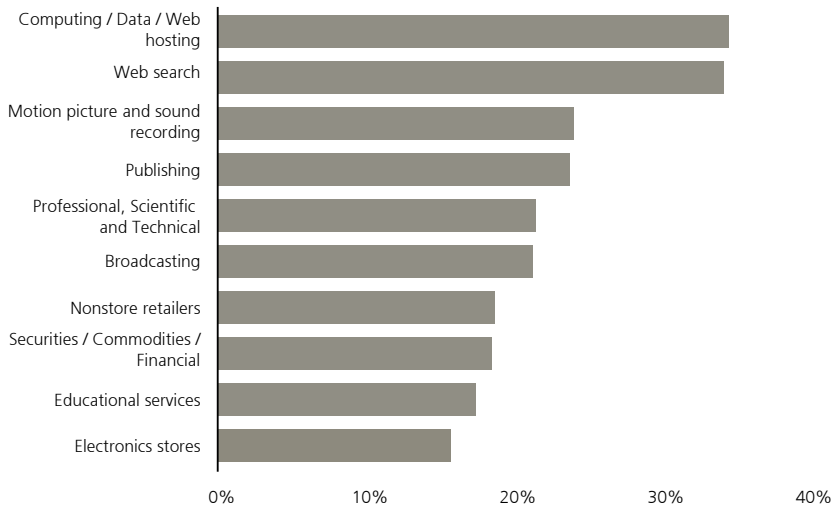
At the same time, over the medium and longer term, we believe exposure to AI will prove key to portfolio growth.

First, underlying consumer and business use of AI is already outpacing expectations. ChatGPT has added 400 million weekly active users year to date, exceeding the 300 million accumulated over the prior two years combined. Alphabet’s Gemini has recorded a 50-fold year-over-year increase in AI token consumption this year (a token is the smallest unit of data that a language model processes, which can be a word, a part of a word, a single character, or punctuation). We expect AI agents to further support this momentum. A leading AI agent service is now deployed by 80% of Fortune 500 companies.

Second, AI solution providers are making good progress converting usage into revenue. For example, tech giants are charging for AI-powered personalization tools used by retailers to enhance customer experiences, levying subscription fees for access to AI-enhanced tools, and offering health care providers AI-driven analytics and decision-support tools, which assist in treatment planning. Meanwhile, cloud revenues from the three largest platforms remain robust, posting average year-over-year growth above 25%.

We believe the scope to monetize will expand further. Already, 20-30% of code at some major tech firms is generated by AI, AI handles a majority of service chats at various firms, and one medical device provider’s AI system has reduced missed colorectal polyps by 50% compared to standard procedures. As such domain-specific use cases expand more broadly and embed more deeply in business processes, we would expect the ability of AI firms to monetize the technology to grow.

Figure 2
AI adoption is growing
AI adoption rates by industry in the US



Source: Business Trends and Outlook Survey (BTOS), US Census Bureau, UBS, as of June 2025

We believe tech firms will ultimately earn an attractive return on the investments they are currently making.

Investors should also consider the disruptive potential of AI.

Equity markets have continued to rally despite higher tariffs and economic uncertainty.

Third, we expect investment spending to continue to rise. We recently raised our global AI capex forecasts by approximately 4%, lifting our 2025 estimate from USD 360bn to USD 375bn and our 2026 estimate from USD 480bn to USD 500bn, on the back of increased capex guidance by the Big 4 in recent earnings releases.

Finally, and most importantly, we remain confident that technology companies will ultimately earn an attractive return on the investments they are currently making. One way to think about the potential opportunity is as a function of the percentage of tasks in the economy that AI might automate, the labor share of those tasks, and the share captured by AI vendors.

Estimates by McKinsey, Goldman Sachs, and the World Economic Forum suggest a share of task automation of between 25% and 50%. The labor share of GDP in the world economy is around 50%. And using parallels with cloud computing and industrial automation, we estimate that vendor revenue capture tends to be 5-15% of value created.

In the context of the about USD 100 trillion global economy, if we broadly assume that around one-third of tasks can be automated by AI, the labor share of those tasks is around half, and AI vendors are able to capture around 10% of the value, this makes for an annual AI revenue opportunity of around USD 1.5 trillion. Estimates of cumulative global AI capex from 2022 to 2025 of USD 780bn and 2026 capex spending in the USD 500bn range do not seem outlandish when set against this potential revenue stream.

Investors also need to consider the potential for AI to not only support but also disrupt. Various software, advertising, and staffing firms have already noted the disruption their businesses are facing because of AI. In our June 2024 white paper, "Artificial intelligence: Sizing and seizing the investment opportunity," we highlighted the potential for AI to disrupt the entire software value chain—from how software is produced to how users interact with software platforms.

For investors, we believe the AI trend makes long-term investment increasingly important, amplifies the potential returns from being in the right parts of the market, and raises the potential costs of being in the wrong areas.

On questions of bubbles

Notwithstanding our relative optimism about the potential for AI to continue to surpass expectations over time, the fact that equity market indices have continued to advance this year despite higher tariffs and the recent softening in US economic data is leading to natural questions about whether the market is in a bubble.

While every market cycle has different characteristics and can be analyzed in different and specific ways, back in 2021, drawing on attempts by economic historian Charles Kindleberger and by Bridgewater Associates' Ray Dalio, we asked a number of questions: Are prices high relative to traditional measures? Are prices discounting future rapid price appreciation? Are purchases being financed by high leverage? Are buyers or companies making forward purchases? Have new participants entered the market? Is there broad bullish sentiment? Does tightening risk popping the bubble?

US equity valuations are at the high end of historical ranges.

Where do we stand on these questions today?

Valuations are high compared to traditional measures' long-term averages. The S&P 500 forward P/E is at 22.5x and the Shiller CAPE ratio is at 37.9x, both in the 99th percentile over the last 20 years. Nevertheless, it is important to note the difference in valuation between the Magnificent 7 (29.5x forward P/E) and the remaining 493 stocks in the S&P 500 (19.8x forward P/E).

Forward earnings estimates for technology are high in an absolute sense, but don't seem unreasonable to us and have moderated. According to FactSet, consensus projects earnings-per-share growth for technology of 20% y/y for 2025 and 18% y/y for 2026.

Retail investor participation in overall equity trading is now much higher than before the pandemic and their trading activity tends to be pro-cyclical. But equally, FINRA data show that margin debt as a percentage of market capitalization rose from 1.7% in May 1999 to 2.6% at the dotcom peak in March 2000. The ratio is currently 1.8%, not far from the 30-year low of 1.5%.

AI capex does not look unreasonable to us in the context of the potential revenue opportunity.

