UBS House View

Investment Strategy Guide:
On the ball

September 2026 | Chief Investment Office GWM | Investment research

UBS

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September

CIO Monthly Livestream

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Dear reader

Markets have recently been tested by higher long-term bond yields, rising energy prices, and renewed questions about artificial intelligence spending. But resilient economic activity, strong corporate earnings, and continued AI investment mean our overall outlook remains constructive.

We believe the equity rally remains underpinned by earnings. US companies delivered nearly 35% underlying profit growth in the second quarter, with strength extending beyond technology. Earnings momentum has also improved in Europe, while Asia continues to benefit from resilient growth and technology investment.

However, risks remain. AI investment will need to translate into revenue and productivity gains, while geopolitical disruption could keep energy prices elevated and renew inflation pressure.

For investors, we continue to favor diversified equity exposure rather than reliance on a narrow group of market leaders. Elevated yields also strengthen the case for quality short- and medium-maturity bonds, which can provide attractive income without requiring a strong view on long-term rates.

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

Ulrike Hoffmann-Burchardi

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Election Watch 2026

Follow our Chief Investment Office's election research on the US midterm elections. Please visit ubs.com/electionwatch to learn more.

On the ball

Three key drivers

We expect three key factors to support markets over the remainder of the year: robust AI spending, broad earnings growth, and gradually easing inflation.

Thinking in scenarios

In a period of rapid change, we believe investors should build portfolios that can perform well in a range of market scenarios, rather than being dependent on a single forecast.

Three priorities

Investors should prioritize putting cash to work deliberately, positioning to capture market gains through diversified equity exposure, and building portfolio resilience.

Asset class views

Within equities, investors should focus on diversifying single-stock exposure. Our preferred fixed income duration stance is between two and five years.

Mark Haefele
Global Chief Investment Officer
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Warren Buffett once said that "investing is simple, but not easy." The sooner you figure out that investing is a daily practice of working hard to understand this difference, the better. I thought of this maxim from the Oracle of Omaha when new Federal Reserve Chair Kevin Warsh tried to tell the markets that the time of oracles is over.

Warsh told investors to do their own work and focus on "the ball, not the referee." It is another simple idea that is not easy to follow—especially with so much going on in the world. Yet, doing the work to understand the underlying data is necessary to invest effectively today. Whether it is tariffs, AI, war in the Middle East, or stock markets in general, focusing on the data, rather than simply following the Oracles who make the headlines, has served us well this year.

Looking ahead, we will continue to watch the data the watchers are watching, and draw our own conclusions about the facts that might influence policymakers and impact the economy.

Our focus remains primarily on three factors: the durability of the AI investment cycle, the breadth and resilience of corporate earnings growth, and the path of inflation and monetary policy. Our base case remains constructive. We expect AI spending to remain robust, earnings growth to continue to broaden, and inflation to ease gradually. In this environment, we believe broad market indices can continue to move higher.

Yet, in this period of rapid change, we think it important that investors do not over-index on any single forecast. Instead, we prefer to think in scenarios about what could accelerate or hold back the market. Weaker-than-expected AI capex or monetization trends, a slowdown in corporate earnings growth, or a renewed inflation shock could all contribute to a more challenging backdrop. Investors should therefore aim to build portfolios that can participate in further market gains and be resilient across a range of outcomes.

For us, that means three priorities: putting cash to work deliberately, positioning to capture market upside through diversified equity exposure and targeted exposure to structural trends, and improving the resilience of the core portfolio through capital preservation strategies, locking in yields, and broader diversification into alternatives and commodities.

In the rest of this letter, I examine the key drivers we believe will shape markets through year-end, the scenarios they could create, and how investors can position portfolios accordingly.

Market drivers to watch

AI capex and monetization

A key question for markets is whether the AI investment cycle can keep its momentum.

