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Chief Investment Office GWM
Investment Research

What to watch in the week ahead

Weekly Global

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- Our assessment of last week's US data flurry is that the door remains open for a further Federal Reserve rate cut in the first quarter of 2026. This outlook for easing in the first quarter should underscore the positive backdrop for quality bonds.
- Many major central banks held their final policy meetings of 2025 last week. The overarching theme was that policy easing outside the US is now largely over, in our view. We expect the US dollar to weaken into early 2026, and favor tactical exposure to the euro, the Australian dollar, Norwegian krone, and select high-yielding emerging market currencies.
- Despite some tech turbulence last week, we believe the investment theses for AI and CIO's other Transformational Innovation Opportunities (TRIOs) of Power and resources and Longevity remain intact for 2026 and beyond. While the AI capex outlook remains robust, we expect that value creation will increasingly shift from the "enabling layer" to the "application layer" of the AI value chain.

This marks our latest Weekly Global for 2025. The first edition of 2026 will land on 5 January. Thank you for your trust and readership through the closing year. Happy holidays and all good wishes for the year ahead,

Will the final batch of US data impact views on the Fed's next move?

Investors looking for a quieter end to 2025 may have had their hopes dashed by the delayed US data deluge released last week. Markets have to digest an unusually high volume of US economic releases, as statisticians cleared a backlog created by the recent government shutdown.

Indicators under scrutiny included gauges of employment, inflation, business activity, and consumer confidence. Although some of the data was distorted by the effects of the shutdown or the statistical techniques used to fill in missing observations, our assessment of the broad picture remains that the US labor market is cooling and inflation—though above the central bank's target—is under control.

The October and November jobs reports, released in tandem, pointed to some stabilization of private sector job creation—but also contained various signals of weakness. Government retirements contributed to a 105,000 decline in nonfarm jobs in October, while November's payrolls increased by 64,000. While the job gain in November was modestly ahead of consensus, the unemployment rate rose to 4.6%, the highest level in more than four years, and average hourly earnings growth slowed, pointing to signs of

Learn more about central banks and the Fed

- Read about our five New Year's resolutions that can help investors cut through the noise and build robust portfolios for the future in the Monthly Letter: New words, timeless ideas.
- Dive deeper in this UBS House View Briefcase, asking What do Fed rate cuts mean for investors?
- Explore what CIO analysts think about the latest Fed rate cut in this blog.

Look here for more CIO views on the global rates and currencies

- Here you'll find our latest views on the European Central Bank and Bank of England monetary policy decisions from CIO Economist Dean Turner and colleagues.
- Read further about our FX views in our latest "The week ahead" FX publication.
- Keen to know more about the Bank of Japan's latest rate hike? Then click here to discover more from Regional CIO Japan Daiju Aoki and team.

Dig deeper into CIO's take on tech stocks and AI

- Listen to the latest edition of Signal over Noise with CIO Americas and Head of Global Equities Ulrike Hoffmann-Burchardi, discussing our equities views.
- Explore more on our Message in Focus: Add to equities, including a video with

increasing slack in the US labor market.

Later in the week came US inflation data, where the signs were encouraging. November's consumer price index (CPI) revealed inflation moderating more than expected. Headline CPI rose at an annualized rate of 2.7%, below consensus expectations of 3.1%, while core CPI, which excludes volatile food and energy prices, increased 2.6% over the past year, compared to a prior estimate of 3%. This benign outcome helped spur an equity rally on Thursday, though economists warned that deficiencies in data collection during the shutdown may have made the figures look better than the economic reality.

On the consumer, last week's data were mixed. Retail sales were largely flat for October—though the control measure, which feeds into the GDP calculation, did point to resilience.

While the US publication calendar slows into the end of the year, we believe the mood among investors could be influenced by the Conference Board's consumer survey for December, the weekly jobless data, and GDP growth for the third quarter, though such releases are only usually market-moving in quiet weeks.

Our view is that the US data docket, in aggregate, keeps the door open for a further Federal Reserve rate cut in the first quarter of 2026. This outlook for easing in the first quarter should underscore the positive backdrop for quality bonds, which we view as an important component of generating diversified income in a portfolio and as a potential portfolio stabilizer in adverse economic scenarios, with potential to deliver capital appreciation over cash if the Fed is forced to cut rates more sharply.

Will the US dollar dip further as America's rate advantage fades?

Central banks had little scope to start holiday season early last week, as policymakers from the European Central Bank, Norway's Norges Bank, Sweden's Riksbank, the Bank of England, and the Bank of Japan all revealed their latest monetary policy decisions.

The Bank of England and Bank of Japan stood out, with the former lagging the global rate-cutting cycle and the latter in the process of hiking. The UK central bank cut interest rates by 25 basis points on Thursday in a 5-4 vote, with Governor Andrew Bailey changing his stance from his November position. The tone of the minutes and Monetary Policy Committee member views, however, had hawkish overtones. In Japan, policymakers raised interest rates on Friday to a three-decade high of 0.75%, the first increase since January this year. They justified the move by citing a modest recovery in Japan's economy, a tight labor market, and high levels of corporate profits despite the impact of tariffs. Governor Ueda said the rate is still some distance from the lower end of a neutral range, signaling that the BoJ is open to further tightening. Still, the Japanese yen weakened to near 156.90 against the US dollar, as markets did not perceive Ueda as hawkish without guidance on the pace and target of rate hikes.

