

# UBS House View

Investment Strategy Guide:  
*So much, too fast?*

March 2026 | Chief Investment Office GWM | Investment research



**UBS**

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## March

### CIO Monthly Livestream

5 March 2026 1:00 p.m. ET

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## Publisher

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

This report was published  
on 27 February 2026

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# Dear reader

As the AI narrative and sector leadership evolve, the US equity market is entering a new phase.

The pace and scale of AI-related capital expenditures by mega-cap tech firms have reached unprecedented levels, with much of this investment now dependent on driving profitability and capturing a greater share of existing markets.

This rapid expansion has contributed to volatility, especially in software and IT services, as markets reassess the sustainability of business models and the potential for disruption. As a result, we recently downgraded US information technology and communication services to Neutral, given rising competitive risks, intensifying capital spending, and a more balanced risk-reward profile.

While this environment may require investors to be more selective amid market risks, we believe the answer to portfolio resilience lies in transformational innovation itself, and areas benefiting from or resilient to AI disruption. This includes Power & Resources and Longevity, which extend beyond AI.

Concurrently, equity opportunities are broadening. Industrials are benefiting from improved manufacturing activity and exposure to long-term trends like re-industrialization and electrification. This favorable backdrop led us to upgrade the sector to Attractive. Along with industrials, investors with above-benchmark exposure

to US IT and communication services should also consider hedging or diversifying their positions toward consumer discretionary, financials, health care, and utilities.

So while market drivers are shifting, we maintain an Attractive view on US equities and believe the bull market has more room to run. We maintain our year-end S&P 500 price target of 7,700.

The recent Supreme Court ruling on the IEEPA has limited the administration's ability to impose new tariffs, resulting in the suspension of many existing measures—a shift expected to ease inflationary pressures and bolster consumer spending. Meanwhile, on the macro front, we anticipate two Federal Reserve rate cuts in 2026, supported by moderating inflation and ongoing downside risks to the labor market, bringing rates close to their 3% neutral policy estimate. Together, these developments should provide a supportive backdrop for equities.

In fixed income, we continue to recommend high-quality bonds, particularly in the three- to five-year part of the curve, as they currently offer attractive yields and serve as a buffer against potential equity market volatility.

As always, we recommend consulting your UBS Financial Advisor to ensure these views are aligned with your broader financial plan.



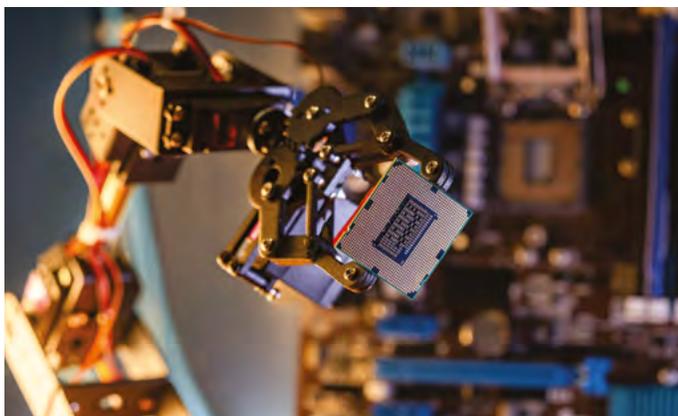
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Ulrike Hoffmann-Burchardi



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# So much, too fast?

## Making moves

We believe big market moves in recent months should be a trigger to review portfolios. Our strategy is to use our scenario analysis framework to rebalance, diversify, and hedge.

## AI risks in focus

Higher-than-expected capital expenditure and rising competition have raised uncertainty in the AI field, making selectivity and diversification more important.

## Build portfolio resilience

Geopolitical tensions and fiscal concerns are likely to trigger market volatility. Diversifying portfolios and considering specific hedges like gold can help investors navigate these risks.

## Asset allocation

We rate equities as Attractive, and like the US, Europe, Japan, China, and broad emerging markets. We also favor quality bonds and gold.



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### Our views, live with Q&A

The next CIO global monthly livestream will take place on 3 March. [Join here.](#)

Several of our 2026 *Year Ahead* targets were already reached in the first month of the year. I'm not complaining, it's just that, as we wrote in a January *Alert*, hitting targets should be a trigger to review portfolios. After big moves, our strategy is to use our scenario analysis framework to rebalance, diversify, and hedge.

The start of this year has been characterized by a high degree of geopolitical uncertainty, but there have been enough "good things" to keep major equity indices near all-time highs. Nonetheless, the potential downside risks for portfolios have grown, in our view.

AI capex has been a "good thing" for US growth. But concerns are rising that capex is now growing too quickly and that it could present a risk to the bull market. Potential disruption to legacy business models from AI has also weighed on equity values in industries ranging from software and IT services to insurance and travel brokers. Some investors are asking, "maybe fears of AI eating software alive are overblown, but if the world is so uncertain, why pay 20x revenues when I can buy emerging markets at 16x price-to-earnings, a 2% yield, and diversify my currency exposure?" In bond markets, issuance to fund some of this AI capex is drawing comparisons with the dotcom era. More broadly, the continuing large scale of government debt issuance is prompting concerns over the cost of capital, potentially higher inflation, and debt sustainability. In this letter, I look at these and other risks, and what to do about them.

But let me give you the executive summary:

We live in a multi-polar world where multiple heads of state or governments are picking corporate winners and losers as they vie for control of critical resources and technology chokepoints. The world's largest companies are doing the same in a race for AI supremacy that, so far, is not driven by clear economic returns. Military threats are evolving as more countries and non-state actors deploy a growing number of missile and drone

strikes across the globe, also threatening critical resource and infrastructure chokepoints. Markets have never been about purely rational economic analysis, but we are at a point in history where a great deal of what moves markets is beyond traditional financial analysis.

Increased leverage is likely to amplify volatility across asset classes.

One predictable part that can be explained through finance is the increased use of leverage (debt), both public and private, to finance it all. Leverage will amplify the volatility in all asset classes touched by these larger forces as our unpredictable multi-polar future unfolds. If investors use that volatility to diversify, rebalance, and hedge their portfolios, I believe they will do better than average and should prosper. If they choose to take cover in too much cash or over-concentrate in individual stocks and their home markets, they risk doing much worse than average.

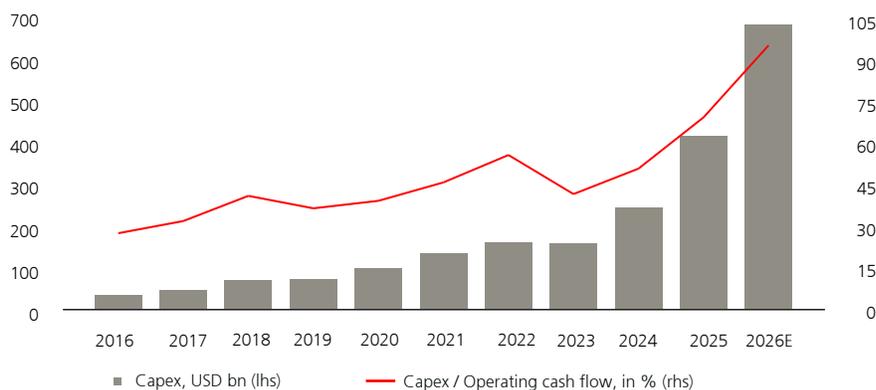
Overall, we maintain a positive outlook on global equity markets, underpinned by resilient economic growth, supportive monetary and fiscal policies, and robust earnings growth. We continue to like the US equity market, but see opportunities for investors to diversify beyond technology into other US sectors such as industrials, consumer discretionary, utilities, health care, and banks. More broadly, we believe Europe, Japan, China, and emerging markets offer attractive prospects. Investors should use a positive global backdrop to address country or regional biases in equity portfolios. Investors should also make sure they're well-diversified across asset classes, and consider portfolio hedges. We continue to like exposure to quality bonds and gold.

**So much AI "goodness" – too fast?**

AI hyperscalers have significantly increased their capex plans for 2026.

The growth in AI-related capital expenditures (capex) can be summed up as "so much, so fast." Based on guidance from the leading hyperscalers,<sup>1</sup> capex could reach around USD 650bn in 2026. This would consume nearly all their operating cash flow, compared to a 10-year average of 40%. Funding such investments may increasingly rely on external financing.