While tech investment spending does in one sense represent a multibillion dollar "forward purchase" in expectation of higher returns tomorrow, we do not believe that levels of spending are unreasonable in the context of the AI revenue opportunity, as discussed earlier.

Meanwhile, investor sentiment does not appear overly bullish: The American Association of Individual Investors' survey has registered net bearish readings in recent weeks. Institutional positioning also appears cautious, with Morgan Stanley data showing that megacap tech stocks are more under-owned relative to their S&P 500 weights than at any point in the past 16 years.

The Fed is likely to resume cutting interest rates soon.

One of the typical causes of historical bubbles "popping"—higher interest rates—looks unlikely to materialize in the short to medium term. We expect the Fed to cut interest rates by 25bps in September, with a further 75bps to follow by early next year. In our view, additional Fed rate cuts against a backdrop of already loose financial conditions—the Chicago Fed's National Financial Conditions index is at its loosest levels since January 2022—should be supportive of a continued equity bull market. The current monetary policy environment is in contrast to the dotcom era, when the Fed raised rates by 175bps between June 1999 and May 2000.

So, what of other parallels to the dotcom bubble? Some individual companies today have rallied by comparable amounts to companies during the dotcom era. But importantly, today's Magnificent 7 rally is being supported by much higher earnings growth than during the dotcom era. And price-to-earnings (P/E) ratios for today's tech giants are far lower than for the tech firms at the peak of the dotcom bubble. For example, if we look at dotcom era market leaders—Microsoft, Cisco, Lucent, Nortel, and AOL—their average forward P/E in 1999 was 82x, substantially higher than the Magnificent 7's 28x average forward P/E over the last 12 months.

Nonetheless, investors shouldn't be complacent about bubble risks. And some of the factors that contributed to the bursting of the dotcom bubble will also bear watching in this cycle.

In 2000, capex retrenchment, overcapacity, and earnings disappointments triggered a loss of confidence and left valuations exposed as growth expectations fell. As discussed above, we believe that AI stocks do face a near-term risk of capex indigestion. So, while the longer-term outlook and macro conditions appear supportive, investors will need to closely monitor the supply and demand balance for data centers, trends in access to capital and venture capitalists' willingness to invest, and progress on the path to monetizing AI investments, as they assess potential market risks today.

Navigating political risk in an era of rising debt

Investors are likely to face a period of increasing political intervention.

From trade policy to monetary policy and the reporting of economic data, the degree of political intervention in some of the key pillars underpinning financial markets appears to be increasing. While interventions by the Trump administration have attracted a lot of headlines in recent weeks, the phenomenon is not unique to the US—and the trend is likely to continue in the years ahead as a symptom of rising levels of government debt.

At its simplest, rising government debt can only be addressed through some combination of more taxes, spending cuts, more growth, more inflation, or more coercion. With the first two options hard to sell politically, and with growth hard to legislate (at least in the short term), we believe that investors will need to prepare for more political efforts that tolerate higher inflation, lower interest rates on government borrowing, and/or coerce investors into owning more government paper.

For investors, we believe there are three important takeaways:

We recommend strategies to navigate inflation risks.

First, while hedging directly against inflation is challenging, it is important for investors to hold an adequate mix of assets that can appreciate over time alongside inflation. These include equities of companies with pricing power, "real assets" like property or infrastructure, and precious metals. The risk of losing purchasing power through excess cash holdings is likely to rise in the years ahead, and we retain an Attractive view on gold.

Second, individual governments will make different choices on how to manage debt, and these choices will have important implications for currency markets. We believe that investors should consider the currencies they need for their personal situation and aim to align their portfolio currency mix with their needs. In particular, holding excess US dollars "by default" may not be a prudent strategy for investors who do not have US dollar spending needs. We retain an Unattractive view on the US dollar.

Third, greater political intervention could increase the correlation among assets within one country (particularly when we consider currency moves). Investors can diversify portfolios against higher in-country correlations by ensuring diversification across regions, investing in global structural growth themes, and by including allocations to alternatives.

The effect of evolving crypto legislation

US crypto legislation took significant steps forward in recent months, with legislators working on three bills related to digital assets. We expect more progress in the months ahead. We expect that this greater regulatory clarity will support the broader usage of USD-denominated stablecoins in the US and abroad and lead more investors to consider the role of cryptos in the context of strategic asset allocations.

Stablecoins

As stablecoins work as the “lubricant” for digital assets, we expect better safety and liquidity to be a tailwind for other digital asset initiatives, including efforts to tokenize traditional financial assets.

We expect demand for short-term Treasury bills, which can be used to back stablecoin reserves, to increase as these coins gain relevance. But it’s unclear whether the rise in demand will be enough to affect Treasury yields.

Investors will need to be mindful about counterparty risks associated with stablecoins. Stablecoins are privately issued digital currencies, and their stability relies on the issuer’s ability to maintain adequate reserves and manage redemption demands. So just as 19th-century banknotes required public confidence in the issuing bank, stablecoins depend on transparency, regulation, and trust in the issuer’s practices. The collapse of Terra’s LUNA token in 2022 demonstrates the potential issues investors can face.

For more, see [*Digital Assets 101: US regulation lays foundation for proclaimed “golden age.”*](#)

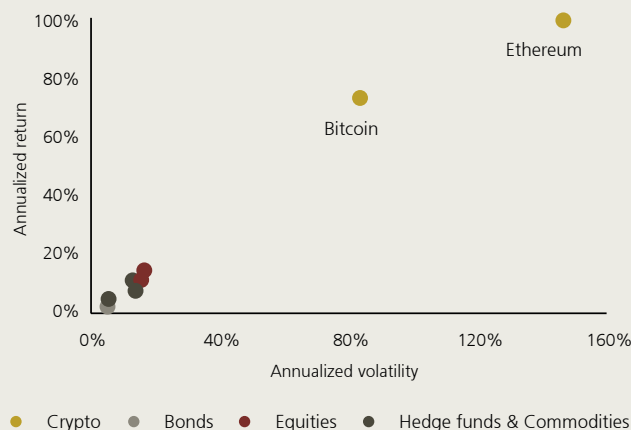
Cryptos

Following strong performance in recent years, we find that allocations to cryptos would have historically improved the risk-reward profile of a 60/40 equity/bond portfolio. However, high volatility, a short history, and the potential effect of survivorship bias suggest that investors should approach historical analysis and strategic crypto allocations with caution.

Figure 3

Digital assets can be more volatile than others

Annualized return and volatility of different assets



Note: *Based on monthly data from January 2017 to February 2025. Ripple had an annualized return and volatility of 105% and 360%, respectively, and is not present in the chart to facilitate a better display
Source: Bloomberg, UBS as of August 2025

Investors who believe that crypto has the potential to develop into a mature asset class—with more established real-world or investment use cases, lower volatility, and more stable correlations—should view crypto as a satellite investment within a core-satellite framework, in our view.

