UBS House View

Investment Strategy Guide:
Earning it

August 2026 | Chief Investment Office GWM | Investment research

In this report

August
CIO Monthly Livestream
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Dear reader

The investment landscape this year has been shaped by resilient economic activity, accelerating corporate earnings, and continued investment in artificial intelligence. While investors have grappled with renewed geopolitical tensions, inflation concerns, and shifting expectations for central bank policy, markets have continued to advance, supported by fundamentally strong profit growth.

In our view, the equity rally has been earned. First-quarter US earnings growth was the strongest in four years, and we expect momentum to strengthen further in the second quarter. While AI infrastructure investment remains a key driver of profitability, the earnings story is broadening. Economic activity remains healthy, and we expect all 11 sectors of the US market to report profit growth, reflecting a more balanced and durable expansion.

Opportunities are also extending beyond a narrow group of technology leaders. Earnings prospects are improving across regions and sectors, supported by a better cyclical backdrop and structural investment linked to AI, electrification, and defense. We have upgraded Eurozone equities to Attractive, while maintaining positive views on Asia, Japan, and emerging markets. This broader range of opportunities should give investors more ways to participate in further market gains.

The outlook is not without risks. AI investment and monetization must continue to meet high expectations, while energy supply disruptions could revive inflationary pressures. But recent inflation data and moderating US labor market conditions suggest central banks have room to avoid a more restrictive stance, supporting our expectation that monetary conditions will gradually become more favorable.

Elevated yields continue to offer an opportunity to lock in durable income through quality bonds, particularly at short and medium maturities. Short-end rates remain elevated even as energy prices and inflation expectations have fallen, while elevated yields, low default rates, solid fundamentals, and improved credit quality should support total returns.

Overall, investors should maintain diversified equity exposure across our preferred regions, sectors, and return drivers. Quality bonds can provide income and insulation, while selected higher-yielding credit, broad commodities, and alternatives can help broaden sources of return and strengthen portfolio resilience.
As always, we encourage investors to review their portfolios regularly to ensure they remain aligned with their long-term objectives.

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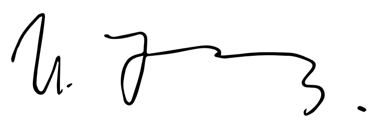

Ulrike Hoffmann-Burchardi

250 years of US innovation

Transformational innovation has been an engine of US economic growth since the nation's founding. A review of the past suggests many parallels to what lies ahead. Please visit ubs.com/celebrating-us-innovation to learn more.

Earning it

Strong profit growth

US earnings momentum remains strong, underpinning the rally. While AI infrastructure investment is contributing to profit growth, broader gains support our constructive S&P 500 view.

Global broadening

We believe broad global earnings strength, an improving cyclical backdrop, and structural growth trends give investors a range of ways to participate in the rally across European and Asian markets.

Managing risks

Risks to the rally include AI setbacks, prolonged energy supply disruptions, and tighter central bank policy. Diversification, exposure to bonds and commodities, and hedging strategies can help navigate risks.

Asset allocation

We rate equities as Attractive and like the US, Asia ex-Japan, Europe, Japan, and emerging markets. We see fixed income as Attractive, and favor a diversified approach.

Mark Haefele
Global Chief Investment Officer
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With the S&P 500 close to all-time highs, debate continues over whether the rally reflects strong fundamentals or excessive enthusiasm. Our view is that the rally has been earned, with robust profit growth providing the foundation for the advance. First-quarter S&P 500 earnings growth was the strongest in four years, reflecting still-healthy economic activity, continued AI-related investment, and improving earnings in some more cyclical areas of the market. We expect second-quarter earnings growth to be even higher.

Still, investors will need to continually reassess the evolution of the AI growth story as they consider the sustainability of current earnings, particularly with the beneficiaries of AI adoption likely to keep shifting over time—from semiconductors and infrastructure toward energy, applications, and companies that can translate the technology into productivity gains.

In our view, the next stage of the market cycle is unlikely to be defined by a single source of return, but by a wider group of companies and regions delivering earnings growth. And we note that recently, cyclical sectors—such as financials—and defensive laggards like health care have outperformed tech.

Overall, we see around 10% upside for global stocks (MSCI All Country World Index) through mid-2027 and believe investors should broaden exposure across regions to capture a wider range of opportunities and growth drivers, and to manage single-stock risks. We upgrade European equities to Attractive and continue to like US and Asian equities. We forecast 2026 earnings growth of 21% for global equities, followed by another solid year in 2027.

Risks to the rally include renewed fears of central bank rate hikes if energy prices rise further or inflation proves sticky. AI capex or monetization trends could fall short of investors' expectations. The path toward a lasting peace between the US and Iran is proving bumpy. And wide gaps between individual stock performance mean concentration risks are elevated, particularly for portfolios with large exposures to a small number of companies, a single region, or a single theme.

We believe this reinforces the case for a diversified core portfolio, including global equity diversification, targeted allocations to long-term innovation themes, and exposure to quality bonds, commodities, and alternatives. We also favor enhancing portfolio income through diversified fixed income strategies, including exposure to emerging market and high yield credit.

US earnings momentum remains strong.

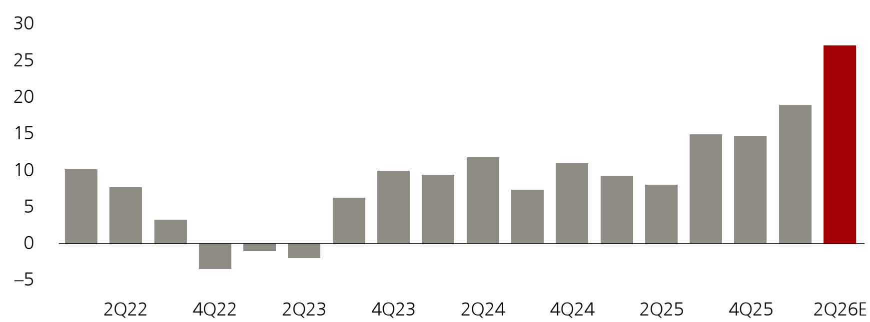
Can earnings keep the US rally on track?

Earnings growth has been the main support for the US equity rally, and recent results suggest that momentum is intact. First-quarter S&P 500 earnings growth was already the strongest in four years, at around 20% on an underlying basis. And with the second-quarter earnings season underway, we believe growth could surpass that and reach roughly 28%.

Figure 1

US earnings growth is likely to accelerate in the second quarter

S&P 500 EPS, year-over-year growth, in %, actuals and CIO estimate



Sources: FactSet, UBS, as of 13 July 2026

AI infrastructure investment is a key driver of the earnings acceleration.

A key source of earnings acceleration remains AI infrastructure, particularly semis, which we expect to account for more than 40% of the growth in second-quarter profits. Demand for compute continues to exceed available supply, while constraints in semiconductors, memory, power, and related infrastructure are unlikely to ease quickly. That should support the earnings outlook for AI and technology companies.