Figure 1  
AI is set to become more leveraged  
Sum of Alphabet, Amazon, Meta, Microsoft, and Oracle; actuals and consensus estimates



1 Alphabet, Amazon, Meta, Microsoft, and Oracle.

Sources: FactSet, UBS, as of 23 February 2026

Concerns have grown that AI capex growth is unsustainably high.

Concerns have grown in recent weeks that the rate of growth of capex is now “so much, too fast,” and is unsustainably high. In our *Year Ahead*, we expected further growth in planned capex and for this to be seen as more of a good thing. But the rate of growth has exceeded our expectations. We may have reached a point when ever-faster capex growth ceases to be seen as a good thing, raising the risk of volatility, and large capital spenders are already not being rewarded as they were in the past.

Equity market volatility in recent weeks has also been driven by a second aspect of the “so much, too fast” theme. There is evidence that the pace of disruption from AI is accelerating. Fears that AI will disrupt entire industries, displace labor, and erode the profitability of incumbent firms has put pressure on a wide range of sectors, especially software, where advances in agentic AI and autonomous digital assistants are accelerating. The recent launch of tools like Anthropic’s Claude CoWork has intensified anxiety that traditional software models will be upended, creating uncertainty about their terminal value. The S&P 500 software index is down some 30% from its fall 2025 high.

#### *Our base case*

AI model developers operate in a very competitive space.

The aggressive pace of capital spending by the major hyperscalers reflects the fact that AI model developers operate in a very competitive space, racing to constantly improve and win market share. This is a crowded field and, at this early stage of development, it is unclear who the leaders will be when the dust settles.

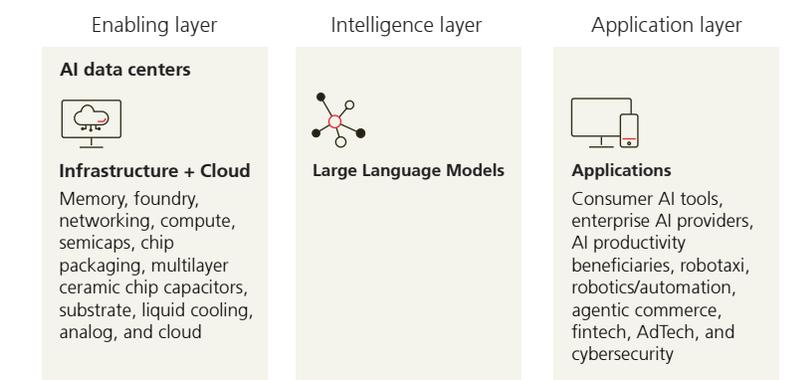
Competition looks poised to inflect even higher as private companies start to encroach on the core advertising business of public companies—OpenAI is introducing its own advertising and other firms may follow suit. Meanwhile, investor concerns may linger about free cash flow pressures from intense capital spending. To reflect these competitive risks, and our assessment that the risk-reward in the sector is becoming more balanced, we recently downgraded US information technology and communication services from Attractive to Neutral.

In our view, capex will continue to grow, but the pace of growth is likely to moderate. This could improve investor perceptions of those doing the spending, but is a potential negative for some companies in the enabling layer of the AI value chain. Depending on the speed of progress in monetization, we would continue to expect higher levels of capex over the longer term to support the growth of agentic and physical AI, to the benefit of companies in both the enabling and application layers. But the risks around this are increasing.

Turning to software, we believe that disruption concerns are likely to linger, as the threat of increased competition makes it difficult for investors to have conviction in current firms’ growth and profitability. At the same time, the disruption in software could be seen

as a validation of the monetization potential for AI, which ultimately should benefit both the intelligence and application layers. More recently, the sell-off in software has been relatively swift and broad, meaning that some individual stocks that have suffered may offer appealing longer-term value.

Figure 2  
 The AI value chain  
 Enabling, intelligence, and application layers



The line between the intelligence and application layers is blurring as companies expand their business lines. Pure-play intelligence layer companies are predominantly in the private rather than public markets.

Source: UBS, as of February 2026

*Risk case*

The risks around the AI base case have grown.

There is both a bull and a bear case to be made around AI capex and its market impact. The risks around the base case have grown as more of our expectations have been met.

The scale of the capex planned for this year raises the stakes in the competition to achieve durable profit margins. In our base case, we expect increased competition; the downside risk is that it is so intense that profitability is negatively impacted—or, for those companies that are not yet profitable, never achieved.

As noted above, private companies in the intelligence layer are encroaching on the business of public companies as they seek a source of differentiation and revenue. If this is successful, the laggards will likely cease to be funded, and the market could well morph into an oligopoly with only three to four players. Given the uncertainty over who will ultimately come out on top, this makes the risk-reward for the tech sector less attractive, in our view.

Some negative AI scenarios focus on the disruption of existing business models and how that could feed through into the rest of the economy through significant job destruction. There is, however, an upside alternative. While acknowledging that AI could have significant implications for intermediated businesses, with AI-agents carrying out these functions at a lower cost and more efficiently, these are the very monetization revenue streams that AI application providers require to justify their capex outlays. But more broadly, the users' cost savings represent an increase in productivity that translates into economic growth as businesses or governments have more resources to spend on generating output. Consumers can also get a boost to their disposable incomes if services around real estate transactions or tax advice become cheaper through AI. And we are only beginning to understand how AI can improve the experience, cost, and outcomes in health care.

#### *How to position*

Investors should review current exposures to US IT and communication services.

We think investors should review current exposures to US technology and communication services, and consider hedging or diversifying exposures that are above benchmark levels. For reference, MSCI USA IT comprises 20% of the MSCI AC World Index and MSCI USA communication services comprises 7%. Investors with excess exposure should consider diversifying toward areas of the US market where we see superior risk-reward, including industrials, banks, health care, utilities, and consumer discretionary. Structured strategies and options can also help investors manage risks in individual stocks. Investors should also review concentrated exposures to individual software firms, and particularly those "pure-play" companies that do not have diversified business models.

We recommend diversifying AI exposure across sectors and geographies, favoring companies with strong AI adoption and business model adaptability. Technology markets in Asia have shown notable resilience in recent months, reflecting stronger visibility across the hardware and infrastructure layers of the AI value chain. We remain constructive on, and particularly favor, the Asian supply chain, including foundry, memory, networking, chip packaging, substrates, and cooling, as well as Japanese robotics and automation. In Europe, we favor analog semiconductor companies, which we believe are well positioned to benefit from a potential recovery in the industrial cycle.

#### **Too much government debt?**

Concerns about the sustainability of government debt levels are likely to remain in focus.

Debt sustainability concerns were in focus during the early weeks of 2026, with fiscal expansion in Japan, the US, and Germany prompting bouts of volatility in long-end yields.

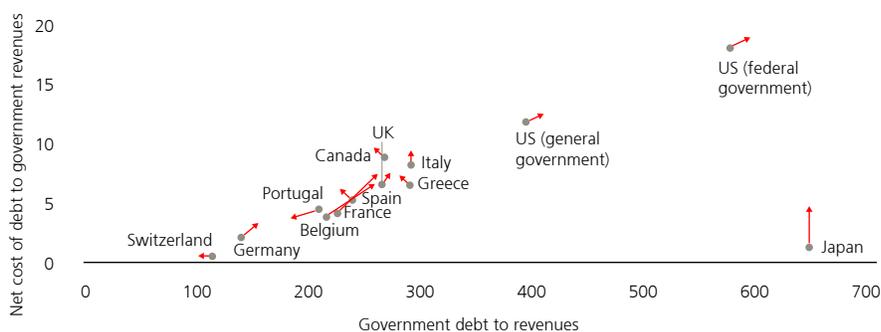
The affordability of government debt in a time of higher bond yields—which push up the financing cost of the debt stock—is likely to remain a concern in the coming years. In Japan, for example, higher interest costs will add up to 0.4ppt of GDP to the fiscal deficit every year until 2029, in our view. In the US, the net cost of servicing the federal

government debt should consume 18% of revenues this year. This share is only 2% in Germany, 4% in France, and 8% in Italy, highlighting why low(er) yields are an important priority for the administration in both the US and Japan.

Figure 3

Debt affordability concerns have been in the spotlight

Key debt metrics for global developed market sovereigns (2025E) and expected change toward 2030



Sources: IMF World Economic Outlook, UBS, as of October 2025

Our base case

The ability of governments to finance their debt remains solid, in our view.

