UBS House View

Monthly Letter | 11 December 2025 | Chief Investment Office GWM, Investment Research

New Year's resolutions

As a new year approaches, we believe investors should focus on strategies to build robust portfolios for the future. Now is a good time to review financial plans and put cash to work.

Build portfolio resilience

Investors can build a strong core by getting the right mix across stocks, bonds, and alternatives, and rebalancing regularly. Hedging strategies can help navigate risks.

Seize the moment

With a strong core portfolio and hedging strategies in place, investors looking for additional growth can seek new tactical opportunities across asset classes.

Asset allocation

We rate global equities as Attractive, and see growth opportunities in *AI*, *Power and resources*, and *Longevity*. We also favor quality bonds and commodities, including gold.

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New words, timeless ideas

In 2025, I picked up new terms like DeepSeek, Gemini 3, economic statecraft, and involution to keep pace with a rapidly changing world. Yet while there will be many new ideas and words to stay on top of in 2026, now is a good time to consider the timeless principles that can guide portfolio decisions in the new year.

In keeping with my annual tradition, here are five New Year's resolutions that I believe can help investors cut through the noise and build robust portfolios for the future.

1. Take stock: Review your plan
2. Get moving: Put cash to work
3. Build resilience: Strengthen your core
4. Sleep better at night: Hedge market risks
5. Seize the moment: Seek tactical opportunities

Whatever your goals for the coming year, I hope the resolutions explored in this letter will help you build a robust portfolio for 2026 and beyond. We wish you a happy holiday season and a prosperous year ahead.

1. Take stock: Review your plan

"A goal without a plan is just a wish." This quote is as true for one's finances as it is for any other part of life.

a. Clarify and prioritize what matters most to you

It can be tempting to start a financial plan by digging straight into the numbers. But since money is often just a means to an end, an effective financial plan also needs to involve reviewing and clarifying its objectives.

Investors should consider what they want to achieve with their wealth.

So, as we enter this new year, I think investors should start by thinking about what they want to achieve with their wealth. Priorities might include specific return goals, financial independence, retirement, supporting the next generation, or creating a legacy. By setting clear, specific, and time-stamped goals, investors can lay the groundwork for effective decision making.

b. Review your situation

Next, investors should review their assets and performance with questions like: How much am I holding in idle cash? Is my investment strategy delivering what I expect? Am I taking too much risk for comfort, or too little to earn an acceptable return? Do I expect major financial inflows or outflows?

We believe the Liquidity. Longevity. Legacy. framework* can be a useful way of organizing assets and clarifying the financial resources currently being deployed for different objectives over different time horizons.

The Liquidity strategy includes cash and safer investments and should be designed to meet near-term spending needs. The Longevity strategy includes diversified investments across asset classes and should be designed to support lifestyle needs and medium- and longer-term financial goals. Finally, the Legacy strategy should be designed to support long-term philanthropic and family goals, such as bequests.

Sometimes, the process of mapping a portfolio into a Liquidity. Longevity. Legacy. framework can unveil gaps. In our experience, common issues can include Liquidity strategies that are too large or poorly optimized, Longevity strategies that are insufficiently diversified, or Legacy strategies that don't fully incorporate wealth planning considerations.

c. Seek advice where you need it

The review process can sometimes raise more questions than answers, whether they relate to investment strategies, wealth planning and estate considerations, or legal matters. Whatever those questions might be, the new year is a great time to engage in the right conversations to help you achieve the clarity you need.

2. Get moving: Put cash to work

Many investors are sitting on too much cash.

Many individuals pledge to "get moving" in the new year. But in recent years, it's been too easy for investors to sit idle. Decent interest rates on cash and an unwillingness to "chase" markets have led to rising cash balances: ICI data shows that money market funds' total net assets rose from USD 4.6 trillion in March 2022 (when the Federal Reserve started hiking rates) to USD 7.6 trillion by November 2025.

* Time frames may vary. Strategies are subject to individual client goals, objectives and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

a. Consider how much cash you really need

Over the long run, cash has underperformed stocks and bonds.