We forecast Nasdaq 100 earnings growth of 38% in 2026 and 26% in 2027. For the Philadelphia Semiconductor index, the outlook is stronger: We expect earnings growth of 92% this year and 40% next year. These forecasts underline why AI is an important medium-term growth story and why it should continue to support the broader equity rally.

As we consider the sustainability of this growth, a clear risk to the rally is if AI capex or monetization disappoints. Capex momentum remains robust and front-loaded: We project spending to rise 70% this year and a further 20% next year. But visibility beyond that is more limited. And with hyperscalers' cash capex already expected to exceed operating cash flow in the second half of this year, we view 2028 as a potential capex "digestion" period and expect investors to become more attuned to this risk as the AI growth story evolves.

We expect all 11 US equity sectors to report an increase in profits in the second quarter.

Fortunately, the earnings story is broader than AI. While semis are super-charging the headline growth numbers, we expect all 11 sectors of the market to report an increase in profits in the second quarter: We forecast 12% earnings growth for the median S&P 500 company. Notably, the ISM Manufacturing PMI has been in expansion territory (above 50) for the past six months, and retail sales and the labor market remain solid. That points to an economy still expanding and steady enough to avoid a more hawkish Federal Reserve response, in our view.

Overall, we forecast the S&P 500 at 8,200 by June 2027, roughly 10% above current levels.

At a sector level, within AI, we continue to like AI infrastructure but believe investors should diversify their exposure. Within semis and hardware, our top three areas of focus are semiconductor equipment, foundries, and compute. Memory ranks fourth, as we believe the bulk of the segment's key catalysts have transpired in recent months. Investors can also consider more defensive AI exposure such as payment networks, data center REITs, and select smartphone makers.

Across US equities, we see opportunities in consumer discretionary amid healthy spending, financials due to capital market activity and improving profitability, and health care due to improved policy clarity and continued innovation. We also like industrials and utilities given improving cyclical manufacturing conditions and exposure to longer-term themes.

Will the global broadening continue?

Broad-based earnings growth across regions should support the global equity rally.

Beyond the US, we see scope for global equities to advance by around 10% from now to mid-2027, supported by broad-based earnings growth across regions. We expect Europe, Asia, Japan, and emerging markets to all contribute, giving investors more ways to participate in market upside.

We have upgraded Eurozone equities to Attractive, as we believe the cyclical backdrop is improving and the region's earnings recovery is becoming more visible. Manufacturing activity appears to have troughed, cost discipline is improving, and fears of a prolonged inflation shock appear to be easing, with Eurozone inflation slowing to 2.8% in June from 3.2% in May.

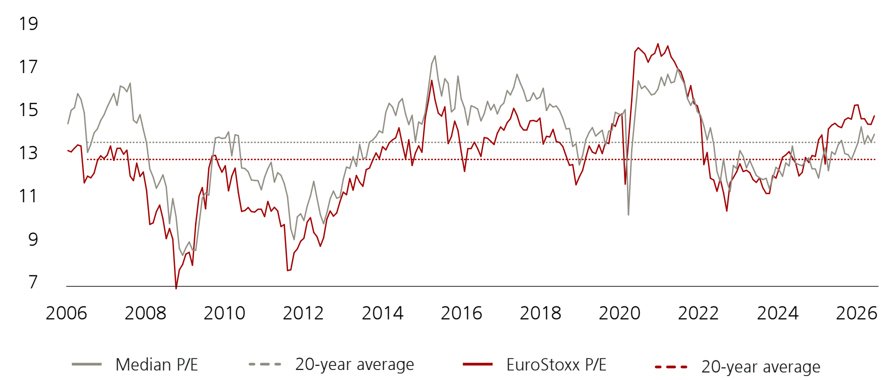
We expect European equities to benefit from a pickup in earnings growth, cyclical improvement, and structural investment.

After a strong first-quarter earnings season in the Eurozone, we expect momentum to continue, with earnings growth of 8% this year and 15% in 2027—a significant pickup after years of stagnation. The combination of cyclical improvement and large-scale structural investment in AI, electrification, and defense should begin to feed more broadly through the economy. We expect markets to increasingly focus on this dynamic in the second half and believe performance will broaden to more cyclical and previously lagging sectors.

Figure 2

The median Eurozone company is not expensive

Euro Stoxx forward P/E and P/E of the median stock

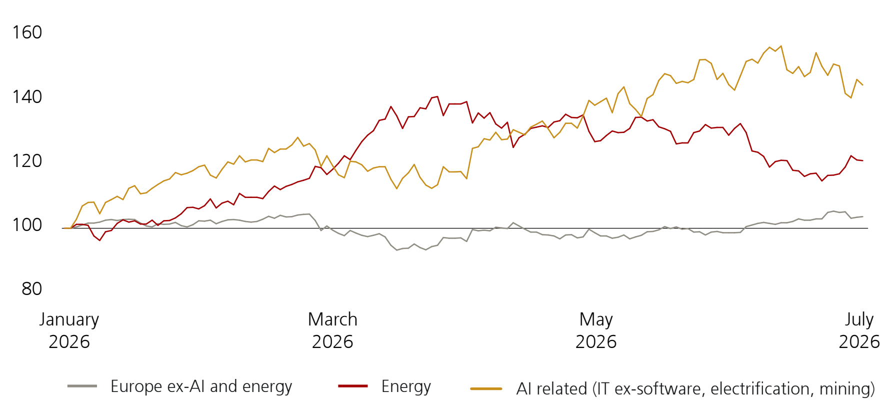


Sources: LSEG Datastream, UBS, as of 13 July 2026

Figure 3

Europe’s equity rally has scope to broaden

Performance of Euro Stoxx AI-related stocks, energy, and the rest, year to date



Sources: LSEG Datastream, UBS, as of 13 July 2026

We upgrade European banks to Attractive.

At a sector and country level, we upgrade European banks to Attractive, supported by solid loan demand, elevated capital markets activity, and a more favorable rate environment. We also like consumer discretionary, industrials, health care, Germany, and our "European leaders" theme. We have moved the relatively defensive Swiss equity market to Neutral following its strong performance in recent months, in line with our shift toward more cyclical markets.

In Asia, we expect profits to rise 72% this year (MSCI Asia ex-Japan in USD) and 20% next year. The AI hardware supply chain should continue to be a key driver, but opportunities are also emerging in oil- and rate-sensitive sectors such as airlines, industrials, real estate, and financials.

We upgrade India to Attractive: Growth, earnings, and valuations are recovering, our economists still expect GDP to expand 6.7% this year, and earnings should return to a double-digit annual growth rate over the next two years. Nifty valuations are reasonable, in our view, and we see support from reforms, demographics, and investment momentum.

We also still rate Japan's equity market as Attractive. Despite recent volatility, we see support from continued share buybacks, renewed foreign inflows, corporate reforms, cyclical catch-up potential, and the government's growth strategy. We expect Topix earnings to grow around 10% in fiscal year 2026. Beyond AI, financials, machinery, construction, and leisure could benefit as supply conditions normalize and cost pressures ease.

What could challenge the rally from here?

Risks to the rally include AI disappointments, prolonged energy supply disruptions, and tighter central bank policy.