While fiscal concerns are likely to trigger periodic volatility in long-end yields, we do not expect these pressures to undermine the important role of high-quality bonds in portfolios. The ability of governments to finance debt remains solid, in our view.

Longer term, we expect governments to meet the challenge of a higher cost of debt by using “financial repression,” managing demand for government debt through mechanisms like bank, pension, and insurance rules, as well as through central bank purchases. In Japan, authorities recently eased the accounting rules for life insurers to allow them to hold Japanese government bonds to maturity without the risk of needing to hold impairment capital against them.

Risk case

In a negative scenario, governments and central banks may be reluctant to intervene.

In a negative risk scenario, a sustained period of higher yields could be “required” to compel governments and central banks to intervene. A disorderly rise in yields would likely weigh on both equity and bond markets in the near term—although longer term, we would expect yields to normalize as policymakers eventually intervene.

Conversely, there is also a positive risk case, analogous to the 1990s, in which higher growth and fiscal prudence allowed governments—through higher revenues and less spending on automatic stabilizers—to reduce budget deficits. If AI leads to a major increase in aggregate productivity (without jeopardizing employment to a significant degree), this could help support private-sector growth and, ultimately, debt consolidation.

*How to position*

We favor medium-duration quality bonds.

We continue to favor medium-duration quality bonds (four to seven years), which we believe offer attractive yields and diversification benefits within portfolios. However, to hedge the risk of a sharper rise in long-end yields, investors can consider options on longer-dated US bonds—an appealing strategy at present, in our view, given relatively low volatility in fixed income.

What does the US Supreme Court’s tariff ruling mean for investors?

The Supreme Court’s decision to strike down President Trump’s second-term tariffs under the International Emergency Economic Powers Act (IEEPA) marks a significant shift in US trade policy and executive authority. The 6-3 ruling clarifies that federal agencies require explicit congressional approval for major economic actions. As a result, many tariffs introduced under IEEPA will be suspended, and the administration’s ability to impose new tariffs is now more constrained.

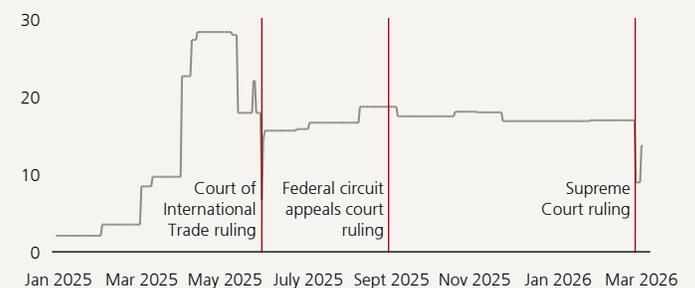
The ruling halts the collection of roughly two-thirds of the administration’s tariff revenues, with an estimated USD 175 billion collected since March 2025. Because these tariffs were found unlawful, much of the money collected from US importers may need to be refunded. While the Supreme Court did not specify the process or timeline, the Court of International Trade is expected to oversee repayments to most affected importers over the coming quarters.

From an investment perspective, the economic and market impact will depend on the administration’s response. If only some tariffs are reinstated under alternative statutes, the inflationary impulse from tariffs should diminish, potentially leading to modest disinflation. However, the loss of tariff revenue will likely widen the US budget deficit in 2026 and beyond—an important fiscal development. If the tariff revenues are not fully restored, a worsened deficit picture could lead to a further modest steepening of the yield curve as fiscal sustainability concerns weigh on long-term US Treasury yields, while Federal Reserve rate-cut expectations anchor short-term yields.

We anticipate the effective US tariff rate will decline to 10-15% this year, as the administration’s ability to reimpose tariffs is now more limited and temporary. The ruling also introduces uncertainty for trade agreements with partners such as the UK, EU, and India, though we do not expect dramatic changes to the overall trade environment once new rules are in place.

The decision is marginally supportive for stocks to the extent that a lower tariff rate improves household spending power, limits inflation concerns, and supports further Fed rate cuts. Nevertheless, there is still the risk that the administration resorts to using more targeted tariffs in the wake of the IEEPA tariff ruling, which could weigh more heavily on specific industries or countries.

Figure 4  
Evolution of US tariffs  
US effective tariff rate, in %



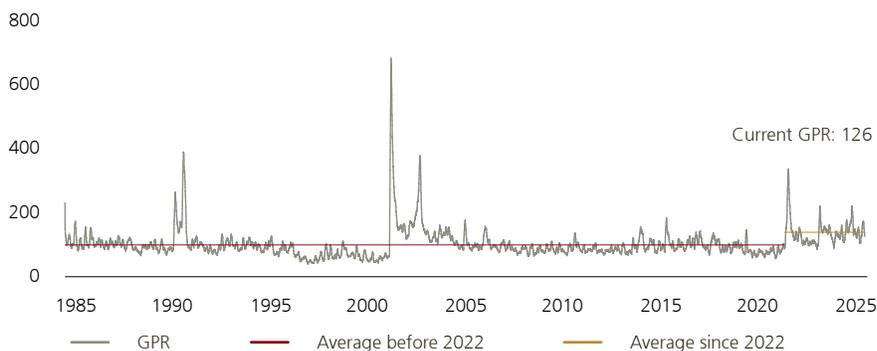
Sources: The Budget Lab, UBS, as of 24 February 2026

The early months of 2026 have been characterized by a series of geopolitical flashpoints.

### Too much geopolitical risk?

Geopolitical tensions have flared up in recent months, from US intervention in Venezuela to frictions over Greenland and violence in Iran. While equity markets have largely shrugged off geopolitical concerns so far, commodity and currency markets have reacted, with gold reaching record highs, oil prices becoming increasingly volatile, and the US dollar weakening.

Figure 5  
 Geopolitical risks are elevated  
 Caldara and Iacoviello Geopolitical Risk index, 30-day moving average, with historical average



Sources: Bloomberg, UBS, as of 24 February 2026

### Our base case

Geopolitical tensions are likely to stay elevated.

Geopolitical risks are likely to remain elevated. Nevertheless, history shows that the impact of individual or specific geopolitical events on broader markets is typically short-lived unless they threaten critical resources or major economies. For example, during the last 11 major geopolitical events, the S&P 500 was on average just 0.3% lower one week after the event and 7.7% higher 12 months later. While recent flashpoints have triggered volatility, markets have generally looked through these episodes, focusing instead on economic and earnings fundamentals.

In the Middle East, we think US strikes on Iran are becoming more likely as negotiations between the two countries have so far failed to achieve a breakthrough. We believe targeted air strikes would be more likely than a broader US campaign, and in our base case we would expect only brief disruptions to hydrocarbon supply. We would therefore expect any geopolitically driven spike in the oil price to be short-lived. With oil markets

A negative risk scenario would include a significant disruption of hydrocarbon flows from the Middle East.

currently pricing in some risk premium, we believe Brent crude prices could trade back in the USD 60-70/bbl range in the event of no supply disruptions.

#### *Risk scenario*

Any development that renews investor concerns about disruptions to hydrocarbon flows through the Middle East—particularly through the Strait of Hormuz—or damage to energy infrastructure, could lift oil prices and weigh on markets. A significant disruption could trigger a more sustained spike in oil prices and, depending on the duration and extent of the disruption, contribute to inflationary pressures.

#### *How to position*

We believe one of the most effective ways of dealing with a more polarized geopolitical environment—which creates a wider range of potential risk scenarios—is to increase asset class and regional diversification. We also expect countries' strategic focus on defense, tech self-sufficiency, and energy security to create opportunities for investors in areas like select defense stocks, AI, and power and resources.

We believe allocations to gold (up to a mid-single-digit percentage of portfolios) can help investors hedge against geopolitical (and other) risks. We expect the gold price to end the year around USD 5,900/oz.