In the context of satellite investments, we believe that no single position should have the potential to materially change overall portfolio performance or significantly alter an investor’s intended risk profile.

More conservative investors unwilling to endure extreme price swings, or those who are more skeptical about the potential for development of the asset class, should refrain from investing in crypto tokens.

For more, see [*Digital Assets 101: Crypto in a portfolio context.*](#)

Disclaimer: This section on cryptos is for educational purposes only, as UBS does not provide any investment recommendations on digital assets. Digital assets can exhibit significant price volatility, face liquidity challenges, encounter uncertain regulations, and may be susceptible to bugs and fraud. Investors therefore face the risk of a significant or total loss of capital. Risk tolerance is therefore an important consideration for such assets.

Investment ideas

We expect equities to rise over the next 12 months.

Buy on dips in equities. Global equities remain resilient, recently reaching record highs, and we expect further upside over the next six to 12 months. Investors underallocated to equities should consider phasing in and using market dips to add exposure to our preferred areas. Alongside our Transformational Innovation Opportunity (TRIO) themes—*Artificial intelligence, Power and resources, and Longevity*—we favor US tech, health care, utilities, and financials. We see the S&P 500 reaching 6,800 by June 2026. In Europe, we recommend Swiss high-quality dividends, European quality stocks, European industrials, and our “Six ways to invest in Europe” theme. In Asia, we like China’s tech sector, Singapore, and India. We also see opportunities in Brazil.

Invest in transformational innovation. We believe investors focused on structural growth ideas—e.g., our TRIO themes—are likely to outperform broad indices in the years ahead. In AI, diversified exposure across infrastructure, semiconductors, and applications should capture accelerating adoption and monetization. Power and resources remain well positioned as electricity demand surges. In longevity, we believe that once US policy headwinds pass, companies exposed to the themes of oncology and obesity should benefit from reduced uncertainty. Also, the medical device sector offers longer-term growth potential with fewer near-term policy risks.

Quality bonds remain appealing, in our view.

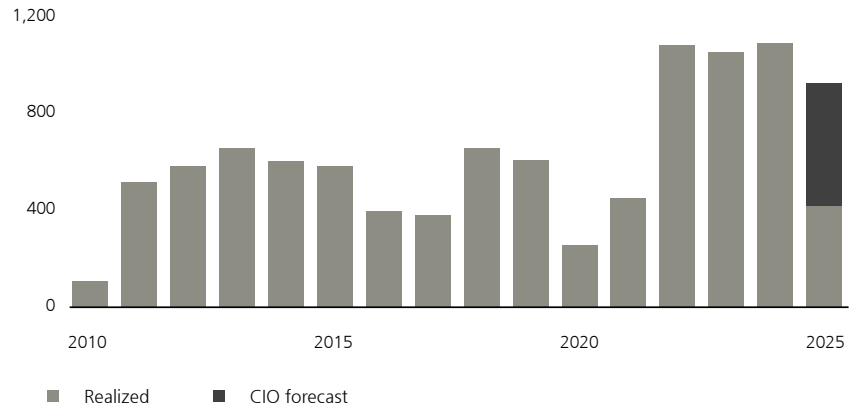
Put cash to work. The time to put cash to work is now, as the Fed looks set to resume rate cuts in September and rates in much of Europe are already low. To achieve alternative sources of portfolio income, we see quality bonds such as investment grade as appealing, but view high yield and senior loan yields as less so. We believe investors should focus on medium-duration bonds, as longer-duration bonds may face risks from fiscal policy, questions around the Fed’s independence, and upcoming inflation prints. Importantly, investors should consider allocating excess liquidity to income-generating assets in their home market—such as local currency bonds and equities—which can help reduce currency mismatch risk and support portfolio stability. Equity income strategies (specifically in Switzerland and Southeast Asia), select credit opportunities in Asia and Europe, and carry strategies using select emerging market currencies remain attractive options, in our view.

Navigate political risks. Gold remains an effective portfolio diversifier and a reliable hedge against political risks, in our view. Weakening US economic data, potential US rate cuts, fears of higher inflation, questions around Fed independence, and persistent geopolitical risks continue to support the metal. We have recently shifted our price target to USD 3,700 per ounce and see scope for even higher prices if political or economic risks escalate. Capital preservation strategies and certain alternatives strategies can also help diversify portfolios against political risks.

Figure 4

Gold demand from central banks remains strong

Annual central bank net gold purchases and CIO forecast for 2H25, in metric tons



Source: Bloomberg, UBS, as of August 2025

We believe the US dollar is likely to weaken further.

Reduce excess dollar exposure. After a brief rebound, softer US economic data has led the dollar to relinquish recent gains. Looking ahead, we expect further weakness in US growth, Fed rate cuts, and persistent twin deficits to weigh on the dollar for the remainder of the year. While high interest rates make hedging dollar exposure expensive, we recommend that investors review their currency allocations to ensure they match future liabilities and spending needs.

Diversify with alternatives. Uncertainty around the diversifying power of perceived “safe havens” like US Treasuries and the dollar highlights the importance of alternative portfolio diversifiers. We recommend considering allocations to alternatives—such as hedge funds, private credit, value-oriented buyouts, and quality global real assets—to help deliver returns and provide exposure to a broader array of return drivers. 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	1.3
Canada	1.2	2.0	2.0
Japan	0.2	0.7	0.6
Eurozone	0.9	1.1	0.9
UK	1.1	1.2	1.1
Switzerland	1.4	0.9	1.4
Australia	1.0	1.7	2.1
China	5.0	4.7	3.8
India	6.5	6.4	6.7
EM	4.5	4.2	4.0
World	3.4	3.0	2.8

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

	2024	2025E	2026E
US	3.0	2.8	3.3
Canada	2.4	2.2	2.1
Japan	2.7	3.4	2.0
Eurozone	2.4	2.1	1.8
UK	2.5	3.4	2.2
Switzerland	1.1	0.2	0.5
Australia	3.2	2.5	2.7
China	0.2	-0.2	-0.1
India	4.6	2.8	4.5
EM	8.0	3.9	3.1
World	5.7	3.3	2.8

Source: Bloomberg, UBS, as of 21 August 2025. Latest forecasts available in the *Global forecasts* publication, published weekly.