A variety of risks could challenge the rally. Earlier in this letter, I discussed AI growth risks. Geopolitical risk has also resurfaced in recent days, with renewed strikes in the Middle East curtailing traffic through the Strait of Hormuz and pushing Brent crude prices toward USD 85/bbl. The re-escalation underlines that the path toward a lasting peace is likely to be bumpy, and that shipping confidence and production will take time to recover. Our year-end Brent forecast is USD 85/bbl, because energy supply is unlikely to recover quickly, even if a durable ceasefire is reached.

Nonetheless, we expect oil prices to stay well below wartime highs—USD 120/bbl—which should limit the pass-through to core inflation. We also still believe both sides have incentives to avoid a return to all-out war.

Central bank policy is another factor to monitor. Inflation reaccelerated in the first half of the year, prompting concerns that central banks could be forced to hike rates aggressively. The fall in oil prices in recent months helped allay these fears, but there is a risk that they could reignite if inflation proves stickier than expected.

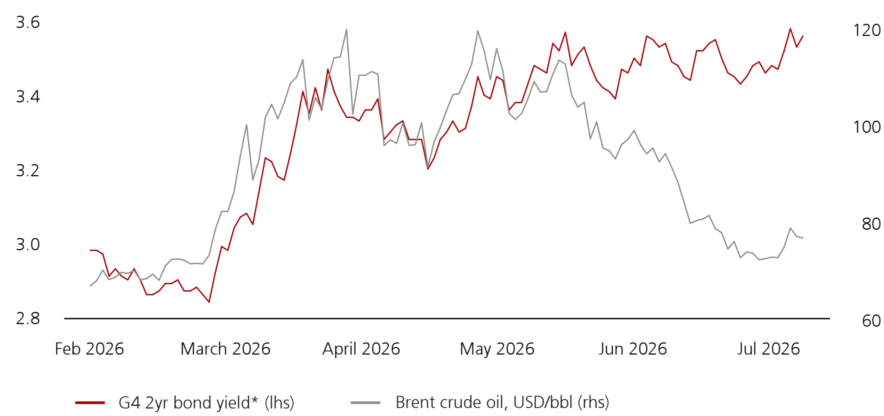
US inflation cooled in June, easing pressure on the Fed.

For now, however, we believe the data give the Fed room to avoid a more restrictive stance: Core CPI inflation slowed to 2.6% in June, driven by a pullback in goods prices, reinforcing our belief that the peak impact of tariffs has passed. Core services inflation remains modest, on par with the softest readings since September 2020. Inflation expectations also remain anchored. June payrolls rose by only 57,000 and wage growth is not accelerating. Futures markets are still pricing close to 40 basis points of Fed rate hikes over the next 12 months, which looks too hawkish to us. We expect gradual disinflation and a cooling jobs market to pave the way for a softening of Fed rhetoric later this year and rate cuts in 2027. Signs of moderating Eurozone inflation should also ease pressure on the European Central Bank.

Figure 4

Short-duration bond yields have decoupled from oil prices

G4 two-year bond yield (in %) vs. Brent crude oil price



*GDP weighted yield for US, Europe, UK and Japan
Sources: UBS, Macrobond, Data as of 13 July

We favor a diversified equity allocation and exposure to bonds and broad commodities.

Investment ideas

Overall, we believe the equity rally still has room to run, supported by earnings growth, resilient economic activity, and broader leadership. At the same time, we believe investors should also consider quality bonds for income and insulation; select higher-yielding credit for additional carry; broad commodity exposure to help manage geopolitical and supply-disruption risks; and alternatives to broaden sources of return and improve portfolio resilience:

Diversify across equities. We expect equity markets to move higher as strong earnings broaden beyond AI, but wide gaps in performance between stocks mean portfolio outcomes depend more than ever on what investors own. Excluding strategic holdings, our analysis shows nearly 40% of self-managed equity investors on our platform hold more than half their portfolio in just 10 stocks or fewer—amplifying risk. To balance opportunity and concentration, investors should ensure their core equity allocation is broadly diversified across our preferred regions, sectors, and return drivers.

We see structural growth opportunities across AI, power and resources, and longevity.

Invest in transformational innovation. AI remains a key driver of earnings and investment, but recent volatility shows the importance of diversifying beyond the most crowded beneficiaries. We see opportunities across semiconductors, networking, software, power infrastructure, and companies using AI to raise productivity. Electrification and rising data-center demand should support utilities, industrials, and critical resources, while clinical innovation underpins long-term growth in health care. We favor diversified exposure across *AI, Power and resources,* and *Longevity* rather than relying on a narrow group of stocks.

Consider capital preservation. Renewed US-Iran tensions, higher valuations, and elevated bond yields have increased the risk of abrupt market swings, even as the medium-term equity outlook remains constructive. Investors can manage downside risk by combining diversified core equity exposure with capital preservation strategies designed to limit losses while retaining participation in further gains. This may be particularly relevant for investors with concentrated portfolios, near-term spending needs, or lower tolerance for drawdowns.

Broaden commodity exposure. Renewed disruption around the Strait of Hormuz strengthens the case for broad commodity exposure as both a return source and an inflation hedge. Energy can help buffer portfolios if shipping or production disruptions persist, AI investment and electrification support industrial metals, and El Niño-related risks may benefit agricultural commodities. Gold remains a useful strategic diversifier, even if we believe its upside looks capped in the coming months. We favor active management because commodity leadership is likely to rotate as geopolitical conditions, inventories, and demand expectations change.

Elevated yields offer an opportunity to lock in a durable source of income, in our view.

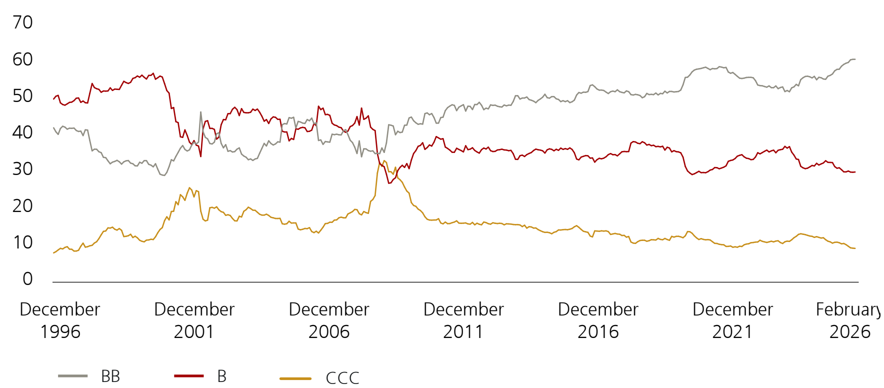
Lock in yields. We see fixed income as Attractive, with elevated yields creating a compelling opportunity across the asset class. While renewed Middle East tensions have pushed oil prices and bond yields higher, we expect only limited pass-through into core inflation and continue to believe markets are pricing too much central bank tightening. In this environment, investors can use higher yields to build bond exposure, with a preference for quality short- and medium-maturity bonds, particularly in USD and GBP, while selected longer-maturity European bonds also offer value given differing central bank paths, cyclical positions, and fiscal and political dynamics.