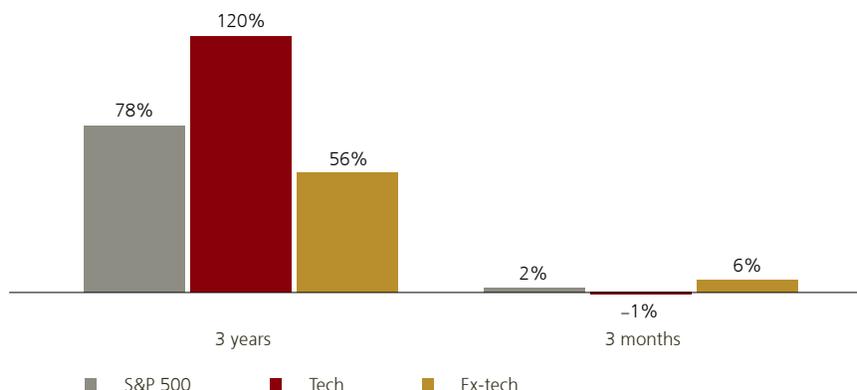
#### **Investment ideas**

We believe the outlook for global equities remains Attractive.

*Position for a broadening rally.* We expect global equities (MSCI ACWI) to rise over 10% by the end of 2026. In the US, we see the S&P 500 reaching 7,700 by year-end, helped by a robust economy and supportive policy, and we expect earnings-per-share growth of 12% this year.

After outperforming the US in 2025 for the first time since 2017 in USD terms, we see further upside in Europe, Japan, China, and emerging markets in 2026, making a global equity allocation increasingly attractive. Investors with concentrated positions in individual tech stocks or US tech as a whole, or with biases toward one region, should take the opportunity to diversify, capture returns, and manage risks. In Europe, we favor “leaders,” including stocks in industrials and IT. In APAC, we think China (including its tech sector), India, Australia, and Japan will be among the areas driving the next leg up. We also believe that incorporating long-only multifactor quantitative strategies can enhance risk-return for investors diversifying beyond tech.

Figure 6  
 We expect the US equity rally to continue to broaden across sectors  
 Percentage change in market cap of S&P 500 index and subindices



Subindices used for tech: Information technology and communication services  
 Sources: Bloomberg, UBS, as of 25 February 2026

In AI, we recommend a diversified and active approach across the value chain.

*Invest in transformational innovation.* Higher-than-expected capital expenditure and rising competition have raised uncertainty in the AI space, making selectivity more important. We recommend a diversified and active approach across the enabling, intelligence, and application layers. We believe the order pipeline for power and resources remains robust, with data center demand just one of many drivers of increased demand for investment in power and grid infrastructure. Meanwhile, we expect companies pioneering treatments and technologies to extend healthy lifespans to emerge as new market leaders. A diversified approach to transformational innovation is the best way to capture growth and manage risks, in our view, as it is likely to be a key driver of equity market returns in the years ahead.

Quality bonds, gold, and structured strategies can help investors insulate portfolios.

*Hedge market risks.* This year has been notable for the diverse range of market drivers and emergent risks, ranging from concerns about geopolitics, to technology, fiscal policy, and monetary policy. This necessitates a diversified approach to portfolio hedging. Combining capital preservation strategies and structured investments can help lock in gains and maintain upside potential. Quality bonds offer attractive yields and can buffer portfolios in case of an economic slowdown, while gold remains appealing as a hedge against geopolitics or fears about excess debt, in our view. Holding sufficient liquidity remains critical to avoid the need to sell assets during periods of market stress.

We like investment grade bonds, and also see attractive return potential in emerging market bonds.

*Favor commodities.* Commodity price leadership has shifted from precious metals to energy, underlining the value of an active and diversified allocation. We see further upside for broad commodities in 2026, with returns driven by a combination of supply-demand imbalances, geopolitical risks, and long-term trends. For investors with substantial allocations and significant unrealized profits in gold, broadening commodity exposure can help diversify sources of future return. We continue to favor an active approach to commodity exposure.

*Seek diversified income.* Tight credit spreads, low interest rates in some regions, and concerns about rising government debt suggest a nuanced approach to yield generation. We like investment grade bonds, see attractive return potential in emerging market bonds, and also like diversified income strategies across equities, fixed income, and structured investments, particularly for investors in regions with low interest rates.

Strategically, we believe this is an important time for investors to review currency allocations and ensure that they are broadly consistent with expected personal future spending. Tactically, we downgrade the euro from Attractive to Neutral this month and upgrade the US dollar from Unattractive to Neutral. The EURUSD rate has risen to around our year-end target of 1.20, and we see risks for the pairing as balanced around this level. We favor the Australian dollar, New Zealand dollar, Norwegian krone, Chinese yuan, and a selection of emerging market carry currencies.



Mark Haefele  
Chief Investment Officer  
Global Wealth Management

## Global forecasts

### Economy

Real GDP y/y, in %

	2025E	2026E	2027E
<b>US</b>	2.2	2.5	2.1
<b>Canada</b>	1.7	1.7	1.8
<b>Japan</b>	1.1	0.9	1.1
<b>Eurozone</b>	1.5	1.3	1.4
<b>UK</b>	1.3	1.1	1.4
<b>Switzerland</b>	1.2	1.3	1.2
<b>Australia</b>	1.9	2.4	2.1
<b>China</b>	5.0	4.5	4.6
<b>India</b>	7.4	6.9	7.0
<b>EM</b>	4.6	4.3	4.5
<b>World</b>	3.5	3.3	3.4

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

	2025E	2026E	2027E
<b>US</b>	2.7	2.7	2.3
<b>Canada</b>	2.1	2.3	2.1
<b>Japan</b>	3.2	1.7	2.0
<b>Eurozone</b>	2.1	1.9	2.0
<b>UK</b>	3.4	2.0	2.0
<b>Switzerland</b>	0.2	0.3	0.6
<b>Australia</b>	2.8	3.6	2.8
<b>China</b>	0.0	0.4	0.8
<b>India</b>	1.9	3.7	4.1
<b>EM</b>	3.8	3.4	3.2
<b>World</b>	3.3	2.9	2.7

Source: Haver, CEIC, National Statistic, Bloomberg, UBS, as of 26 February 2026. Latest forecasts available in the Global forecasts publication, published weekly.

### Asset classes

	Spot	June 2026	Dec 2026
<b>Equities</b>			
S&P 500	6,946	7,300	7,700
Eurostoxx 50	6,173	6,400	6,600
FTSE 100	10,806	10,300	10,500
SMI	13,977	13,800	14,000
MSCI Asia ex-Japan	1045	1,080	1,114
MSCI China	84	100	102
Topix	3,843	4,100	4,200
MSCI EM	1,615	1,680	1,720
MSCI AC World	1,266	1,310	1,380

#### Currencies

EURUSD	1.18	1.20	1.20
GBPUSD	1.35	1.36	1.38
USDCHF	0.77	0.78	0.78
USDCAD	1.37	1.36	1.35
AUDUSD	0.71	0.72	0.74
EURCHF	0.91	0.93	0.93
NZDUSD	0.60	0.61	0.63
USDJPY	156	152	148
USDCNY	6.87	6.80	6.70

	Spot	June 2026	Dec 2026
<b>Benchmark yields, in %</b>			
USD 2y	3.47	3.25	3.25
USD 10y	4.05	3.75	3.75
CHF 2y	-0.15	0.00	0.00
CHF 10y	0.21	0.40	0.50
EUR 2y (Germany)	2.05	1.75	1.75
EUR 10y (Germany)	2.71	2.50	2.50
GBP 2y	3.58	3.25	3.25
GBP 10y	4.32	4.00	3.75
JPY 2y	1.22	1.20	1.20
JPY 10y	2.14	2.00	2.00

#### Commodities

Brent crude, USD/bbl	70.9	65.0	67.0
Gold, USD/oz	5,165	6,200	5,900

Source: SIX Financial Information, Bloomberg, UBS, as of 26 February 2026. 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

### Position for a broadening rally



We expect global equities to rise over 10% by the end of 2026.

After they outperformed the US in 2025 for the first time since 2017 in USD terms, we see further upside in Europe, Japan, China, and emerging markets in 2026, making a global equity allocation increasingly attractive.

Investors with concentrated positions in individual tech stocks or US tech as a whole, or with biases toward one region should take the opportunity to diversify, capture returns, and manage risks.

In Europe, we favor "leaders," including stocks in industrials and IT.

In APAC, we believe China, including its tech sector, India, and Japan, will be among the areas driving the next leg up.

We also believe that incorporating long-only multifactor quantitative strategies can enhance risk-return for investors diversifying beyond tech.