Asset classes

	Spot	June 2026
Equities		
S&P 500	6,396	6,800
Eurostoxx 50	5,472	5,600
FTSE 100	9,288	9,300
SMI	12,276	12,600
MSCI Asia ex-Japan	825	868
MSCI China	83	86
Topix	3,099	3,100
MSCI EM	1,260	1,310
MSCI AC World	1,129	1,190

Currencies		
EURUSD	1.17	1.23
GBPUSD	1.35	1.40
USDCHF	0.80	0.76
USDCAD	1.39	1.32
AUDUSD	0.64	0.70
EURCHF	0.94	0.94
NZDUSD	0.58	0.62
USDJPY	147	138
USDCNY	7.18	7.00

	Spot	June 2026
Yields, in %		
USD 2y Treasury	3.75	3.75
USD 10 year Treasury	4.29	4.00
CHF 2y Eidg.	-0.19	0.00
CHF 10y Eidg.	0.27	0.50
EUR 2y Bund	1.93	1.50
EUR 10y Bund	2.72	2.25
GBP 2y Gilt	3.92	3.50
GBP 10y Gilt	4.67	4.25
JPY 2y JGB	0.85	1.10
JPY 10y JGB	1.61	1.70

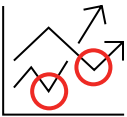
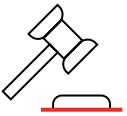
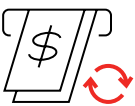
Commodities		
Brent crude, USD/bbl	66.8	65.0
Gold, USD/oz	3,347	3,700

Source: Bloomberg, UBS, as of 21 August 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
Buy on dips in equities 	<p>Global equities remain resilient, recently reaching record highs, and we expect further upside over the next six to 12 months.</p> <p>Investors underallocated to equities should consider phasing in and using market dips to add exposure to preferred areas.</p> <p>Alongside AI, power and resources, and longevity, we favor US tech, health care, utilities, and financials.</p> <p>In Europe, we like Swiss high-quality dividends, European quality stocks, European industrials, and our “Six ways to invest in Europe” theme. In Asia, we prefer China’s tech sector, Singapore, and India. And we see opportunities in Brazil.</p>	<ul style="list-style-type: none"> Phasing-in strategies Preferred areas: US: Technology, health care, utilities, financials Europe: Swiss high-quality dividend and income strategies, “Six ways to invest in Europe,” quality stocks, European industrials Asia: China tech, Singapore, India Brazil
Navigate political risks 	<p>Gold remains an effective portfolio diversifier and a reliable hedge against political risks, in our view.</p> <p>Weakening US economic data, potential US rate cuts, fears of higher inflation, worries over the Fed’s independence, and persistent geopolitical risks continue to support the metal.</p> <p>We recently raised our price target to USD 3,700 per ounce by end-June 2026 and see scope for even higher prices if political or economic risks escalate.</p> <p>Capital preservation strategies and certain alternatives strategies can also help diversify portfolios against political risks.</p>	<ul style="list-style-type: none"> Gold Alternatives incl. hedge funds Capital preservation strategies
Put cash to work 	<p>The time to put cash to work is now, as the Fed looks set to resume rate cuts in September and rates in much of Europe are already low.</p> <p>To achieve alternative sources of portfolio income, we see quality—such as investment grade—bonds as attractive; high yield and senior loan yields are less attractive, in our view.</p> <p>We believe investors should focus on medium-duration bonds of around five to seven years, as longer-duration bonds may face risks from fiscal policy, questions concerning the Fed’s independence, and upcoming inflation prints.</p> <p>Investors can also consider select credit opportunities in Asia and Europe, and/or carry strategies within select emerging market currencies.</p>	<ul style="list-style-type: none"> Fixed income: quality bonds (investment grade) bonds, select credit opportunities in APAC (incl Asia local currency bonds) and Europe Diversified portfolios Annuities

MIFs

Reduce excess dollar exposure

Elevator pitch

After a brief rebound, softer US economic data has led the dollar to relinquish recent gains.

Looking ahead, we expect further weakness in US growth, Fed rate cuts, and persistent twin deficits to weigh on the dollar for the remainder of the year.

While high interest rates make hedging dollar exposure expensive, we recommend that investors review their currency allocations to ensure they match future liabilities and spending needs.

Investment ideas

- Hedge USD exposure implicit in US assets
- Increase allocations to EUR, NOK and AUD
- Reduce excess USD cash exposure
- Switch USD bond holdings to EUR IG

Invest in transformational innovation

We believe investors focused on structural growth ideas—AI, power and resources, and longevity—are likely to outperform broad indices in the years ahead.

In AI, diversified exposure across infrastructure, semiconductors, and applications should capture accelerating adoption and monetization.

Power and resources remain well positioned as electricity demand surges.

In longevity, we believe that once US policy headwinds pass, companies exposed to the themes of oncology and obesity should benefit from reduced uncertainty. Also, we believe the medical device sector offers longer-term growth potential with fewer near-term policy risks.

- 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

Financial markets confronted and for the most part shook off a number of macro risks this summer. From a tariff-induced inflation spike or weaker economic growth, to concerns over Fed independence or FOMC rate policy being behind the curve, US stocks have ground through it all to reach numerous new highs. As those near-term economic flashpoints didn't trigger meaningful equity pullbacks, and with the medium-term macro picture still constructive, we have increased our S&P 500 price targets for the end of 2025 and for June 2026 up to 6500 and 6800, from 6200 and 6500, respectively.

Following the recent labor data indicating a softer market than had previously been assumed, the Fed is likely to resume cutting interest rates at the September FOMC meeting. We expect four 25bps cuts to the Fed Funds rate at the next four consecutive meetings. This expectation, in conjunction with the constructive medium-term macro outlook, supports risk assets, including US equities, continuing to move higher over the next year.

Given our outlook, there are a few main messages for how we are recommending investors position their portfolios. First, we believe 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 the markets, boosting the appeal of relative "safe havens" in this environment. Relatedly, given US equities are within a few percentage points of all-time highs, and our constructive outlook toward risky assets, we suggest investors **buy on dips in equities**, as we believe that any pullbacks will be short-lived and that stocks will reach new record highs by year-end.

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, financials, health care, utilities, and information technology. Communication services is Attractive owing to solid digital advertising trends and investor enthusiasm around AI. Financials should benefit from ongoing deregulatory initiatives and could see further shareholder capital distribution following the latest round of stress test results. Health care should benefit from improved policy clarity, attractive valuations, and potential earnings upside. Within the tech sector, AI will remain a key driver of equity returns over the coming years. Consequently, it is important that investors hold sufficient long-term exposure to the theme. We currently see the best opportunities in the enabling layer of the value chain, which is benefitting from significant investments. We also like vertically integrated mega-caps, which are well positioned across the value chain. Within a portfolio context we also like utilities, as they are defensive and should do well in the event of weaker economic activity.

Lastly, with rate cuts in the US imminent, we recommend investors **put cash to work**. As rate cuts come to pass, cash and other short-term deposits will provide incrementally less income. We continue to like the quality part of the fixed income market (Investment Grade corporates preferable to High Yield), and specifically target the belly of the curve (five- to seven-year duration). We also maintain our Attractive view on Agency MBS, which provides more carry than US Treasuries while keeping the implicit government-backed guarantee.