We also see the case for credit as having improved in recent months. Yields remain attractive, corporate fundamentals are broadly solid, default expectations are still contained, and technical demand for income remains supportive. Investment grade remains an important core allocation, while high yield and emerging market credit can play a complementary role in enhancing portfolio income and total return potential. Overall, we favor a diversified approach across fixed income, including high yield and emerging market credit, all of which we view as Attractive.

Figure 5

High yield index quality is improving

Distribution of developed market high yield bonds by rating, in %



Sources: ICE BofA, as of 29 June 2026

Alternatives can help investors diversify sources of return.

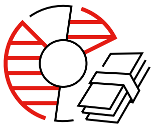
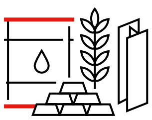
Diversify with alternatives. Wide gaps in stock performance and low correlations between individual companies can create a favorable environment for skilled hedge fund managers, while higher stock-bond correlations increase the value of differentiated return sources. Investors should consider diversified exposure across multi-strategy hedge funds, private markets, and selected real estate rather than relying heavily on one manager or strategy. Alternatives can improve portfolio resilience and access opportunities beyond public markets, but manager selection, liquidity, fees, and vintage diversification remain critical. Allocations should reflect each investor's time horizon and tolerance for illiquidity.

Mark Haefele
Chief Investment Officer
Global Wealth Management

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
Diversify across equities	Equity markets can move higher as strong earnings broaden beyond AI, but high stock-level dispersion means portfolio outcomes depend more than ever on what investors own. Excluding strategic holdings, our analysis shows nearly 40% of self-managed equity investors on our platform hold more than half their portfolio in just 10 stocks or fewer—amplifying both upside and risk. To balance opportunity and concentration, investors should ensure their core equity allocation is broadly diversified across our preferred regions, sectors, and return drivers.	• Diversify single-stock exposure • Preferred regional markets (US, Asia ex-Japan, India, Japan, Singapore, Australia, EM, China, Europe, Eurozone, Germany) • Preferred sectors (US and European industrials, health care, and consumer discretionary; US financials, European banks) • Automation and robotics, European leaders and luxury & lifestyles • Multifactor strategies
Invest in transformational innovation	AI remains a key driver of earnings and investment, but recent volatility shows the importance of diversifying beyond the most crowded beneficiaries. We see opportunities across semiconductors, memory, networking, software, power infrastructure, and companies using AI to raise productivity. Electrification and rising data-center demand should support utilities, industrials, and critical resources, while clinical innovation underpins long-term growth in health care. We favor diversified exposure across *AI, Power and Resources,* and *Longevity* rather than relying on a narrow group of stocks.	• *AI* • *Power and resources* • *Longevity*
Lock in yields	Renewed Middle East tensions have lifted oil prices and bond yields, but we expect limited pass-through to core inflation and believe markets still price excessive central bank tightening. Investors should use elevated yields to add quality short- and medium-maturity bonds. Fiscal and inflation risks remain greater at the long end, in our view. Riskier credit—such as high yield and emerging market debt, equity income, and yield-generating structured strategies can complement core bonds.	• Diversified fixed income strategies (with preference for quality bonds, EM bonds, high yield) • Equity income strategies

MIFs	Elevator pitch	Investment ideas
Consider capital preservation 	Renewed US-Iran tensions, higher valuations, and elevated bond yields have increased the risk of abrupt market swings, even as the medium-term equity outlook remains constructive. Investors can manage downside risk by combining diversified core equity exposure with capital preservation strategies designed to limit losses while retaining participation in further gains. This may be particularly relevant for investors with concentrated portfolios, near-term spending needs, or lower tolerance for drawdowns.	• Capital preservation strategies
Broaden commodity exposure 	Renewed disruption around the Strait of Hormuz strengthens the case for broad commodity exposure as both a return source and an inflation hedge. Energy can help buffer portfolios if shipping or production disruptions persist, while AI investment and electrification support industrial metals, and El Niño-related risks may benefit agricultural commodities. Gold remains a useful strategic diversifier, but its upside looks more capped in the coming months. We favor active management because commodity leadership is likely to rotate as geopolitical conditions, inventories, and demand expectations change.	• Broad commodities • Copper

Asset allocation implementation

The asset class preferences (left) reflect an absolute view on risk-adjusted expected returns for individual asset classes. These preferences are translated into recommended asset allocation tilts (right) based on our "ABCDH" portfolio criteria (page 15).

Jason Draho, PhD, Head of Asset Allocation Americas; **Andrew Dubinsky,** US Senior Economist; **Paul Hsiao,** Senior Asset Allocation Strategist; **Ian Spencer,** Asset Allocation Strategist; **Danny Kessler,** Asset Allocation Strategist

Asset class preferences

Based on absolute risk-adjusted return expectations for individual asset classes

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

Asset allocation tilts

Relative to strategic asset allocation; aligned with common portfolio building blocks

	Asset allocation tilts
Cash	
Fixed income	−
US govt short	−
US govt Int	−
US govt long	−
US Munis	
Agency MBS	
CMBS	
US Investment Grade	
US High Yield	
Emerging markets hard currency	+
Equity	+
Global Equities	+
US Large cap growth	
US Large cap value	
US Mid cap	
US Small cap	
Int'l Developed Markets	
Emerging Markets	
Commodities	+
Gold	+
Oil	

ABCDH portfolio criteria

Criteria	Description	Current assessment
Alpha	Alpha positions are those that do not rely on a view of market direction to generate excess returns.	Strong earnings results from semiconductors are driving equities, with AI capex expectations still biased to the upside. Sectors that benefit from the first and second derivatives of the AI trade (Cons. Disc., Financials, Health Care, Industrials, Utilities) should continue to perform well in this environment. At the same time, the median company is expected to report solid growth of approximately 12%, indicating broader equity market strength. High dispersion with modest index volatility suggests elevated alpha opportunities in this environment.
Beta	Beta positions are those that either increase or decrease overall portfolio sensitivity to market risk.	We maintain a preference for increasing beta relative to the SAA benchmark. The peak of geopolitical and policy risk has abated in the short term, though energy prices remain a potential disruptor. The economy remains in a reflationary regime, and the fundamentals suggest it will stay there over the medium term. Financial conditions remain broadly supportive for risk assets. To express this positive beta view, we prefer adding to global equities, funded by US government bonds.
Carry	Carry positions are those that increase portfolio income relative to their funding sources.	Spreads for most fixed income asset classes are currently close to their recent lows. IG Tech remains an outlier as the market continues to digest more than USD 200bn in AI-related bond issuance. Consequently, we recommend being selective in searching for carry, generally favoring a diversified allocation to high-quality fixed income. USD emerging market sovereign and US high yield corporate debt both offer relatively attractive expected returns.
Duration	Duration positions either shorten or lengthen portfolio duration relative to the benchmark.	The announcement of a ceasefire in Iran has helped rates fall, especially on the long end of the curve. We maintain a short- to intermediate-duration bias. We expect the yield curve to steepen with short-end yields declining as the market prices out expected Fed rate hikes. Longer-duration yields are likely to remain range-bound, with the risk that stronger growth, firming term premiums, and higher inflation expectations contribute to a rise in long-end yields.
Hedging	Hedging positions aims to minimize potential portfolio losses if other allocations do not perform as expected.	While the macro regime is reflationary, high/rising inflation is challenging to hedge because the resulting higher rates can hurt almost all asset classes. Gold has suffered as a result and owing to slowing investor demand, but it is an attractive diversifier over the medium to long term against rising geopolitical and de-dollarization risks.