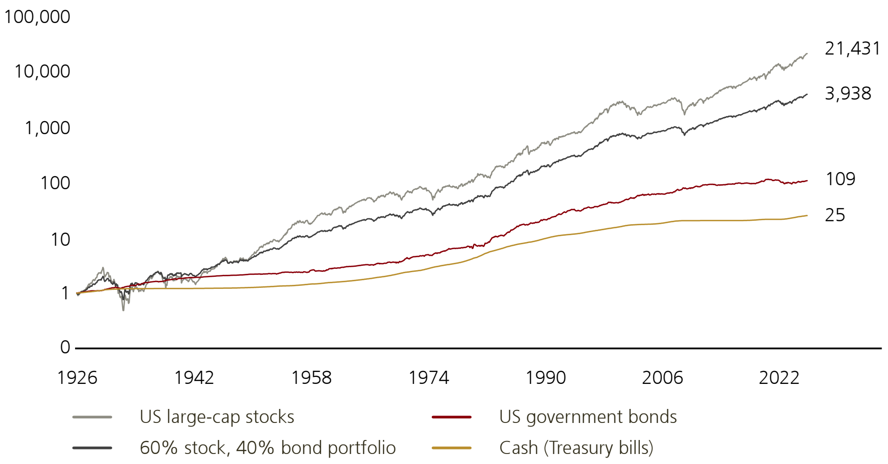
Over the long run, cash delivers sub-par returns. Between 1926 and November 2025, USD 1 invested in US large-cap stocks (the S&P 500) would have grown to USD 21,431, compared with USD 3,938 for a balanced portfolio (60:40 stocks:bonds) and just USD 25 for cash (one- to three-month T-bills).

To reduce this "cash drag" on performance, we think investors should limit cash holdings only to what's necessary to weather periods of financial market downturns. We recommend limiting cash and other liquid assets to no more than five years of expected portfolio withdrawals. Investors with other sources of income—from their job, business, annuities, dividends, or coupons—can keep even lower levels of cash. Those with reliable access to low-cost credit facilities may also be in a position to keep lower levels of cash.

Figure 1

Over the long term, stocks tend to outperform

USD 1 invested in stocks (S&P 500), bonds (Treasuries Interm.), cash (1-3m T-bills), and a 60:40 balanced portfolio since 1926, log scale



Sources: MorningstarDirect, Bloomberg, UBS, as of end-November 2025

b. Deploy excess cash in line with your broader financial plan

Investors should put excess cash to work.

By deploying excess cash holdings, investors can benefit from the likely longer-term appreciation of financial assets relative to cash. For investors who are concerned about market timing risks, phasing strategies present an option.
Since 1945, a strategy of phasing into a diversified portfolio of stocks and bonds has outperformed cash on around 74% of one-year horizons and around 84% of five-year horizons.

Variations of phasing strategies include approaches that invest a fixed amount at specified time intervals (dollar-cost averaging) or those that only invest contingent on a decline in markets ("buy the dip").

c. Think about a Liquidity strategy*

Investors can think about managing the cash they need more actively. One approach involves dividing a Liquidity strategy into three parts: everyday cash (for daily spending over the next year), core liquidity (for upcoming expenses over the next 1-3 years), and investment cash (for longer-term needs, over the next 3-5 years).

This can help investors retain the necessary levels of flexibility and safety in the overall strategy while seeking higher returns in longer-term parts of the strategy by assuming a modest degree of credit, duration, or liquidity risk.

3. Build resilience: Strengthen your core

Building a strong core portfolio is a key part of long-term financial success.

Just like building a strong core at the gym is key to balance and strength, building a solid financial core is a key part of long-term financial success.

a. Get the mix right and rebalance

For most investors, equities should form the core of a growth-oriented portfolio, typically comprising 30-70% of total assets, with higher equities allocations for those prioritizing long-term growth.

A 15-50% allocation to fixed income is a typical benchmark, with higher allocations suited for those prioritizing stability.

Meanwhile, investors looking to diversify even further can consider an allocation to alternative assets such as hedge funds, private markets, and infrastructure, and investors with a suitably long-term horizon and an "endowment" investment style may benefit from allocating up to 40% of their portfolios to alternatives. Of course, in each case, the optimal allocation depends on a variety of factors, including individual risk tolerance, time horizon, income needs, and liquidity requirements.