- Global equities (incl. banks)
- Regional equities:
  - EM and APAC: China, China tech, Japan, India, Australia, Singapore
  - Europe: European industrials, IT, and leaders, Germany
- US sectors: Industrials, financials, health care, consumer discretionary, utilities
- Long-only multifactor strategies

### Favor commodities



Commodity price leadership has shifted from precious metals to energy, underlining the value of an active and diversified allocation.

We see further upside for broad commodities in 2026, with returns likely driven by a combination of supply-demand imbalances, geopolitical risks, and long-term trends.

For investors with substantial allocations and significant unrealized profits in gold, broadening commodity exposure can help diversify sources of future return.

- Gold
- Broad commodities

### Seek diversified income

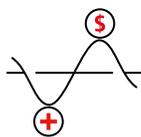


Tight credit spreads, low interest rates in some regions, and concerns about rising government debt suggest a nuanced approach to yield generation.

We like high-quality bonds (including securitized credit like MBS and CMBS), see attractive return potential in EM bonds, and also like diversified income strategies across equities, fixed income, and structured investments, particularly for investors in regions with low interest rates.

- Securitized credit (MBS, CMBS)
- Diversified fixed income strategies (with preference for quality bonds, EM sovereign)
- Equity income strategies
- Yield-generating structured investment strategies

## MIFs

**Hedge market risks**

## Elevator pitch

This year has been notable for the diverse range of market drivers and emergent risks, ranging from concerns about geopolitics, to technology, fiscal policy, and monetary policy.

This necessitates a diversified approach to portfolio hedging.

Combining capital preservation strategies and structured investments can help lock in gains and maintain upside potential.

Quality bonds offer attractive yields and can help buffer portfolios in case of an economic slowdown, while gold remains appealing as a hedge against geopolitics or fears about excess debt, in our view.

Holding sufficient liquidity remains critical to avoid the need to sell assets during periods of market stress.

## Investment ideas

- Capital preservation strategies
- Quality bonds
- Gold
- Build a liquidity strategy

**Invest in transformational innovation**

Higher-than-expected capital expenditure and rising competition have raised uncertainty in the AI space, making selectivity more important. We recommend a diversified and active approach across the enabling, intelligence, and application layers.

We believe the order pipeline for Power and resources remains robust, with data center demand just one of many drivers of increased demand for investment in power and grid infrastructure.

Meanwhile, we expect companies pioneering treatments and technologies to extend healthy lifespans to emerge as new market leaders.

A diversified approach to transformational innovation is the best way to capture growth and manage risks, in our view, as it is likely to be a key driver of equity market returns in the years ahead.

- 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 CMBS
- Emerging market USD fixed income
- Global equities
- US equities
- International developed market equities
- Emerging market equities
- Commodities
- Gold

## Implementation guidance

US private demand remained strong in 4Q, and early 1Q GDP tracking is over 3% from continued solid consumption and capex contributions. Supportive fiscal policy and diminishing tariff-induced inflationary pressures should enable US growth to accelerate above trend. Lower inflation should clear the way for further Fed cuts around midyear and maintain a positive backdrop for risk assets.

The attractive macro outlook reinforces our positive view toward risk assets generally and equities overall. We keep our Attractive view on global equities, US equities, international developed market equities, and emerging market equities. We expect the equity rally to broaden beyond last year's market leaders and recommend investors **position for a broadening rally**. In the US, our June and December 2026 S&P 500 EPS estimates are USD 277 (+11% growth) and USD 310 (+12% growth), respectively. Correspondingly, our June and December 2026 S&P 500 price targets are 7,300 and 7,700, respectively.

Within US equities, we remain neutral on value versus growth and made multiple changes to our sector preferences since the last publication. We have downgraded both communication services and information technology sectors from Attractive to Neutral. The communication services downgrade reflects our view that the risk-reward for the sector is now more balanced. Hyperscaler capex estimates for 2026 have surged beyond our expectations, and generating a near-term return on this spend looks challenging. We take a similar view for the information technology sector

with regard to a more balanced risk-reward profile. Here, we believe AI tools that are reducing the cost of software development could lead to greater competition and more uncertainty long term for software incumbents and also note that the hardware complex has benefitted from a strong smartphone replacement cycle, which may cool off at a time when valuations are full.

We also have moved our industrials sector preference from Neutral to Attractive, as the recent increase in the ISM manufacturing index gives us incremental confidence in a cyclical manufacturing improvement and the sector is exposed to attractive secular themes like US re-industrialization, aerospace demand, infrastructure build-outs, and electrification. Elsewhere, we maintain our Attractive view on consumer discretionary, financials, health care, and utilities. Financials and large US banks in particular should benefit from increased capital market activity, easing regulations, and improving net interest income. Health care should benefit from improved policy clarity, attractive valuations, and potential earnings upside. Consumer discretionary should benefit from fiscal stimulus in the first half of the year, as well as housing market improvements. Utilities' defensive properties offer relative protection against an economic growth downturn and remain a key component of the secular AI theme with respect to increased electricity demand by data centers. Beyond the technology sector broadly, we continue to view AI as a key driver of equity returns over the coming years and recommend a diversified and active approach across the enabling, intelligence, and application layers. We also specifically advise investing in transformational innovation. Our favorite themes are AI, Power and resources, and longevity.

We think investors should continue to **favor commodities**, which we think are set to play a more prominent role in portfolios this year. Returns should be driven by supply-demand imbalances, geopolitical risks, and long-term trends. As commodity price leadership has shifted from precious metals to energy, we continue to underline the value of taking an active and diversified approach to the space.

Lastly, with tight spreads, low rates in many regions, and concerns around government debt we think investors should take a nuanced approach to yield generation and recommend **seeking diversified income**. We continue to like higher-quality bonds, including securitized credit like MBS and CMBS. We also see attractive return potential in diversified EM sovereign bonds.

## Our preferences

	Unattractive	Neutral	Attractive		Unattractive	Neutral	Attractive
<b>Cash</b>		=		<b>Equity</b>			+
<b>US Fixed Income</b>				US Equity			+
Government		=		Comm Services		= ←	+
Municipals		=		Cons Discretionary			+
Agency MBS			+	Cons Staples		=	
CMBS			+	Energy		=	
Investment Grade Corporate		=		Financials			+
High-Yield Corporate		=		Health Care			+
Senior Loans		=		Industrials		= →	+
Preferreds		=		Info Technology		= ←	+
Emerging Markets			+	Materials		=	
<b>Commodities</b>			+	Real Estate		=	
Gold			+	Utilities			+
Oil		=		Emerging Markets			+

The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns, 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 three tiers. These ratings are primarily on commonly known indexes.

# US economic outlook

Above trend outlook on track

**Andrew Dubinsky**, US Senior Economist

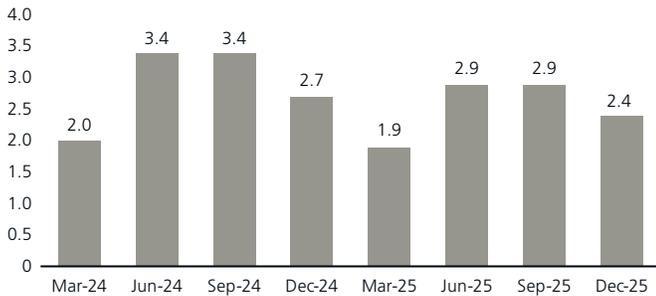
## Overview

US private demand remained strong in 4Q, and early 1Q GDP tracking is over 3%. Stimulative fiscal policy, loose financial conditions, and fading tariff-inflation headwinds should contribute to US growth continuing to run above trend, over 2%, in 2026. We expect the Fed to resume easing in June after goods inflation has peaked, followed by a second cut in September, bringing the policy rate range to 3.00-3.25%.

## Growth

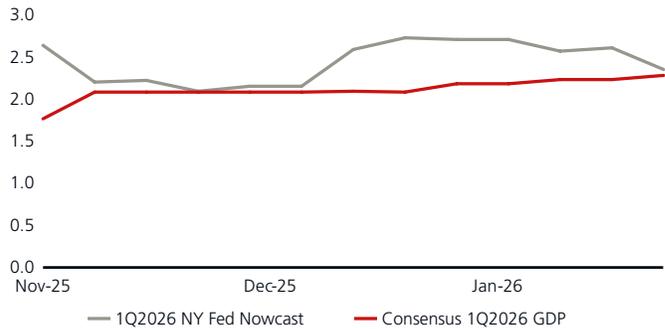
Private domestic sales still rose a solid 2.4% in 4Q on solid contributions from both consumption and business investment. The government shutdown subtracted around 1pp from 4Q growth (1.4% annualized), obscuring better underlying details. First half 2026 growth is expected to be strong as households spend OBBBA-juiced refund checks, a y/y increase of up to USD 100bn, and the unwind of the government shutdown effects is another tailwind. Stronger wage income from the firmer private job growth should also support spending. Labor indicators showed more signs of stabilization in January with the unemployment rate declining again. Business investment grew nearly 6% in 2025, and we expect AI-driven capex and recent tax cuts to again support above-average growth.