US economic outlook

Resilient first-half growth but longer Fed pause as inflation remains elevated

Andrew Dubinsky, US Senior Economist

Overview

US growth remains strong in mid-2026, supported by resilient private demand, tax cuts, and still loose financial conditions. Private spending and AI investment momentum have held up through the first half of the year. However, with fiscal support set to fade and real income pressured by elevated inflation, growth is likely to soften into the second half. At the same time, inflation remains elevated and the hawkish June Fed meeting signaled inflation is still the primary concern following the labor market stabilization. We expect the Fed to remain in wait-and-see mode, with no rate cuts until 2027 as disinflation progresses gradually.

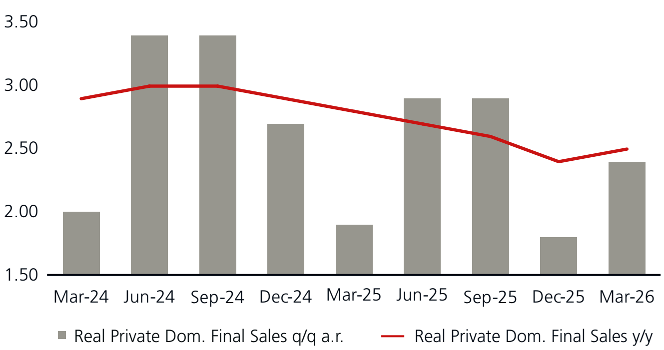
Growth

Growth has remained solid through the first half of the year, supported by strong consumption and business investment, particularly in AI-related sectors. The consensus forecast for second-quarter GDP increased to 2.5% in July, driven by ongoing support from tax cuts and substantial stock market gains. However, higher energy prices are weighing on real incomes, and growth is expected to slow in the second half as fiscal stimulus fades. While investment remains a key tailwind, softer income growth and fading policy support should lead to a more moderate growth profile into year-end, keeping full-year activity near trend, around 2%, but with clear signs of cooling in the 2H.

Figure 1

Private spending remains strong in 1H despite energy headwinds

Real Private Domestic Final Sales q/q a.r. and y/y (%)

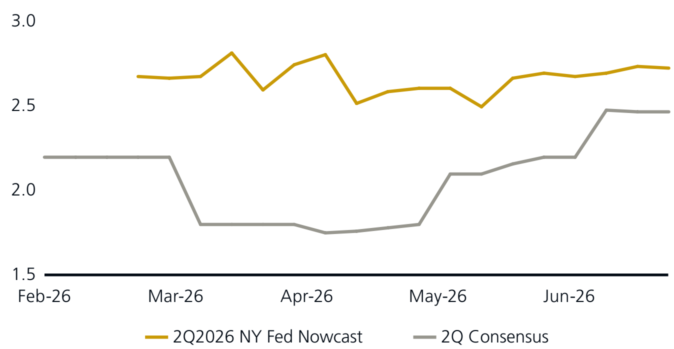


Source: Bloomberg, UBS as of 17 June 2026

Figure 2

Nowcast shows strong underlying activity above trend and the 2Q GDP consensus

q/q SAAR, %



Source: New York Fed, Bloomberg, UBS as of 14 July 2026

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

Read the report ›

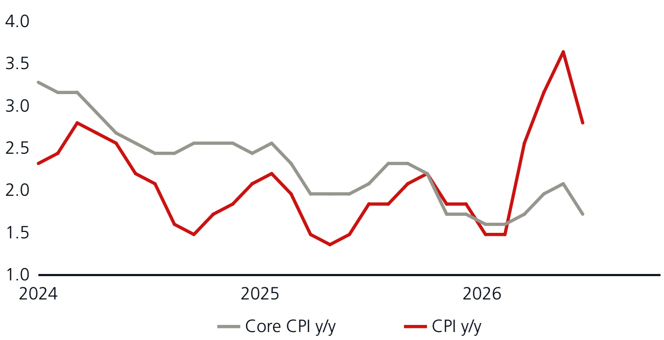
Inflation

Inflation moved down in June, with core CPI edging down to 2.6% y/y and headline CPI falling to 3.5%, as energy effects have started to reverse. May likely marked the peak in inflation given the recent decline in gasoline prices. Core PCE is tracking around 3.5% y/y with downsize risk thanks to sizable contributions from tariff effects—around 0.8pp—and AI-demand. While tariff pass-through appears to be moderating and goods disinflation is beginning to re-emerge, progress remains uneven. Services disinflation is expected to resume, supported by softer rent measures and recent wage disinflation. Headline inflation could be near a peak if gasoline prices stabilize, but AI-driven demand and ongoing Middle East-related energy risks remain key upside risks, keeping overall inflation elevated into 2H.

Fed policy

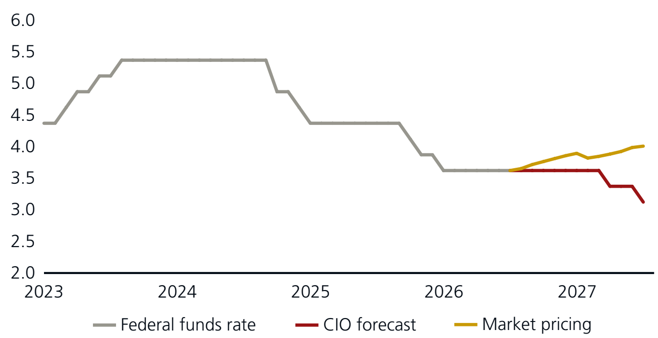
Following the hawkish June Fed meeting and still elevated inflation backdrop, we expect the Fed to remain in wait-and-see mode, requiring clearer evidence of sustained core disinflation. Concerns around overlapping supply shocks and inflation persistence have reduced confidence in "looking through" near-term price pressures, while stable labor market conditions limit the urgency to ease. Despite the market pricing showing over one rate increase by year-end, we do not expect near-term hikes given the anchored inflation expectations, the second half disinflation outlook, and moderating wage growth. The Fed is therefore likely to maintain restrictive policy through 2026, waiting for clearer evidence of sustained disinflation. As sequential inflation moderates and labor market risks potentially re-emerge with cooler growth, we expect easing in 2027 after inflation moves more convincingly toward target. We expect two cuts to bring the policy rate to the 3.00-3.25% range in mid-2027.