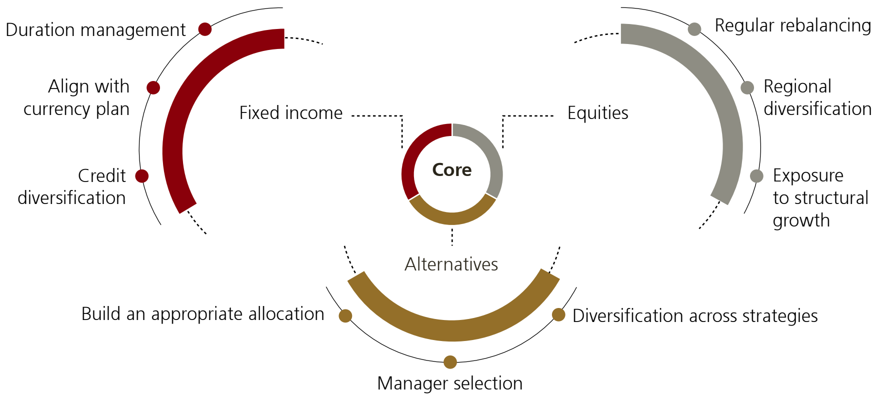
Then, regular and disciplined rebalancing back toward a long-term allocation target is an important part of keeping the core strong over the long term.

* Strategies are subject to individual client goals, objectives and suitability.

Figure 2

Build a strong core

Illustration of the core-satellite investing approach



Source: UBS, as of December 2025

b. Equities

Equity exposure should be well diversified and include exposure to structural growth trends.

Within equities, a strong core likely involves some combination of broad diversification and exposure to structural growth trends.

Diversification is essential to help investors mitigate performance and idiosyncratic risks that could emerge in any given region. The MSCI All Country World Index offers a benchmark for regional equity allocation. As a rule of thumb, we think exposure to the US should typically account for at least half of a global equity portfolio, with at least 20% in other global markets.

Diversification can also help investors ensure they have at least some exposure to the small number of securities globally that are likely to drive long-term market gains. A study by Arizona State University professor Hendrik Bessembinder showed that just 0.3% of firms accounted for half of US stock market wealth creation between 1926 and 2019.

We also believe investors looking to bolster potential for outperformance in their core can consider reallocating up to 30% of an existing broadly diversified equity portfolio to strategies explicitly linked to structural growth trends like our *Artificial intelligence*, *Longevity*, or *Power and resources* opportunities. To further enhance diversification, investors can also consider incorporating exposure to quantitative or factor-based strategies.

c. Bonds

Within fixed income, getting the right credit, duration, and currency strategy is key.

In fixed income, a strong core likely involves a mix of adequate credit diversification, careful duration management, and currency strategy considerations.

Diversifying across developed market government bonds, corporate, and emerging market bonds can help investors balance requirements for stability with income. Supplementing these allocations with equity income and yield-generating structured investments—such as equity-linked notes—could further support portfolio income for investors operating in low-yield currencies.

We believe an average duration in a fixed income portfolio of five to seven years effectively balances risk and return for long-term investors, especially in periods such as today when rates are expected to change only gradually.

Meanwhile, rising government debt could cause greater currency volatility in the years ahead. Given that currency movements are a big contributor to returns in fixed income, we think investors should align their holdings with an overall currency strategy—one that's based on their spending and liabilities.

d. Alternatives

In alternatives, diversification is also key to building a strong core: By investing in a mix of hedge funds, private equity, private credit, and infrastructure, investors can access more varied sources of return and reduce potential downside risks.

Manager selection is especially important in alternatives. Investors should prioritize high-quality hedge funds with strong track records, private market funds with robust governance and expertise, and infrastructure assets offering stable cash flows.

To diversify effectively, larger investors can consider a diversified selection of single managers, while smaller investors may need to consider fund-of-funds or evergreen solutions to achieve acceptable levels of diversification.

4. Sleep better at night: Hedge market risks

Investors should ensure they have effective hedging strategies in place.