Figure 1  
Private domestic demand, consumption and investment, has remained solid



Source: Bloomberg, UBS as of 21 January 2026

Figure 2  
Nowcasts shows solid underlying activity, 1Q GDP consensus is moving higher



Source: New York Fed, Bloomberg, UBS as of 24 February 2026



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

**Read the report >**

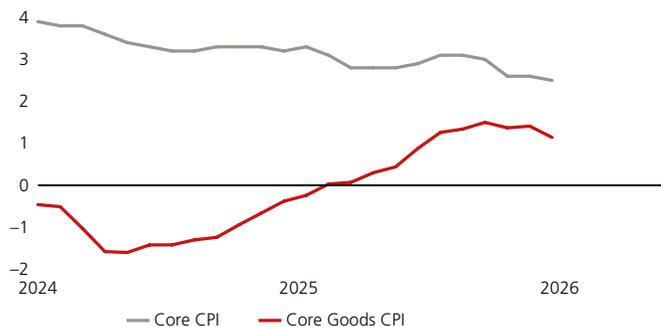
## Inflation

Core CPI YoY edged lower again to 2.5%, as core goods price increases remained muted for a third month. Core goods prices are up 1.1% y/y, around 1ppt above the pre-COVID decade average, and tariffs will likely continue to put upward pressure on core goods prices through 1H26. Service disinflation is likely to continue based on soft lease trends and contained wage growth, below 3.5% y/y on the ECI measure. Following the IEEPA decision and newly announced 15% global tariffs, the overall tariff level is down 1-2ppt, and a lower tariff range supports 2H disinflation as well.

## Policy

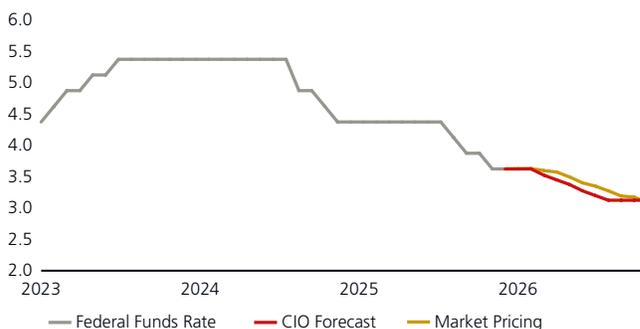
Against this backdrop of firmer growth, we now expect the Fed to resume easing in June, followed by a second cut in September, bringing the policy rate to 3.00-3.25% by late 2026. Signs of stabilizing labor demand and hesitancy from some officials to look through tariff-driven goods inflation reduces the likelihood of earlier cuts. Nevertheless, the Fed’s guidance and preference to move rates closer to its ~3% neutral estimate support further gradual easing, and by mid-2026, as 2H growth cools and goods inflation eases further, the path for rate reductions should become easier.

Figure 3  
Despite tariff-effects in goods, core inflation has trended lower  
Service disinflation has offset tariffs in goods



Source: Bloomberg, UBS as of 24 February 2026

Figure 4  
Federal Reserve expected to continue lowering rates  
Mid-point of FOMC policy rate range



Source: Bloomberg, UBS as of 24 February 2026

# Equities

Global equities continue to grind higher, but leadership is evolving. Performance has broadened, with cyclical regions and sectors sharply outperforming recently. Structural trends, which we seek to capture through our TRIOs, should continue to provide strong support. In addition, our confidence in a cyclical recovery is intact driven by easing tariff headwinds, anticipated Fed rate cuts, and increasingly supportive fiscal policies. Against this backdrop, we recommend a diversified allocation across regions and sectors. We anticipate close to 12% EPS growth for MSCI AC World next year.

## Eurozone

**+** ATTRACTIVE

**EURO STOXX 50** (index points, current: 6,162) December 2026 target

House view	6,600
<b>↗</b> Positive scenario	7,100
<b>↘</b> Negative scenario	4,400

Note: All current values as of 25 February 2026

We remain Attractive on Eurozone equities. We see modest further upside supported by an improving cyclical outlook, a more favorable structural backdrop, and reasonable valuations. We expect earnings to be the primary driver of equity returns, and forecast earnings to accelerate 7% in 2026. We continue to like the European industrials and IT sectors as beneficiaries of secular investment spending. We expect the banks and Germany to benefit from the improving cyclical outlook and German fiscal stimulus, and continue to like real estate as a lagged beneficiary of the past ECB rate cuts.

## Japan

**+** ATTRACTIVE

**TOPIX** (index points, current: 3,880) December 2026 target

House view	4,200
<b>↗</b> Positive scenario	4,500
<b>↘</b> Negative scenario	2,500

Note: All current values as of 25 February 2026

We maintain an Attractive view on Japanese equities. While short-term volatility is possible following the strong postelection rally and amid global uncertainty related to AI disruption, the medium-term outlook remains positive. Japan continues to offer compelling opportunities for equity investors seeking exposure to structural reform and diversification. We prefer sectors benefiting from domestic policy (defense, banks, real estate) and those tied to global themes—including power, data centers, automation (machinery, tech), and select autos as corporate governance improves.

## Emerging markets

**+** ATTRACTIVE

**MSCI EM** (index points, current: 1,619) December 2026 target

House view	1,720
<b>↗</b> Positive scenario	1,900
<b>↘</b> Negative scenario	1,200

Note: All current values as of 25 February 2026

We continue to rate Emerging Markets equities as Attractive. We expect earnings to grow 29% this year, and revise our December 2026 MSCI EM target to 1,720. We maintain our preferences for China's tech sector, China, India, Brazil, and Indonesia, while adding Malaysia to this list. China's tech sector continues to support our constructive stance on broader Chinese equities, with targeted policy support and strong onshore liquidity. EM offers diversified exposure across Asia, EMEA, and Latin America, with technology, policy support, and domestic demand remaining important drivers.

## UK

**=** NEUTRAL

**FTSE 100** (index points, current: 10,847) December 2026 target

House view	10,500
<b>↗</b> Positive scenario	11,300
<b>↘</b> Negative scenario	7,200

Note: All current values as of 25 February 2026

We remain Neutral on UK equities. They have benefited from a sector rotation into more capital-intensive businesses, but we see little fundamental improvement to support the recent gains. We continue to expect earnings to grow around 5% this year, but current valuations at 14.2x forward P/E, a 15% premium to their 15-year average, suggest that much of this is already priced in. We continue to like the banking, industrials, IT, and real estate sectors as beneficiaries of a combination of global secular changes, an improving cyclical outlook, and supportive policy.

# US equities

We maintain our Attractive view on US equities. We believe the backdrop for US stocks remains favorable, driven by good profit growth, supportive Fed policy, and the rollout of AI.

**David Lefkowitz, CFA**, Head of US Equities; **Nadia Lovell**, Head of Global Equity Strategy & Management; **Matt Tormey**, US Equity Strategist

## US equities overview

**+ ATTRACTIVE**

### US equities

Stocks are roughly flat since the start of the year, but with wide divergences below the surface. We attribute the outperformance of areas such as small caps and value to earnings growth broadening out beyond the large-cap tech companies, while at the same time there are concerns about the sustainability of profit growth for certain tech companies. But overall, the backdrop remains supportive. Economic growth should be solid, supported by fiscal stimulus. In addition, we expect the Federal Reserve to cut interest rates two more times this year. Historically, the combination of Fed rate cuts and no recession has driven better-than-average market returns.

### US equities – sectors

Earlier this month, we downgraded the information technology and communication services sectors to Neutral. After surging by more than 4x in three years, capital spending growth on AI data centers is poised to decelerate. The level of spending has become so large that it now consumes nearly all of the hyperscalers’ operating cash flow. Companies are spending aggressively because the competition is fierce. It therefore seems less likely that all the spending will generate an attractive return. With the spending now more reliant on external capital, it is also more vulnerable to downside risks if investors start to worry. Finally, we also recently upgraded industrials to Attractive, as we believe the sector offers a good combination of stable growth in long cycle industrial end markets with a potential pickup in short cycle segments.