Our preferences

	Unattractive	Neutral	Attractive		Unattractive	Neutral	Attractive
Cash		=		Equity		=	
				US Equity		=	
Fixed Income		=		US Large Cap		=	
US Gov't FI		=		Comm Services			+
US Gov't Short		=		Cons Discretionary		=	
US Gov't Intermediate		=		Cons Staples		=	
US Gov't Long		=		Energy		=	
TIPS		=		Financials			+
US Agency MBS			+	Health Care			+
US CMBS		=		Industrials		=	
US Municipal		=		Info Technology			+
US IG Corp FI			+	Materials		=	
US HY Corp FI		=		Real Estate		=	
Senior Loans		=		Utilities			+
Preferreds		=		US Growth Equity		=	
EM Hard Currency FI		=		US Value Equity		=	
EM Local Currency FI		=		US Mid Cap		=	
				US Small Cap		=	
Commodities		=		Int'l Developed Markets		=	
Gold			+	Emerging Markets		=	
Oil		=					

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.

US economic outlook

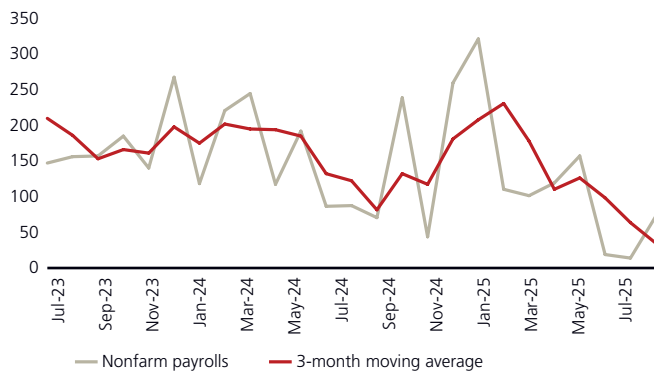
Policy impact turns real

Brian Rose, PhD, Senior US Economist

Overview

The July labor report, released on 1 August, showed weak job growth on top of unusually large downward revisions to the two prior months. As shown in Figure 1, the three-month average for nonfarm payroll growth now stands at just 35,000, down from 150,000 previously, a number that is more commonly seen during recessions than during expansions, but at least layoffs remain low. As long as consumers have jobs they are likely to continue spending, and as shown in Figure 2, retail sales appear reasonably healthy after a solid gain in July. In our view, rising consumer spending is the key to avoiding a recession. We maintain our base case, which calls for weak but positive economic growth in 2H25. Figure 3 shows that core inflation now appears to be trending higher as tariffs work their way into retail prices, but the rise remains gradual. Despite higher inflation, the market is pricing in more Fed rate cuts (Figure 4) in response to the weaker labor data.

Figure 1
Payroll growth suddenly looks much weaker
Nonfarm payrolls, month-on-month change in '000s

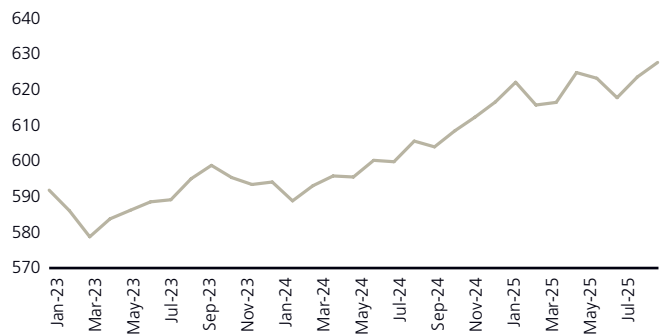


Source: Bloomberg, UBS as of 20 August 2025

Growth

GDP growth slowed to 1.25% in 1H25, down from 2.75% in 2H24. We expect more sustained weakness over a broad range of indicators in 2H25 as policy uncertainty is supplanted by the actual negative impact of tariffs, tighter immigration policy, and government spending cuts. We continue to believe that the economy is entering a soft patch rather than a recession and that consumers hold the key to the outlook. As shown in Figure 2, while retail sales growth has moderated this year relative to 2024, a solid increase in July makes it appear that the trend is at least positive. Although many households are being squeezed between higher prices and a softening labor market, we expect wealthier households to continue spending. AI-related activity and overall healthy private-sector balance sheets, in addition to modest fiscal stimulus from the reconciliation budget and Fed rate cuts, should help to avoid an outright recession.

Figure 2
Consumption growth has moderated
Retail sales in USD bn



Source: Bloomberg, UBS as of 20 August 2025



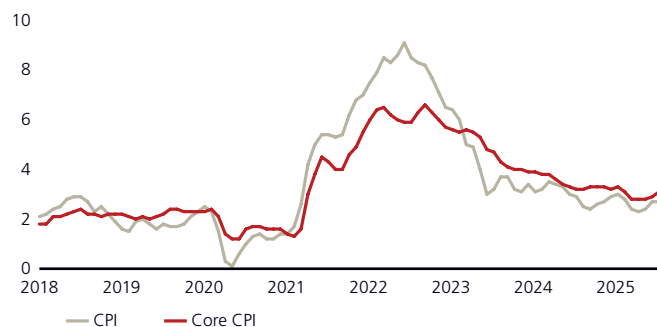
For our **global economic forecasts**, please see our report *Global forecasts*.

Read the report >

Inflation

The most recent inflation data show tariffs starting to feed through into retail prices more broadly. As shown in Figure 3, the down-trend in core inflation, which excludes food and energy, appears to have broken, rising to 3.1% in July. We expect core CPI to show monthly increases of 0.3-0.4% through year-end, bringing inflation to around 3.5%, and tariffs will continue to work their way through the economy in early 2026. With more money now flowing into immigration enforcement and the administration taking away work permits from more people, labor shortages are likely to lead to supply chain disruptions that become an additional driver of price increases. Tepid consumer spending and pushback against high prices should work to limit inflationary pressure. Slowing shelter inflation and generally soft economic conditions globally should also help to avoid a dramatic inflation surge.