Figure 3
May could mark the peak of headline inflation; core disinflation expected in 2H
Core and CPI y/y (%)



Source: Bloomberg, UBS as of 14 July 2026

Figure 4
FOMC market pricing of hikes is hawkish vs. the CIO forecast
Mid-point of FOMC policy rate range



Source: Bloomberg, UBS as of 14 July 2026

Equities

We rate global equities as Attractive. Equities are hovering near all-time highs, as markets have been looking past the Middle East conflict and are refocusing on strong underlying fundamentals. The overall macro backdrop remains constructive, supported by resilient consumption, robust access to capital, supportive fiscal policies, and a recovery in manufacturing. Structural trends should remain favorable, though we recommend a selective approach within the AI sector. While technology sectors are likely to remain leaders, we expect earnings growth and performance to broaden through 2026.

Eurozone

ATTRACTIVE

EURO STOXX 50 (index points, current: 6,266)	June 2027 target
House view	**6,900**
↗ Positive scenario	7,600
↘ Negative scenario	4,700

Note: All current values as of 15 July 2026

We upgrade Eurozone equities to Attractive. We turn more procyclical in our regional selections, upgrading the Eurozone, Europe, and banks to Attractive, and reducing the more defensive markets of Switzerland and real estate to Neutral. With oil prices contained, we expect markets to refocus on Europe's improving cyclical outlook. We lift our June 2027 EuroStoxx 50 index target to 6,900 from 6,600 to reflect reduced uncertainty, and continue to expect Eurozone profits to exit their three-year earnings stagnation to deliver around 25% earnings growth in total over 2026 and 2027.

Emerging markets

ATTRACTIVE

MSCI EM (index points, current: 1,688)	June 2027 target
House view	**1,920**
↗ Positive scenario	2,050
↘ Negative scenario	1,300

Note: All current values as of 15 July 2026

We rate Emerging Market equities as Attractive. EM equities posted their strongest 1H in a decade (MSCI EM +22.7%), driven by robust earnings growth and sustained AI demand. We forecast 18% EPS growth for 2027 and maintain our June 2027 MSCI EM target at 1,920. We favor mainland China, South Korea, India, and Malaysia, as broadening performance beyond AI-led segments is supported by stabilizing macro conditions, resilient domestic demand, and policy tailwinds. We recommend maintaining a full strategic allocation and diversifying to capture emerging recovery and structural growth opportunities.

Japan

ATTRACTIVE

TOPIX (index points, current: 4,088)	June 2027 target
House view	**4,500**
↗ Positive scenario	4,700
↘ Negative scenario	2,800

Note: All current values as of 16 July 2026

We rate Japanese equities as Attractive. The TOPIX is up 16% year to date despite rising volatility. The Nikkei has been affected by high volatility in the South Korean equity market. While AI is likely to remain the core earnings driver in the near term, we see scope for a broader market rally, as easing geopolitical risks and energy normalization support a catchup by lagging cyclical sectors. We forecast 10% earnings growth for FY26, while valuations have moderated with forward P/E now at 17.0x. Japanese companies remain well positioned in the global AI supply chain.

UK

NEUTRAL

FTSE 100 (index points, current: 10,516)	June 2027 target
House view	**11,300**
↗ Positive scenario	12,300
↘ Negative scenario	7,700

Note: All current values as of 15 July 2026

We rate UK equities as Neutral. We see a supportive backdrop with reasonable valuations and strong earnings—we forecast 11% earnings growth this year and 10% in 2027. While we see UK equities as well supported, we favor markets that are either more cyclical in the event of a quick resolution to energy flows or have higher structural growth exposure than the UK. Our preferences within the region seek to capture a combination of structural growth at a reasonable price and beneficiaries of an improving cyclical backdrop and broadening equity returns.

US equities

Summer is underway and so far, year-to-date performance remains solid. Nearly all sectors have posted positive returns, and we expect additional market gains to remain relatively broad over the course of the year.

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

US equities

ATTRACTIVE

Over the past month and a half, the market was led by more cyclical segments and prior year-to-date laggards. In our view, the main driver behind the broadening in performance has been the improvement in earnings growth breadth. While the pickup in manufacturing activity is likely one of the main drivers of this improvement, fiscal stimulus has likely also provided an additional boost. With respect to the Fed, rate hikes are not our base case. Nevertheless, we acknowledge that the Fed could pivot to rate hikes if inflation readings do not continue to improve, which could lead to some equity market volatility. Finally, the second-quarter earnings season is underway and we expect corporate profit growth to accelerate to around 28%—a normal beat relative to consensus. This should provide support for further gains and help keep the key pillars of the bull market intact: solid earnings growth, a supportive Federal Reserve, and AI adoption.

US equities – sectors

We favor a selective approach to our sector positioning, with a combination of cyclical and secular exposure. A few of our recommended sectors offer both. In industrials, long-cycle end-markets like aerospace provide attractive growth, while segments such as transportation provide short-cycle upside. For consumer discretionary, AI adoption is a key driver for the largest companies in the sector. Fiscal stimulus, wealth effects, and the easing of peak tariff headwinds should keep spending resilient. On the more cyclical side, financials should benefit from easing regulations and robust capital markets activity. Finally, if economic growth disappoints, we believe health care and utilities should be more resilient, with the latter also having exposure to AI-related trends.

US equities – size

We are neutral across size segments. We believe small caps have benefited so far this year from an improving earnings backdrop, the AI infrastructure buildout, and better biotech sentiment. Still, our neutral stance reflects a balance between our view that the bull market remains intact and the potential for less favorable conditions as the year progresses with fiscal stimulus waning and economic growth decelerating.

US equities – style

We have a neutral view across growth and value. Value has outperformed year to date, with tech accounting for about half of the total return differential. This has compressed the premium valuation that growth stocks typically hold relative to value stocks back to historical averages. In our view, the great broadening is likely to have a greater positive impact on value. Nonetheless, strong earnings from growth support further gains.

S&P 500 (index points, current: 7,572)	June 2027 target
House view	**8,200**
↗ Upside	9,000
↘ Downside	5,500

Note: All current values as of 15 July 2026

Figure 1

Selective within US equity sectors

S&P 500 sector preferences

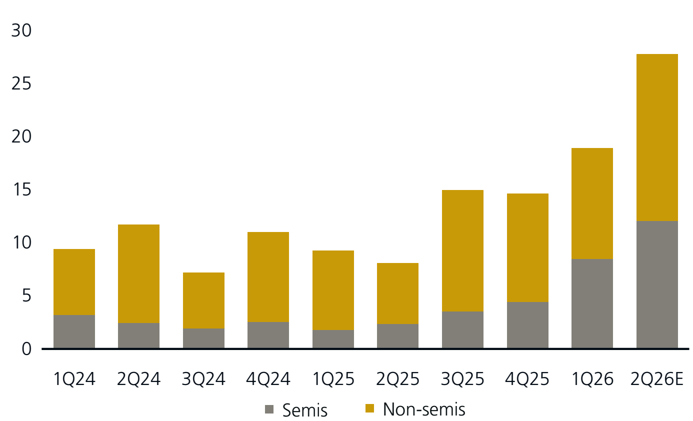
	Unattractive	Neutral	Attractive
US equities			
Communication services		=	
Consumer discretionary			+
Consumer staples		=	
Energy		=	
Financials			+
Health care			+
Industrials			+
Information technology		=	
Materials		=	
Real estate		=	
Utilities			+

Source: UBS, as of 16 July 2026

Figure 2

Semis' contribution to growth increasing

Contribution to S&P 500 EPS year-over-year growth, actuals and CIO estimate, in %



Source: FactSet, UBS, as of 13 July 2026

Bonds

Recent statements from key Fed officials emphasize ongoing vigilance regarding inflation risks, but current data do not indicate that a new tightening cycle is necessary. We anticipate that Treasury yields should moderate into next year, with the two- to five-year segment offering the most favorable risk-reward profile. While we also expect long-end yields to moderate over time, fiscal deficits, heavy high grade issuance, and lingering concerns around policy and debt sustainability may continue to generate volatility. In addition to our preference for short-end Treasuries, we hold an Attractive view on agency MBS, HY bonds, and emerging market bonds.