Getting at least eight hours of sleep per night is a popular new year's resolution. Investors who are concerned that their portfolio may be affecting their sleep can consider further "protecting their core" with individual hedging strategies.

a. Include an allocation to gold

While gold does not generate income and its protective behavior is not guaranteed in every downturn, we still believe a modest allocation—of up to a

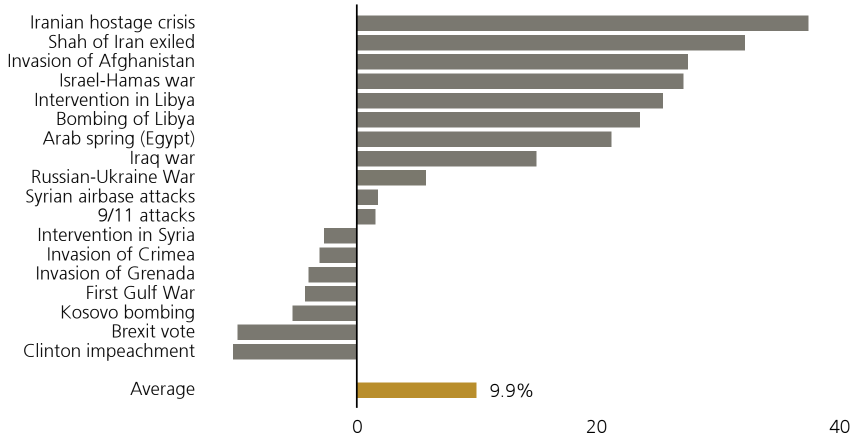
We see gold as an effective portfolio diversifier.

mid-single-digit percentage of total assets—can enhance diversification and buffer against systemic and geopolitical risks. Gold has historically been an effective portfolio hedge during periods of geopolitical uncertainty.

Figure 3

Gold has historically been an effective hedge during geopolitical uncertainty

Gold performance six months following select global geopolitical events, %



Sources: Bloomberg, UBS, as of December 2025

Investors can also consider substituting some direct equity exposure with capital preservation strategies. While returns on such strategies may be capped in strong markets, they can also reduce drawdowns. Capital preservation strategies tend to be more attractively priced when interest rates are relatively high and implied volatility is relatively low.

5. Seize the moment: Seek tactical opportunities

With a strong core in place, investors can seek new tactical opportunities.

With a strong core portfolio sufficient to meet lifestyle needs and effective hedging measures in place, investors who wish to pursue additional growth can confidently seek new tactical opportunities—in a risk-controlled way.

a. Equities

We believe the current environment of solid economic growth, healthy corporate earnings, lower interest rates, and structural innovation drivers makes this an opportune time to add exposure to equity markets.

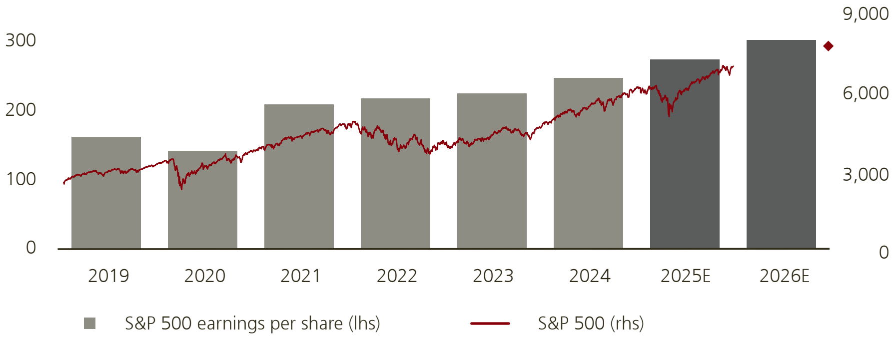
We expect the S&P 500 to reach 7,700 by December 2026.

In the US, we see the S&P 500 reaching 7,700 by December 2026, driven by strong earnings growth—we forecast earnings per share will grow by 10% in 2026—and looser Fed policy. We like the tech, utilities, financial, and health care sectors.