Figure 3
Core inflation starting to rise
CPI and Core CPI, year-over-year change in %

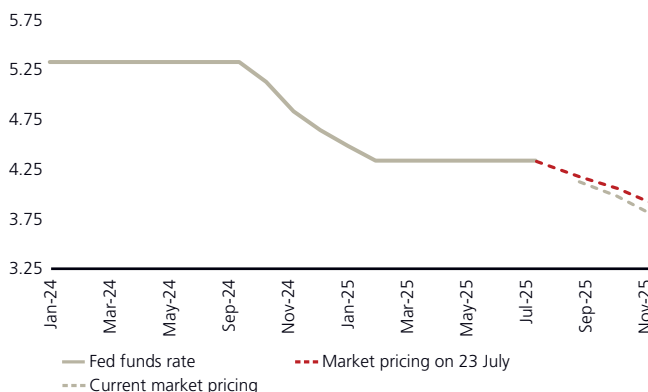


Source: Bloomberg, UBS as of 20 August 2025

Policy

As shown in Figure 4, over the past month, market pricing has moved in favor of more rate cuts by year-end. Minutes of the July FOMC meeting suggested that the Fed was more concerned about inflation risks than downside risks to the labor market, and wasn't that close to cutting rates despite two governors dissenting in favor of a cut. However, the weak labor data noted above changed the balance of risks, making it more likely that the Fed, which has been on hold since last December, will cut at its next meeting on 16-17 September. The unexpected resignation of governor Kugler opened a spot for President Trump to appoint Stephen Miran, who is advocating for rate cuts, and Republicans are rushing to confirm him before the September meeting. Our base case calls for 25bps cuts at each of the next four meetings, for a total of 100bps by January. However, with inflation likely to rise further above the Fed's 2% target, better news from the labor market could delay those cuts.

Figure 4
Market fully pricing two rate cuts in 2025
Fed Funds rate and futures market pricing, in %



Source: Bloomberg, UBS as of 20 August 2025

Equities

We are Neutral on global equities. The market may lack near-term catalysts following recent gains, and current valuations suggest a high level of optimism is already priced in. Nevertheless, we expect global equities to rise over the next 12 months. Positive economic growth, robust earnings, strong structural trends, and the prospect of central bank rate cuts continue to provide a constructive backdrop. We recommend that investors use any periods of volatility or market pullbacks as opportunities to add exposure.

Eurozone

NEUTRAL

EURO STOXX 50 (index points, current: 5,462) June 2026 target	
House view	5,600
Positive scenario	6,200
Negative scenario	4,200

Note: All current values as of 21 August 2025

We remain Neutral on Eurozone equities as markets navigate near-term macro uncertainty, but we see a brighter outlook, as many of Europe's challenges are now behind us following the US-EU trade deal and the end of a challenging 2Q results season. We believe it is likely too early to look through near-term growth uncertainty, but the potential for an earnings rebound should provide support to European equities. We recommend using pullbacks to phase into high-quality European stocks, beneficiaries of positive policy developments, and transformational opportunities in industrials and IT sectors.

Japan

NEUTRAL

TOPIX (index points, current: 3,083) June 2026 target	
House view	3,100
Positive scenario	3,240
Negative scenario	2,200

Note: All current values as of 21 August 2025

We remain Neutral on Japan equities. In the very short term, stock prices may overshoot owing to strong momentum. However, after the rally, investors are likely to turn more cautious amid the typical summer slowdown. The Topix's P/E has climbed to 16.3x, a level we believe warrants caution. A recovery of the global manufacturing cycle next year could be a key catalyst for Japanese equities. We maintain a preference for high-quality cyclical stocks—such as those in the machinery, auto, financial, and health care/medtech sectors—for better medium-term returns.

Emerging markets

NEUTRAL

MSCI EM (index points, current: 1,262) June 2026 target	
House view	1,310
Positive scenario	1,420
Negative scenario	980

Note: All current values as of 21 August 2025

We maintain our Neutral stance on EM equities overall. Ongoing trade negotiations, elevated valuations, and potentially weaker economic data are creating near-term uncertainty as investors digest earnings and macro policy developments. Our preferred markets and sectors—India, China tech, Brazil, Malaysia, and the Philippines—stand out for resilient earnings, solid domestic demand, and structural growth drivers. Looking ahead, we see a constructive medium-term outlook for EMs and recommend under-allocated investors prepare to add exposure to favored markets on pullbacks.

UK

NEUTRAL

FTSE 100 (index points, current: 9,309) June 2026 target	
House view	9,300
Positive scenario	10,300
Negative scenario	7,000

Note: All current values as of 21 August 2025

We remain Neutral on UK equities. While we see a more positive medium-term outlook for the European region, we believe near-term growth uncertainty and currency headwinds for corporate profits warrant a cautious approach for now. We expect earnings to contract further this year, but we also believe 2025 will mark the bottom and see an improving outlook for profits next year. Our preferences tilt to more resilient, higher-quality companies with structural growth exposure to key longer-term themes or positive policy developments. Our preferred sectors are IT, industrials, and real estate.

US equities

We have a Neutral view on US equities. We believe the bull market is intact and stocks will likely rise over the next year. But we stick with our Neutral view given the market may be pricing in a lot of optimism already on trade developments, a lack of near-term catalysts, and elevated valuations.

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 stocks have recorded a string of all-time highs in recent weeks. A better-than-anticipated 2Q earnings season (with especially strong results from AI-exposed companies), a continued de-escalation in trade tensions, and a higher likelihood of a Federal Reserve rate cut in September have all been key drivers. Given the strong 2Q earnings season, we raised our S&P 500 EPS estimates to USD 270 (8% growth) for 2025 and USD 290 (7.5% growth) for 2026. We also increased our year-end and June 2026 S&P 500 price targets to 6,600 and 6,800, respectively. But we maintain our Neutral view, as it seems stocks have already climbed the tariff “wall of worry” and valuations have moved up even for non-Mag 7 companies.

US equities – sectors

Within financials, deregulation is a key driver for the banks. Net interest income and capital markets activity should improve. AI remains a key driver for information technology and communication services. Secular growth in digital advertising should also support communication services. Policy clarity and attractive valuations should benefit health care over time. Utilities offer defensive exposure if economic growth slows, and there is upside from AI power demand.

US equities – size

We have a Neutral view across size segments. Small-cap stocks have lagged year to date likely owing to their more cyclical nature, as higher tariffs will still have an impact on economic growth. That Nevertheless, small-cap valuations are not demanding, which has historically led to outperformance over longer time horizons. In the near term, the Federal Reserve will likely cut rates at the September FOMC meeting, which could boost the earnings outlook for small caps, but the scope of rate cuts will matter.

US equities – style

We have a Neutral view on growth and value stocks. Despite trading at elevated relative valuations, growth stocks have been delivering impressive earnings growth that we think is poised to continue. While value stocks don’t have exposure to the same AI tailwinds, trends within financials should improve due to deregulation and a pickup in business activity, and defensive companies should offer a hedge if stocks experience any bouts of volatility from a slowdown in economic activity.