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

ATTRACTIVE

US 10-YEAR YIELD (current: 4.5%)	June 2027 target
House view	**4.6%**

Note: All current values as of 15 July 2026

As the ceasefire in the Middle East unwinds, volatility has risen and equity/fixed income correlations begin to once again break down. While the recent inflation data declined more than consensus, led by lower energy prices, the market continues to price a hawkish Fed. With two rate hikes expected by 2027, higher inflation and stronger growth projections are pushing 10-year yields higher. In July, 10-year yields have not matched the year-to-date high of 4.68%. However, current momentum points to higher yields in the near term, with expectations for Treasury yields to decline to 4.25% by December 2026 and 4.0% by June 2027.

US investment grade corporate bonds

NEUTRAL

US IG SPREAD (current: 79bps)	June 2027 target
House view	**80bps**
↗ Positive scenario	70bps
↘ Negative scenario	180bps

Benchmark: ICE BofA
Note: All current values as of 15 July 2026

All in, yields stand at 5.3% for US IG, remaining elevated when compared to historical levels since 2010. This provides a reasonable amount of cushion against the risk of rising rates or spreads. Issuer credit fundamentals remain supported by a robust earnings environment, and we don't expect credit quality to deteriorate much in our base case. We also expect additional hyperscaler debt issuance to be absorbed by the market. We believe the total return outlook for IG is supported by the high level of outright interest rates, with additional upside potential in the event benchmark rates move lower.

Emerging market bonds

ATTRACTIVE

EMBIG DIV. / CEMBI DIV. SPREAD (current: 238bps / 212bps)	June 2027 target
House view	**250bps/220bps**
↗ Positive scenario	210bps/190bps
↘ Negative scenario	500bps/450bps

Note: All current values as of 15 July 2026

We keep emerging market credit as Attractive. The asset class has been resilient in the face of ongoing geopolitical stress, enhancing its role as a key portfolio diversifier amid fiscal challenges in developed markets. We expect rangebound to slightly wider spreads during the investment horizon, which should result in carry-driven high-single-digit total returns. Key risks include U.S. policy uncertainty, inflation concerns, and potential for escalation in trade and/or geopolitical tensions.

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

US high yield corporate bonds

ATTRACTIVE

USD HY SPREAD (current: 271bps)	June 2027 target
House view	**300bps**
↗ Positive scenario	250bps
↘ Negative scenario	650bps

Benchmark: ICE BofA
Note: All current values as of 15 July 2026

We are upgrading our view to Attractive. Although credit spreads are at historical lows, we see a reduced risk of spreads widening. In our view, the moderate economic backdrop, solid fundamentals, low leverage, and low default risk should support HY over the next 12 months. We consider the 7.2% yield an attractive carry for investors, as returns are likely to be driven primarily by income rather than price appreciation. Quality has also improved, with BB bonds representing over 60% of the index.

Municipal bonds

NEUTRAL

We shift our preference to Neutral. Despite elevated supply, munis outperformed other US fixed income assets year to date, with lower volatility, helped by strong demand (second highest YTD inflows in a decade). Munis have richened as muni-Treasury yield ratios have declined YTD. However, the index tax-equivalent yield of 6.2% continues to be attractive. The AAA curve remains steep and credit remains resilient, as 12-month trailing upgrades moderately exceed downgrades in the muni index.

Non-US developed fixed income

NEUTRAL

Long-maturity non-US developed market yields have traded within a range but are now slightly higher as tensions escalate in the Middle East and central bankers adopt a more hawkish stance. Rate markets have demonstrated greater sensitivity to disruptions in the Strait than most other asset classes, reflecting their heightened responsiveness to inflation and policy rate expectations. The ECB has raised policy rates over the past month, with two additional hikes anticipated over the next 12 months. Overall, market expectations continue to indicate more hawkish policy trajectories across regions. Most major developed market economies are net energy importers, amplifying concerns that central banks may need to tighten policy in response to rising inflation. However, we remain skeptical that the scale of rate hikes currently priced by markets will be sustained, given the adverse growth effects of this energy supply shock. US Treasuries continue to offer some of the highest yields among developed markets. Consequently, we do not see a strong rationale for a strategic allocation to non-US bonds at this time.

Additional US taxable fixed income (TFI) segments

Agency bonds

We move to Unattractive on agency debt. With spreads tight, we see greater value and higher yields in agency MBS and taxable municipals. The current spread is +8bps (versus +10bps last month)

Mortgage-backed securities (MBS)

ATTRACTIVE

We maintain an Attractive allocation to agency MBS. The high credit quality, lower supply and liquidity, alongside the 5.4% yield for current coupon MBS favor the sector going forward. While geopolitical risks have increased volatility and acted as a headwind for the sector, spreads versus Treasuries have remained largely contained, ranging from 106 to 112bps over the past month. With our expectation of the Fed on hold in 2026 and a more accommodative stance in 2027, we anticipate the sector will perform well as the yield curve steepens.

AGENCY MBS SPREAD (current: 108bps)	
June 2027 target	**85bps**
↗ Positive scenario	80bps
↘ Negative scenario	160bps

Note: All current values as of 15 July 2026

Preferred securities

NEUTRAL

A challenging rate backdrop continued to pressure the preferred securities sector in July as a resumption of Middle East military strikes drove oil prices and Treasury yields higher. With yields of roughly 6.5%, preferreds are looking more attractive. Lower rates should support preferreds over the next 12 months. High nominal yields and improved valuations relative to other credit sectors make this a good time to consider locking in attractive yields for the long run, in our view. And possible mean reversion for USD 25 pars and a wave of USD 1,000 par bank preferred redemptions could lend support this summer, especially if oil prices cool down.

Treasury Inflation-Protected Securities (TIPS)

NEUTRAL

Real yields have pushed to a year-to-date high in July as 10-year real yields reached 2.34%, the highest since 2023. The rise in real yields has been a tailwind to rising nominals as growth remains resilient and longer-term inflation expectations, while above the 2.0% target, remain well anchored. While we remain Neutral, we believe 10-year real yields look attractive as they approach 2.5%.