Figure 4

We expect strong earnings growth to help drive the S&P 500 to 7,700 by end-2026

S&P 500 index and EPS, in USD, with CIO forecasts



Sources: Bloomberg, UBS, as of December 2025

We see European stocks as Attractive. We expect profit growth to pick up to 7% in 2026 and 18% in 2027, driven by recovering goods spending, cost efficiencies, and supportive monetary policy. Germany's increased defense and infrastructure spending should boost investment, improved banking sector health supports lending, and Europe is home to some firms that are driving key structural trends. We particularly like banks, utilities, industrials, technology, and Germany.

We like the Japanese and Chinese equity markets.

In 2026, we believe the Japanese equity market is likely to benefit from more accommodative government policies, strong earnings growth, rising returns on equity, and lower valuations versus other regions. Ongoing improvements in capital efficiency and shareholder returns could also help sustain Japan's market gains over the longer term.

We see attractive opportunities in China, especially the country's tech sector, where we expect strong earnings growth in 2026. This should support Chinese equities overall, further helped by better liquidity and reasonable valuations. For diversification, we also favor broader exposure to Asia, where technology investment, strong earnings, and appealing valuations create a positive outlook across the region.

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

While our Transformational Innovation Opportunities (TRIOs)—*Artificial intelligence*, *Power and resources*, and *Longevity*—are founded on longer-term structural trends, we see opportunities to add exposure over a tactical horizon. 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, but we also see broader opportunities in companies facilitating grid modernization and supplying critical raw materials. In the *Longevity* space, we expect strong growth in the obesity, oncology, and medical device markets.

b. Commodities

We rate commodities Attractive, and within the asset class, we see particular tactical opportunities in copper, aluminum, gold, and agriculture. In addition to its role as a portfolio diversifier, we expect the gold price to rise to USD 4,500/oz by June 2026, with demand supported by central bank buying, fiscal deficit concerns, and ongoing geopolitical risks. We expect copper and aluminum prices to rise next year on further supply shortages. And longer term, the global transition to clean energy and electrification should continue to drive demand for these metals, making them a key structural opportunity.

c. Currencies

We favor the euro, Australian dollar, and Norwegian krone versus the US dollar.

We tactically favor the euro, Australian dollar, and Norwegian krone versus the US dollar. We see USD weakness continuing into the early part of 2026 as the Fed likely continues to cut rates, although we expect it to stabilize thereafter. In our base case, we expect EURUSD to rise to 1.20 by the first half of 2026 and to remain around that level through December.

Best wishes for the year ahead

In our *Year Ahead 2026*, "Escape velocity?", we asked whether AI—and the productivity gains it generates—will accelerate the global economy into a new period of faster growth. So, we'll be watching the next chapter of the AI story to see if that proves to be the case.

But while AI has revolutionized the way we live and work, and sped up many tasks, there's still no substitute for taking time out over the holidays and spending it with family and friends.

No matter what you aim to achieve next year, I hope the suggestions in this letter guide you in creating a strong portfolio for 2026 and beyond. Wishing you joyful holidays and a successful year to come.

Mark Haefele
Chief Investment Officer
Global Wealth Management

Messages in Focus

Invest in transformational innovation
We expect transformational innovation to be a key driver of equity market returns in the years ahead. In artificial intelligence, opportunities span the enabling, intelligence, and application layers. The surge in data center demand is fueling investment in power and grid infrastructure. And we expect companies pioneering treatments and technologies to extend healthy lifespans to emerge as market leaders. We believe investors should consider allocating up to 30% of a diversified equity portfolio to such structural trends.

Add to equities
We expect global equities to rise by around 15% by the end of 2026 as markets continue to build on the momentum established in recent years. We therefore think investors currently underallocated should add to equities. Our positive views on US tech and US equities are core drivers, but we also expect a strong performance from the health care, utilities, and banking sectors, as well as in Europe, Japan, China, and emerging markets.

Seek opportunities in China
AI innovation and spending are driving strong growth in China's tech sector, with earnings expected to rise significantly in 2026. This is fueling Chinese equities more broadly, helped by healthy liquidity and reasonable valuations. For investors seeking diversification, we like broader exposure to Asia, with positive trends in technology investment, solid earnings, and attractive valuations across the region. In particular, we believe India and Singapore will stand out as beneficiaries as their business cycles and corporate profits improve.