S&P 500 (index points, current: 6,363)	June 2026 target
House view	6,800
↗ Upside	7,500
↘ Downside	4,500

Note: All current values as of 20 August 2025

Figure 1

Selective positioning

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

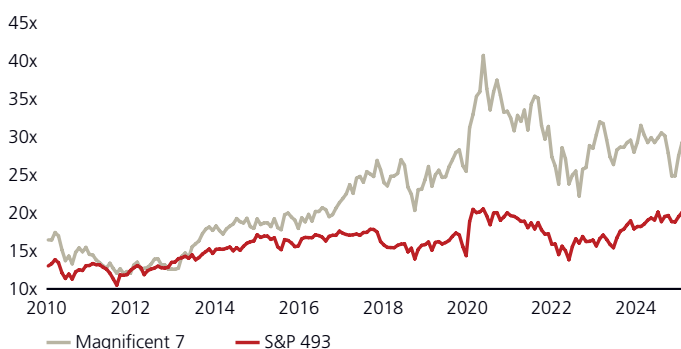
Note: S&P 500 sector preferences

Source: UBS, as of 21 August 2025

Figure 2

Valuations excluding the Mag 7 have moved higher as well

Next twelve months P/E (S&P 493 excludes Mag 7 from S&P 500)



Source: FactSet, Bloomberg, UBS, as of 20 August 2025

Bonds

We continue to anticipate lower yields by year-end with the 10-year trending toward 4%. However, while rate volatility has continued to fall, uncertainty regarding tariff-related impacts to growth and inflation remains unknown. Therefore, this may not be a straight line lower as markets continue to adjust sentiment on a data-dependent Fed. Although spreads are tight, we continue to see value in high-quality fixed income, as we expect yields to decline with upcoming Fed rate cuts, and carry boosting returns.

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: 4.3%) June 2026 target

House view	4.00%
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Note: All current values as of 20 August 2025

We continue to see interest rates trending toward 4.0% by year-end, and a steepening of the yield curve led by a lower short end. The inflation impacts of tariffs have not yet been fully priced by the market and could potentially pressure the back end, but the recent refunding announcement was friendly for longer-term yields, as the Treasury increased bill issuance while keeping coupon supply stable. We do not believe term premium will collapse but will remain capped at elevated levels. Our new yield target where we would look to extend duration is 4.5%.

Emerging market bonds

⊖ NEUTRAL

EMBIG DIV. / CEMBI DIV. SPREAD (current: 291bps/241bps) June 2026 target

House view	350bps/275bps
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➤ Positive scenario	290bps/210bps
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➤ Negative scenario	550bps/500bps
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Note: All current values as of 20 August 2025

We keep a Neutral view on emerging market credit. Valuations are back at historically tight levels, suggesting that the asset class, particularly the lower-rated issuers, remains vulnerable to potential setbacks. 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 US policy uncertainty, inflation concerns, and the potential for an escalation in trade and/or geopolitical tensions.

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

US investment grade corporate bonds

⊕ ATTRACTIVE

US IG SPREAD (current: 77bps) June 2026 target

House view	90bps
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➤ Positive scenario	80bps
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➤ Negative scenario	180bps
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Benchmark: ICE BofA

Note: All current values as of 20 August 2025

We hold an Attractive view. Driven by strong fundamentals and technicals, IG index spreads touched a new post-GFC tight of 75bps. The potential for additional spread tightening is limited but 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 4.9% 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: 294bps) June 2026 target

House view	350bps
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➤ Positive scenario	280bps
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➤ Negative scenario	650bps
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Benchmark: ICE BofA

Note: All current values as of 20 August 2025

We have a Neutral view. With spreads currently at the low end of their 10-year historical average, we see limited potential for further spread compression. Fundamentally, credit metrics are strong with aggregate leverage at 4.3x, below its long-term average. HY default rates remain stable at 1.1%. CIO forecasts the HY default rate to stay at 2.0-3.0% for the next 12 months. The 6.9% yield offers an attractive carry and should help support total returns, even if spreads were to widen.

Municipal bonds

⊖ NEUTRAL

We remain Neutral. Despite a rally over the last month, YTD performance continues to lag other fixed income assets due to elevated supply. Tax-equivalent index yield of 6.7% remains attractive. Despite weaker fall technicals, 12-month forward returns look appealing. The steep curve has bolstered the value of longer maturities. Fundamental credit quality remains stable. Given still tight spreads and slower economic growth expectations, we prefer larger, higher-quality issuers.

Non-US developed fixed income

⊖ NEUTRAL

Over the past month, bond yields in most non-US developed markets moved modestly higher. On foreign exchange markets, the dollar was mostly stronger against other major currencies, hurting the value of non-dollar bonds in dollar terms. These factors combined to leave the asset class with small losses for the month. With US bonds offering higher yields than in most other developed markets, we do not recommend a strategic asset allocation position for the asset class.

Additional US taxable fixed income (TFI) segments

Agency bonds

We continue to prefer agency MBS over agency debt. While spreads have remained very tight in the debt sector, agency MBS has continued to maintain an elevated spread range of 130-160bps. We see better performance in agency MBS given current spread and carry.

The current spread is +10bps (versus +8bps last month)

Mortgage-backed securities (MBS)

+ ATTRACTIVE

We maintain an Attractive view on agency MBS. The positive carry, strong fundamentals, and the likelihood of limited supply going forward should be tailwinds to total return. With the market expecting a more dovish Fed path, and our expectation of slower growth in 2H25, we believe the long-awaited spread compression in agency MBS versus IG corporates should materialize. With current coupon agency MBS offering elevated spread and yield versus other high (and lower) quality sectors, we take the income for the time being and look for outperformance into year-end.

AGENCY MBS SPREAD

June 2026 target

House view	100bps
➤ Positive scenario	100bps
➤ Negative scenario	185bps

Note: All current values as of 21 August 2025

Preferred securities

⊖ NEUTRAL

Preferreds continue to perform well in August; year to date through 31 July, the sector returned about 3% consisting of nearly 2% for USD 25 pars and 4.5% for USD 1,000 pars. We began 2025 with muted return expectations based on the sector's tight valuations. But scant value has been a persistent challenge within most credit sectors. The lack of competitive yield alternatives will likely bolster preferreds from here. The sector should benefit from a benign rate backdrop and supportive supply-demand dynamics as well.

Treasury Inflation-Protected Securities (TIPS)

⊖ NEUTRAL

Long-end inflation remains anchored, but we anticipate breakevens to rise in the next few months if flow-through inflation begins to show up in economic data. While we believe this will be from short-end real yields moving lower, the target of 2.3-2.5% 10-year real yield entry point now appears too high. We look for a better entry point with 10-year real yields back above 2.0%.