### US equities – size

We have a neutral view across size segments. Small caps are more cyclical than large caps and tend to perform better in environments when GDP growth is accelerating. While fiscal and monetary stimulus could lead to this needed acceleration, it may be short-lived and economic growth could decelerate by the second half of the year.

### US equities – style

We have a neutral view on growth and value stocks. The broadening is likely to have a greater positive impact on value. Nonetheless, we still expect further upside from growth stocks, as supportive tailwinds from AI and other secular growth drivers are likely to drive midteens annualized earnings growth over the next few years.

<b>S&amp;P 500</b> (index points, current: 6,946)	December 2026 target
<b>House view</b>	<b>7,700</b>
▲ Upside	8,400
▼ Downside	4,500

Note: All current values as of 25 February 2026

Figure 1

## Selective within US equity sectors

S&P 500 sector preferences

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

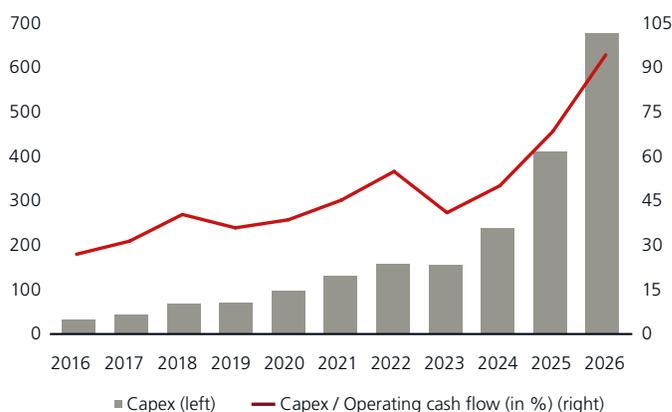
Note: S&P 500 sector preferences

Source: UBS, as of 26 February 2026

Figure 2

## Surge in data center capex increasingly reliant on external financing

Sum of Alphabet, Amazon, Meta, Microsoft, and Oracle - actuals and consensus estimates (in USD bns)



FactSet, UBS, as of 26 February 2026

# Bonds

We anticipate a range-bound nominal yield environment, with 10-year yields likely to spend most of 2026 between 4.0% and 4.5%. We would lean for a slightly shorter duration at the lower end of this range, adding interest rate risk around the 4.4% level. While breaching 4% yields is plausible under a volatile environment, we don't believe it is sustainable given our expectations for the US economy to grow above 2% in 2026.

**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: 4.0%) December 2026 target

House view	3.8%
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Note: All current values as of 25 February 2026

The 10-year yield has rallied about 20bps in February, its largest one-month yield decline in a year. As investors look for safe havens under the recent AI disruption, the yield curve has flattened with the long end outperforming. Once volatility settles, we believe the long end will resume its underperformance and prefer the three- to five-year area of the yield curve.

## Emerging market bonds

+ ATTRACTIVE

**EMBIG DIV. / CEMBI DIV. SPREAD** (current: 246bps/231bps) December 2026 target

House view	280bps/250bps
↗ Positive scenario	230bps/190bps
↘ Negative scenario	500bps/450bps

Note: All current values as of 25 February 2026

We keep emerging market credit as Attractive. The asset class has benefited from resilient global growth, easing inflation, and strong demand for commodities, enhancing its role as a key diversifier. We expect rangebound to slightly wider spreads over the investment horizon, resulting in carry-driven high-single-digit return estimates by year-end. Key risks include US policy uncertainty, inflation concerns, weaker oil prices, and potential for escalation in trade and/or geopolitical tensions.

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

## US investment grade corporate bonds

⊖ NEUTRAL

**US IG SPREAD** (current: 80bps) December 2026 target

House view	90bps
↗ Positive scenario	70bps
↘ Negative scenario	180bps

Benchmark: ICE BofA

Note: All current values as of 25 February 2026

We hold a Neutral allocation in IG corporates against agency MBS and CMBS. Despite heavy IG primary issuance, investor demand remains strong. Market volatility related to AI disruption has led to greater sector and issuer dispersion within IG, rather than a broad widening of index spreads. Given the strong fundamental backdrop, we expect any spread widening to be modest. IG's carry remains attractive, with all-in yields around 4.7% for US IG—still elevated versus post-GFC averages—providing a meaningful cushion against the risk of rising rates or spreads.

## US high yield corporate bonds

⊖ NEUTRAL

**USD HY SPREAD** (current: 294bps) December 2026 target

House view	320bps
↗ Positive scenario	270bps
↘ Negative scenario	650bps

Benchmark: ICE BofA

Note: All current values as of 25 February 2026

We have a Neutral view. We expect mid-single-digit returns this year with gains mostly from carry. AI disruption concerns have contributed to volatility in the software sector but mainly in loans. Fundamentally, HY credit metrics are strong, and par default rates remain low. CIO forecasts default rates to remain below average, at around 2% in the next 12 months. Although credit spreads in HY are currently tight and we see no further spread compression, the 6.7% yield remains compelling.

### Municipal bonds

⊖ NEUTRAL

We have a Neutral view. Munis have continued to rally in February despite heavy supply, outperforming Treasuries and IG corporates year to date. The rally has been driven by continued inflows and lower Treasury yields. The tax-equivalent index yield of 5.7% is still favorable. However, in the short term the risks of rate volatility and technicals weakening are higher, in our view. Credit fundamentals and index quality remain strong.

### Non-US developed fixed income

⊖ NEUTRAL

Non-US development market yields fell across regions this past month, as near-term policy rate expectations fell in both Europe and Japan. Both the ECB and BoE left policy rates unchanged at recent meetings, and rates could remain unchanged for a prolonged period in the euro area. The RBA is an exception where they hiked in February and market expectations for year-end policy rates rose this month. Long-tenor Japanese bonds have retraced much of the recent rise driven by fiscal policy uncertainty. US bonds still offer higher yields than most developed markets, so we therefore do not recommend a strategic asset allocation position in the asset class.

## Additional US taxable fixed income (TFI) segments

### Agency bonds

We expect agency supply to increase over the next several months; strong demand should keep spreads tight. We prefer agency MBS to agency debt given the higher yield. The current spread is +5bps (versus +8bps last month)

### Mortgage-backed securities (MBS)

+ ATTRACTIVE

We maintain an Attractive view on agency MBS alongside an Attractive view on high quality CMBS. Agency MBS has outperformed with the recent GSE buy program announcement. Current coupon yields versus IG corporates have moved from +60bps in the summer to +5bps today. We maintain an Attractive view as the market trends to our positive scenario outlook and look for a limit to widening spreads. With high quality CMBS at 109bps and a 4.7% yield, we continue to recommend securitized product in a balanced portfolio.

**AGENCY MBS SPREAD** (current: 103bps) December 2026 target

<b>House view</b>	<b>90bps</b>
➤ Positive scenario	80bps
➤ Negative scenario	160bps

Note: All current values as of 25 February 2026

### Preferred securities

⊖ NEUTRAL

Like other sectors favored by retail investors, such as MLPs and REITs, the USD 25 par preferred segment enjoyed a solid "January effect" rebound, returning 1.9% for the month after a -1.4% return in 4Q25. The group continued to gain in February, bringing YTD returns to almost 3%. This is notable strength relative to other

high grade sectors, including UST and IG corps which are up roughly 1.5% and even USD 1,000 par preferreds which have gained 1.6% year to date. Overall, preferred valuation has tightened, but not excessively. However, further outsized gains—especially from USD 25 par preferreds—could make the sector vulnerable to a pullback. Still, the broader trend should remain positive given robust yield demand and the lack of competitive yield alternatives.

### Treasury Inflation-Protected Securities (TIPS)

⊖ NEUTRAL

Inflation expectations rose in the short end as oil reached a 6-month high (USD 65 for WTI). Longer-end break-evens are 11bps lower on heightened volatility, with 10-year BEI 2.26%, reversing January's rise. We believe long-end inflation remains overly subdued and look for an increase in the coming months. 10-year real yields have declined about 20bps in February to 1.76%. Given the positive growth outlook, we look for real yields to rise in the coming months.