US 10-YEAR REAL YIELD (current: 2.30%)	June 2027 target
House view	**1.60%**
↗ Positive scenario	0.75%
↘ Negative scenario	2.50%

Note: All current values as of 15 July 2026

Figure 1

UBS CIO interest rate forecast

In %

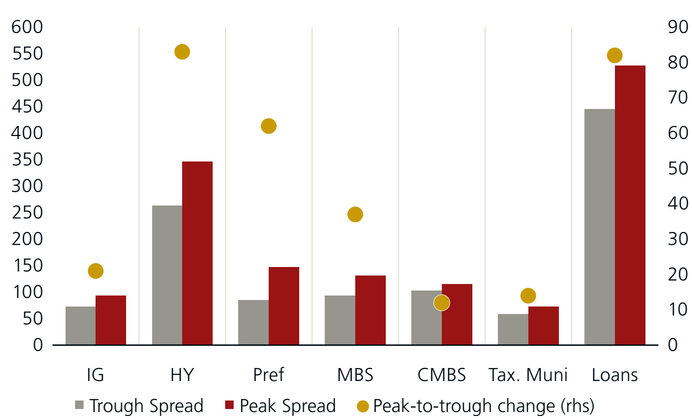
UST	Current	Sep-26	Dec-26	Mar-27	Jun-27
2-year	4.1	4.1	3.9	3.5	3.3
5-year	4.3	4.5	4.0	3.6	3.4
10-year	4.6	4.3	4.3	4.0	4.0
30-year	5.1	5.0	4.8	4.5	4.5

Source: Bloomberg, UBS, as of 16 July 2026

Figure 2

Credit spreads have remained contained throughout this year's uncertainty

Spread, in bps



Source: Bloomberg, FactSet, UBS as of 15 July 2026

Commodities

We believe broad commodity exposure offers an attractive mix of diversification and growth potential. Commodities offer a valuable hedge against inflation and supply shocks, and their typically low correlation with equities and bonds makes them an effective portfolio diversifier, especially in periods of market stress. In the current environment, we believe that energy exposure can help buffer against renewed supply disruptions, that El Niño-related risks should support agricultural commodities, and that the AI boom and electrification trend remain positives for industrial metals. Gold, meanwhile, should stay supported by central bank demand, continued diversification away from the US dollar, and long-term global debt concerns.

Dominic Schnider, CFA, CAIA, Strategist, UBS Switzerland AG; **Giovanni Staunovo,** Strategist, UBS Switzerland AG; **Thomas Veraguth,** Strategist, UBS Switzerland AG

Commodities

ATTRACTIVE

GOLD (current: USD 4,052/oz) — June 2027 target

NEUTRAL

House view	**USD 5,200/oz**
Positive scenario	USD 4,000
Negative scenario	USD 6,200

Note: All current values as of 15 July 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 79.55/bbl) — June 2027 target

NEUTRAL

House view	**USD 80/bbl**

Note: All current values as of 15 July 2026

Precious metals

Strong US economic data and higher real yields have weighed on gold recently, with the spot price reflecting rising opportunity costs and a stronger US dollar. Investment demand, which will likely remain the key determinant of near-term price direction, has been lackluster, as gauged by changes in gold ETF holdings, but central bank purchases continue to provide an important source of support. Attention remains on the Federal Reserve's next move. Markets have increasingly priced in the possibility of rate hikes this year, although we continue to expect the Fed to stay on hold. Looking ahead, we think central bank gold demand, continued diversification away from the US dollar, and global debt concerns will remain important structural supports.

Base metals

LME copper prices softened after reaching USD 14,000/mt in June but remain supported above USD 13,000/mt. Near-term headwinds—including renewed Middle East tensions, unwinding of AI-related trades, and rising energy costs—are weighing on sentiment and industrial activity. Nevertheless, electrification and power infrastructure investment continue to support long-term demand growth. While the overall impact should be limited in our base case, concerns about copper demand from data centers and power grids could dampen risk-on sentiment. Global copper demand continues to expand, though growth is increasingly uneven across regions.

Agriculture

We expect El Niño to reintroduce a meaningful weather risk premium into agricultural markets over the next 12-18 months. Previous episodes have typically constrained global supplies, pushed food inflation higher, and increased agricultural commodity price volatility, particularly when inventories in some commodities are already low. Soft commodities are our preferred way to express El Niño risk. Cocoa, sugar, coffee, and palm oil are among the most weather-sensitive agricultural markets and look optimally placed to benefit if adverse weather disrupts production. Rising climate uncertainty should support agriculture, though returns may diverge. Soybean oil could outperform soybeans if palm oil supplies are disrupted, while cocoa and sugar offer the greatest upside potential amid recovering demand, supply constraints, and inflated costs.

Crude oil

Tensions between the US and Iran have escalated again, with the US military and the Iranian Revolutionary Guard carrying out daily strikes, naval blockades returning, and the potential for the conflict to expand to the Bab el-Mandeb Strait and the Red Sea through Houthi involvement, all of which would disrupt crude shipments and tighten the oil market. We continue to expect the production recovery process in the Middle East to be slower than the market anticipates, as it requires an increase in inbound vessels. With the conflict resuming, those flows remain depressed. This should keep the oil market tight and prices supported. Crude and oil product inventories remain low across a number of economies and are likely to continue falling over the coming weeks.

Foreign exchange

We maintain an Attractive view on the CNY, AUD, NZD, SEK, and GBP, and have added the NOK.

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

We maintain a Neutral view on the US dollar. The currency has appreciated over the past month, and is up nearly 6% year to date, supported by resilient economic releases and more hawkish Fed policy expectations. US CPI inflation moderated in June thanks to a reversal in energy prices and continued moderation in core goods and services. The conflict in the Middle East remains an upside inflation risk, contributing to a 2.3% monthly rise in the DXY in June. We upgraded our view of the NOK to attractive, supported by yield resilience and insulation from volatility. Looking ahead, we expect a weaker dollar over the medium term against many G10 and EM currencies, reflecting structural headwinds such as the US twin deficits and narrower interest rate differentials. However, these pressures are likely to remain subdued in the near term owing to a stable policy rate, despite markets pricing in potential rate hikes.

FX strategy

	Unattractive	Neutral	Attractive
USD		=	
EUR		=	
GBP			+
CHF		=	
JPY		=	
CAD		=	
NOK		= →	+
SEK			+
AUD			+
NZD			+
CNY			+
SGD		=	

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

FX forecasts

	Current	Sep-26	Dec-26	Mar-27	Jun-27
EURUSD	1.14	1.16	1.18	1.20	1.20
USDJPY	162	158	156	154	152
GBPUSD	1.35	1.38	1.40	1.41	1.41
USDCHF	0.81	0.80	0.79	0.78	0.78
USDCAD	1.41	1.43	1.42	1.40	1.38
AUDUSD	0.70	0.73	0.74	0.75	0.76
NZDUSD	0.58	0.60	0.62	0.63	0.64
USDSEK	9.63	9.14	8.90	8.67	8.58
USDNOK	9.69	9.31	9.07	8.83	8.75

Sources: SIX Financial Information, UBS, as of 16 July 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

Cautionary statement regarding forward-looking statements

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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