US 10-YEAR REAL YIELD (current: 1.94%)	June 2026 target
House view	1.50%
➤ Positive scenario	0.75%
➤ Negative scenario	2.30%

Note: All current values as of 20 August 2025

Figure 1

UBS CIO interest rate forecast

In %

UST	Current	Dec 2025	Mar-26	Jun-26	Sep-26
2-year	3.8	3.8	3.8	3.8	3.8
5-year	3.8	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 20 August 2025

Figure 2

IG spreads hit a new post-GFC low, but yields are still near 5%

IG spread, left, in bps and yield, right, in %



Source: ICE Indices, UBS, as of 19 August 2025

Commodities and listed real estate

Our benchmark, the UBS CMCI commodity total return index, is up by a mid-single-digit percentage year to date. Positive roll gains in several commodities, due to a downward-sloping futures curve, and elevated cash collateral returns, as US interest rates stay elevated, remain tailwinds. We anticipate high-single-digit total returns over the next 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 3,339 /oz)

June 2026 target

⊕ ATTRACTIVE

House view	USD 3,700/oz
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Note: All current values as of 21 August 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 is back on top of the asset class performance table for 2025—its 28% year-to-date rise beats all major equity and bond indices, G10 currencies, and even Bitcoin. We lift our benchmark target to USD 3,600/oz by end-March 2026 (from 3,500/oz) and to USD 3,700/oz by end-June 2026 (from 3,500/oz), and introduce our end-September 2026 forecast at USD 3,700/oz. Our end-2025 target remains USD 3,500/oz.

Base metals

LME copper prices have lacked a clear direction so far in the second half of the year, with demand headwinds and rising LME inventories acting as price constraints. Our forecasts remain unchanged through 2Q26, and we are introducing a new end-September 2026 target of USD 11,000/mt.

Agriculture

On a total-return basis, grain is the worst-performing subsector across commodities year to date—the benchmark CMCI TR index is down 3% (energy is second worst with a 2% fall). Outside grains, soft commodities have experienced elevated volatility but remain only slightly in the red. Conversely, livestock continues to drive performance across the sector, with broad index gains of more than 23%. Corn is weighing on the overall segment, with record yield potential forecast for the US, another big harvest expected in Brazil, and continued absence of Chinese buyers.

BRENT (current: USD 67.67/bbl)

June 2026 target

⊖ NEUTRAL

House view	USD 65/bbl
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Note: All current values as of 21 August 2025

Crude oil

Oil prices remain supported, benefiting from low oil inventories in the OECD. We expect oil demand to peak for the year in August and modestly decline over the coming months. With South American supply expected to increase a bit further, the oil market should become better supplied in the months ahead. We expect Brent to stay in the upper part of the USD 60-70/bbl trading range for now and then move to the lower part of that range later in the year.

Listed real estate

RUGL Index (current: USD 6,316)

June 2026 target

House view	USD 8,000
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➤ Positive scenario	USD 7,500
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➤ Negative scenario	USD 6,800
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Note: All current values as of 22 August 2025

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. Companies currently trading at discounts offer opportunistic potential returns only if they manage to grow their activities, which is a challenge. Also, because their average capital costs are still slightly increasing, selectivity is required. 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

The USD is Unattractive, EUR, NOK, and AUD are Attractive

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

After a brief US dollar rebound in July, a weaker US labor market report in early August set the currency back on a downtrend. Market expectations now align with our view of rate cuts resuming at the September meeting, followed by easing at each subsequent meeting through year-end. Combined with ongoing policy uncertainty, this is likely to weigh on the dollar until mid-2026. As a result, we maintain our Unattractive view on the USD.

We expect the European Central Bank (ECB) to close out its rate-cutting cycle soon, if it hasn't already. Taking the policy rate down from 4.5% to 2.0% so far, alongside fiscal support in the coming quarters, should bolster the euro as we move into 2026. Although the 15% US tariff rate on the EU is generally negative, the trade deal with the US reduces uncertainty, benefiting European companies. The euro remains the default alternative for global investors seeking diversification away from the USD. We expect EURUSD to move above 1.20 around year-end and still see the EUR as Attractive.

Elsewhere in Europe, Switzerland has been among the hardest hit by US tariffs, facing a 39% rate. While we anticipate this will be lowered eventually, the 39% tariff is likely to persist for now, weighing on Swiss growth and increasing the likelihood that the Swiss National Bank (SNB) may cut its policy rate into negative

territory. Although this is not our base case, this could weaken the Swiss franc. However, ongoing geopolitical uncertainty supports the franc's perceived "safe haven" status, limiting the risk of depreciation. On a total return basis, its low yield makes the franc weaker than most peers. In contrast, the Scandinavian currencies benefit from the European recovery and offer higher yields, especially Norway. We upgrade the NOK to Attractive this month. The British pound and Australian dollar remain high-yielding currencies in easing cycles. Given Australia's favorable economic outlook, we continue to prefer the AUD and keep it as Attractive. The pound has an advantage for now owing to its high yield, but the UK's weak fiscal position poses risks. Should the UK economy weaken, limited fiscal space would leave the Bank of England as the currency's sole support, and any rate cuts would quickly erode the pound's yield advantage—a key driver in recent years.

Elsewhere, the Chinese yuan remains at Neutral, with a gradual recovery expected as trade tensions ease. We also remain Neutral on the Japanese yen, as the low carry and the slow-moving Bank of Japan don't provide immediate catalysts to position in the yen, in our view. In general, we expect higher-yielding currencies to outperform in an environment of Fed rate cuts. However, selectivity remains the key, especially in higher-yielding emerging market currencies.

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	Dec-25	Mar-26	Jun-26	Sep-26
EURUSD	1.17	1.21	1.22	1.23	1.23
USDJPY	147	142	140	138	136
GBPUSD	1.35	1.39	1.39	1.40	1.40
USDCHF	0.80	0.78	0.77	0.76	0.76
USDCAD	1.39	1.34	1.33	1.32	1.32
AUDUSD	0.64	0.68	0.70	0.70	0.70
NZDUSD	0.58	0.60	0.62	0.62	0.62
USDSEK	9.59	8.93	8.77	8.62	8.54
USDNOK	10.24	9.34	9.18	9.02	8.94

Sources: SIX Financial Information, UBS, as of 20 August 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 (*)
- Ulrike Hoffmann-Burchardi
- Paul Donovan
- Min Lan Tan
- Themis Themistocleous
- 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:

- Ulrike Hoffmann-Burchardi
- Alejo Czerwonko
- Jason Draho (chair)
- Leslie Falconio
- David Lefkowitz
- Brian Rose

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

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

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

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

Appendix

Emerging Market Investments

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

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

Nontraditional Assets

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

Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance, and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments; there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund, and should consider an alternative investment fund as a supplement to an overall investment program. In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

Hedge fund risk: There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-US securities and illiquid investments.

Managed futures: There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.

Real estate: There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.

Private equity: There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.

Foreign exchange/currency risk: Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in US dollars, changes in the exchange rate between the US dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a US investor.

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