Overall, however, the broad theme of the week was that easing outside the US is largely over. With the Fed expected to ease further into 2026, this is eroding the US interest rate premium versus global peers and looks likely to add pressure on the US dollar. The DXY index, which tracks the currency against six major peers, is now down roughly 9% in 2025.

CIO Head of Global Equity Strategy and Management Nadia Lovell.

- Discover our *Three potential surprises for 2026* in the latest UBS Equity Compass, published 11 December 2025.

Our view is that the US dollar will face headwinds from its elevated valuation, the twin fiscal and current account deficits, as well as a move by central banks to diversify away from the US currency. We foresee US dollar weakness will extend into the first half of 2026. Our current forecast is for the euro to strengthen to about 1.20 against the dollar in the first quarter, from around 1.17 at present. We recommend investors review their currency allocations to align exposure with their liabilities and spending plans. Tactically we like the euro, the Australian dollar, and the Norwegian krone. We also see opportunities in select high-yielding emerging market currencies such as the Brazilian real, Mexican peso, Indian rupee, and South African rand.

Will market sentiment over tech improve ahead of the year-end?

The traditional "Santa rally" has so far failed to materialize, with worries over tech valuations overshadowing enthusiasm following the Fed's final rate cut of 2025. At the time of going to print, the S&P 500 and tech-heavy Nasdaq Composite indexes are tracking 0.2% and 0.4% month-to-date declines, respectively. The latter is on track for a second monthly decline, after seven straight monthly advances.

There were several catalysts for the decline last week. Oracle's longtime partner Blue Owl Capital said it would not back its USD 10bn data center investment plans, amid stalled funding talks. And reports suggesting that Amazon is considering a USD 10bn investment in OpenAI stoked additional concerns about the circularity of recent AI deals.

Investors will be hoping that the mood will brighten again toward the end of the year. Though the timing of a pickup is uncertain, our view is that the outlook for AI remains bright.

Demand for AI compute remains strong, and we estimate that the required compute capacity in the coming years could be orders of magnitude greater than today's installed base. We do not see evidence of an investment bubble, with company fundamentals in aggregate still robust, and we expect the total addressable market for AI to reach USD 3.1tr in revenue potential by 2030—a 30% compound annual growth rate over the next five years.

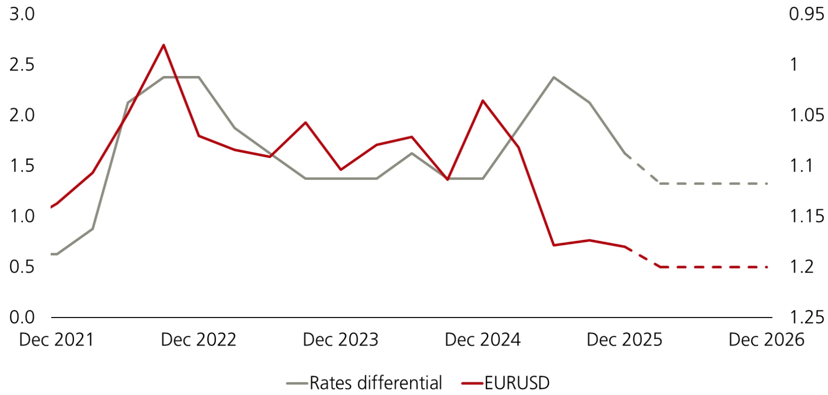
As a result, we expect *AI* and CIO's other Transformational Innovation Opportunities (TRIOs) of *Power and resources* and *Longevity* to remain significant drivers of stock returns into 2026 and beyond. While the AI capex outlook remains robust, we expect that value creation will increasingly shift from the "enabling layer" to the "application layer" of the *AI* value chain. In *Power and resources*, the buildout of AI infrastructure should continue to support data center-linked demand. We also see broader opportunities in companies facilitating grid modernization and supplying critical raw materials. In the *Longevity* field, we expect strong growth in the obesity, oncology, and medical device markets.

Chart of the week

With the Fed expected to ease further, this is eroding the US rate premium and adding pressure on the US dollar. The DXY index, which tracks the currency against six major peers, is now down around 9% so far in 2025, putting it on track for its worst year since 2017. Aside from its narrowing rate advantage, we expect the USD to face headwinds from its elevated valuation, the twin fiscal and current account deficits, as well as a move by central banks to diversify away from the US currency. We expect US dollar weakness to extend into the first half of 2026. Our current forecast is for the euro to strengthen to about 1.20 against the dollar in the first quarter, from around 1.17 at present.

Further Fed easing to erode the appeal of the US dollar

Fed-ECB rates differential (lhs) and EURUSD spot rate (rhs; axis inverted), with CIO forecasts



Bloomberg, UBS, as of 19 December 2025

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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-U.S. 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 U.S. dollars, changes in the exchange rate between the U.S. 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 U.S. investor.

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Most attractive – We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
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.
Least attractive – We consider this asset class to be among the least attractive. Seek more favorable alternative opportunities.

Appendix

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