**US 10-YEAR REAL YIELD** (current: 1.7%) December 2026 target

<b>House view</b>	<b>1.60%</b>
➤ Positive scenario	0.75%
➤ Negative scenario	2.30%

Note: All current values as of 25 February 2026

Figure 1

## UBS CIO interest rate forecast

In %

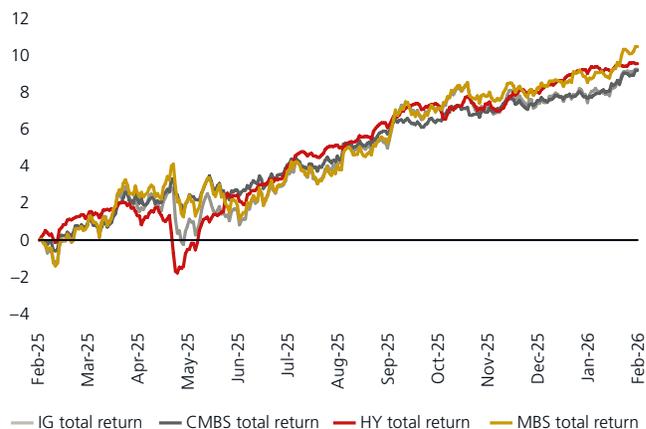
UST	Current	Jun-26	Sep-26	Dec-26	Mar-27
2-year	3.5	3.3	3.3	3.3	3.3
5-year	3.6	3.5	3.3	3.3	3.3
10-year	4.0	3.8	3.8	3.8	3.8
30-year	4.7	4.5	4.5	4.5	4.5

Source: Bloomberg, UBS, as of 25 February 2026

Figure 2

## Agency MBS has outperformed higher- and lower-quality fixed income over the past year

cumulative returns, in %



Source: Bloomberg, UBS, as of 24 February 2026

# Commodities

We project a high-single-digit rise in commodity prices during 2026. Our optimism about the asset class is primarily influenced by structural factors, while risks tied to cyclical growth appear more evenly distributed. Gold and copper stand out among individual commodities. Rising prices benefit yield-focused strategies and help to diversify portfolios.

**Dominic Schneider**, 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

+ ATTRACTIVE

**GOLD** (current: USD 5,185/oz) December 2026 target

+ ATTRACTIVE

House view	USD 5,900/oz
↗ Positive scenario	USD 4,600
↘ Negative scenario	USD 7,200

Note: All current values as of 25 February 2026. Gold is considered a safe-haven asset whose price tends to rise when risk assets, such as equities, fall, and vice versa.

**BRENT** (current: USD 70.75/bbl) December 2026 target

= NEUTRAL

House view	USD 67/bbl
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Note: All current values as of 25 February 2026

### Precious metals

We expect two additional Federal Reserve rate cuts this year, but we do not anticipate a hawkish turn from the central bank—which has historically triggered the end of bull markets for gold. Following strong demand reported by the World Gold Council, we raised our 2026 demand forecasts to reflect expectations for sustained central bank purchases, rising ETF inflows, and increased demand for bars and coins, all spurred by lower real interest rates in the US and persistent geopolitical uncertainty.

### Base metals

The recent upward momentum in copper prices has paused, with sustained elevated price levels expected through 2026 and seasonal declines in activity around the Chinese Lunar New Year contributing to a period of price consolidation. We have updated our supply and demand projections based on the latest available data. Consequently, we now foresee a slightly smaller deficit for 2025 (approximately 200kt, revised down from 230kt previously) and an increased deficit for 2026, now estimated at 520kt compared to the prior forecast of 407kt.

### Agriculture

Grain markets are facing volatility caused by unpredictable weather patterns and global political uncertainty, though overall supply has remained stable. Wheat prices have surged owing to several factors: drought in the US, challenging weather in Europe, cold threats near the Black Sea, and unrest in the Middle East. The May-26 CBOT wheat contract reached its highest price since mid-2025, as 46% of US winter wheat is currently affected by drought, pushing prices further upward. Argentina’s export prospects have improved, but Australia’s upcoming planting season may be impacted by El Niño. Considering these conditions, elevated weather risks are likely to keep wheat prices higher through 2027.

### Crude oil

Crude oil prices have had their best start to a year since 2022, up by 17% so far. There has been no indication of an oil glut so far, which likely plays an important role. Chinese stockpiling is keeping inventories in other locations low, also supporting prices. Near term, prices will likely be strongly influenced by the tensions in the Middle East. Historically, the geopolitical risk premium on crude prices has generally faded in the absence of supply disruptions.

# Foreign exchange

NOK and AUD are Attractive

**Dominic Schneider**, CFA, CAIA, Strategist, UBS Switzerland AG

We upgraded our view on the US dollar to Neutral as the strong cyclical backdrop offsets the structural negatives (e.g., twin deficits). The US dollar partially retraced year-to-date losses this past month, as US data have generally surprised to upside and growth expectations for 2026 are moving higher. However, growth expectations for the major European economies have been more stable.

Another stabilizing factor for the USD is the market pricing of rate cuts has increased and exceeds our current view of two cuts for 2026. In summary, the US structural headwinds should be roughly offset by the above-trend growth backdrop and result in a stable USD outlook.

## FX strategy

	Unattractive	Neutral	Attractive
USD	⊖ →	=	
EUR		= ←	⊕
JPY		=	
GBP		=	
CHF		=	
AUD			⊕
CNY			⊕
EM carry*			⊕

Changes are based on the US asset class preferences table found in UBS House View Monthly Extended: March 2026, published on 26 February 2026.

\*Our preferred EM carry currencies are MXN, BRL, ZAR and INR

## FX forecasts

	Current	Jun-26	Sep-26	Dec-26	Mar-27
EURUSD	1.18	1.20	1.20	1.20	1.20
USDJPY	156	152	150	148	146
GBPUSD	1.35	1.36	1.36	1.38	1.40
USDCHF	0.77	0.78	0.78	0.78	0.78
USDCAD	1.37	1.36	1.35	1.35	1.35
AUDUSD	0.71	0.72	0.73	0.74	0.75
NZDUSD	0.60	0.61	0.62	0.63	0.64
USDSEK	9.03	8.75	8.67	8.58	8.58
USDNOK	9.55	9.33	9.25	9.17	9.17

Sources: SIX Financial Information, UBS, as of 25 February 2026

## 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

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

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This report contains statements that constitute “forward-looking statements,” including but not limited to statements relating to the current and expected state of the securities market and capital market assumptions. While these forward-looking statements represent our judgments and future expectations concerning the matters discussed in this document, a number of risks, uncertainties, changes in the market, and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to (1) the extent and nature of future developments in the US market and in other market segments; (2) other market and macroeconomic developments, including movements in local and international securities markets, credit spreads, currency exchange rates and interest rates, whether or not arising directly or indirectly from the current market crisis; (3) the impact of these developments on other markets and asset classes. UBS is not under any obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

## Explanations about asset classes

Our preferences represent the longer-term allocation of assets that is deemed suitable for a particular investor and were developed and approved by the US Investment Strategy Committee. Our preferences are provided for illustrative purposes only and will differ among investors according to their individual circumstances, risk tolerance, return objectives and time horizon. Therefore, our preferences in this publication may not be suitable for all investors or investment goals and should not be used as the sole basis of any investment decision. Minimum net worth requirements may apply to allocations to non-traditional assets. As always, please consult your UBS Financial Advisor to see how our preferences should be applied or modified according to your individual profile and investment goals.

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

## Statement of risk

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

**Fixed income:** Bond market returns are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions and other important variables. Corporate bonds are subject to a number of risks, including credit risk, interest rate risk, liquidity risk, and event risk. Though historical default rates are low on investment grade corporate bonds, perceived adverse changes in the credit quality of an issuer may negatively affect the market value of securities. As interest rates rise, the value of a fixed coupon security will likely decline. Bonds are subject to market value fluctuations, given changes in the level of risk-free interest rates. Not all bonds can be sold quickly or easily on the open market. Prospective investors should consult their tax advisors concerning the federal, state, local, and non-U.S. tax consequences of owning any securities referenced in this report.

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

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

## Appendix

### Emerging Market Investments

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

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

### Nontraditional Assets

**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 and commonly known indices, 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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Version A/2026. CIO82652744

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