Favor commodities
Commodities are set to play a more prominent role in portfolios in 2026, in our view. Our forecasts point to attractive returns, supported by supply-demand imbalances, heightened geopolitical risks, and long-term trends like the global energy transition. Because commodities have historically shown low correlation with equities and bonds, they can help cushion portfolios during periods of market stress. Within the asset class, we see opportunities in copper, aluminum, and agricultural commodities, and we continue to view gold as a valuable diversifier.

Seek diversified income
Tight credit spreads, concerns about government debt, and emergent stresses in credit markets suggest investors need to take a nuanced and diversified approach to yield generation. We believe this should include a mix of high grade and investment grade bonds, equity income strategies, and yield-generating structured investments, as well as select exposure to private credit.

Hedge market risks
Investors should consider a diversified approach to hedging market risks. Holding sufficient liquidity can help investors avoid forced selling. We believe quality bonds offer attractive yields and can buffer portfolios. Gold's diversification benefits remain important. Periods of low volatility can also provide an opportunity to lock in gains while maintaining upside potential through structured investments.

Global forecasts

Economy

Real GDP y/y, in %

	2025E	2026E
US	1.9	1.7
Canada	1.5	1.8
Japan	1.3	0.9
Eurozone	1.4	1.1
UK	1.4	1.1
Switzerland	1.2	1.3
Australia	1.9	2.3
China	4.9	4.5
India	7.4	6.4
EM	4.5	4.2
World	3.3	3.1

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

	2025E	2026E
US	2.8	2.9
Canada	2.0	2.1
Japan	3.2	1.8
Eurozone	2.1	1.8
UK	3.4	2.0
Switzerland	0.2	0.3
Australia	2.8	3.5
China	0.0	0.4
India	1.9	4.0
EM	3.8	3.4
World	3.3	3.0

Source: Haver, CEIC, National Statistic, Bloomberg, UBS, as of 11 December 2025. Latest forecasts available in the *Global forecasts* publication, published weekly.

Asset classes

	Spot	June 2026	Dec 2026
Equities			
S&P 500	6,887	7,300	7,700
Eurostoxx 50	5,708	6,000	6,200
FTSE 100	9,656	9,800	10,000
SMI	12,921	13,200	13,600
MSCI Asia ex-Japan	900	985	1021
MSCI China	84	100	102
Topix	3,389	3,500	3,600
MSCI EM	1,383	1,510	1,560
MSCI AC World	1,213	1,280	1,350
Currencies			
EURUSD	1.16	1.20	1.20
GBPUSD	1.33	1.36	1.35
USDCHF	0.80	0.79	0.79
USDCAD	1.39	1.36	1.35
AUDUSD	0.66	0.70	0.70
EURCHF	0.93	0.95	0.95
NZDUSD	0.58	0.58	0.59
USDJPY	156	150	146
USDCNY	7.06	7.00	6.90

	Spot	June 2026	Dec 2026
Benchmark yields, in %			
USD 2y	3.54	3.25	3.25
USD 10y	4.15	3.75	3.75
CHF 2y	–0.09	0.00	0.00
CHF 10y	0.25	0.40	0.50
EUR 2y (Germany)	2.18	1.75	1.50
EUR 10y (Germany)	2.85	2.25	2.25
GBP 2y	3.79	3.50	3.50
GBP 10y	4.51	4.25	4.25
JPY 2y	1.07	1.00	1.10
JPY 10y	1.96	1.70	1.80
Commodities			
Brent crude, USD/bbl	62.2	65.0	67.0
Gold, USD/oz	4,229	4,500	4,300

Source: SIX Financial Information, Bloomberg, UBS, as of 11 December 2025. Latest forecasts available in the *Global forecasts* publication, published weekly.

Disclaimer / Risk Information

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, private credit, 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-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.
- **Private Credit:** There are risks specifically associated with investing in private credit. This could include losses stemming from defaults on loans, which in significant adverse circumstances could result in a substantial 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.

Global asset class preferences definitions
The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid, commonly known indexes, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.
Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities.

Note: For equities, 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 3 tiers.

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