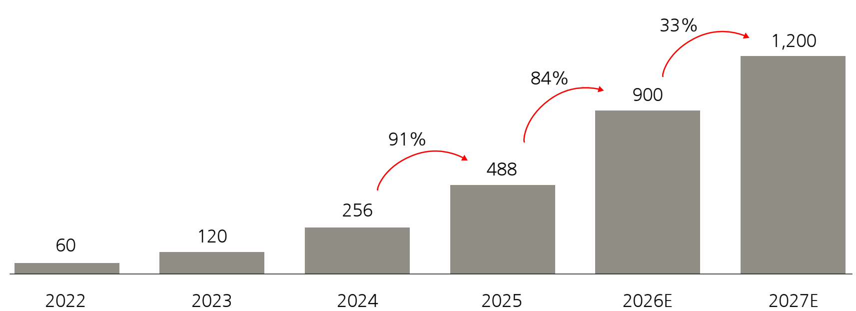
The most important market question for the remainder of the year is whether the AI investment cycle can maintain its momentum. AI-related spending has been a major driver of equity market performance in recent years, supporting earnings growth, economic growth, and investor confidence.

Our base case is that AI investment will remain robust. While capex growth rates are likely to moderate, we expect spending to continue rising as major technology companies continue to invest in data centers, infrastructure, and AI applications. Based on the latest company guidance, we have raised our 2027 AI capex forecast to USD 1.2tr, about 15% above our previous estimate, and up from roughly USD 900bn in 2026.

Figure 1

AI capital spending is likely to remain robust

UBS CIO global AI capex estimates, USD bn



Source: UBS, as of 17 August 2026

Cloud revenue growth continues to accelerate.

We also expect to see more evidence of monetization, helping justify investment spending. Major hyperscalers reported average cloud revenue growth of 48% year over year for the second quarter, well above consensus expectations, and a continued acceleration from the 40% growth in the first quarter and 34% in the last three months of 2025. We anticipate this acceleration in cloud revenue will continue, forecasting growth of 58% in the current quarter.

A key risk is that investment runs ahead of returns. Signs of slowing capital expenditure, weaker demand for AI infrastructure, or disappointment around monetization would raise concerns about the sustainability of the cycle, and could weigh on both technology shares and broader market sentiment. Hyperscalers are increasingly issuing debt to fund their capital spending, and supply indigestion in debt markets is now having a visible impact on spreads and long-end yields, increasing the cost of capital.

Concerns about circular financing in AI, where suppliers help fund purchases of their own products and services, also resurfaced this month, after NVIDIA announced its partnership with six major financial institutions to assemble a financing package of over USD 500bn to invest in AI infrastructure. The growing scale of such financing arrangements further highlights the need for AI monetization to eventually match the capacity being built.

Our conclusion is that investors should be selective and diversified within AI, not abandon the theme. In the months ahead, we will continue to watch for management commentary on capital spending plans, demand trends for AI infrastructure, and evidence that companies are successfully translating investment into revenue and productivity gains.

In the AI space, we continue to like infrastructure, but believe investors should diversify 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. We think investors should also consider building exposure to more defensive AI segments such as payment networks, data center REITs, and select smartphone makers.

Earnings and breadth

We expect robust, broad-based earnings growth to continue to support the equity rally.

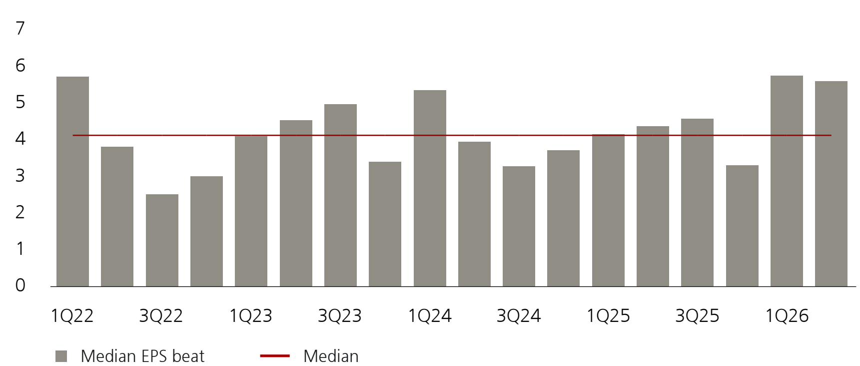
Strong growth in corporate earnings and expectations of further growth have been key supports for the equity market rally in recent months.

In the US, S&P 500 companies grew underlying second-quarter profits by nearly 35% year over year, the strongest quarter in more than four years. Around 80% beat earnings per share estimates, with the median company beating by roughly 5.5% (versus the typical 3.6% since 2015), underlining broad-based strength. Sales growth is tracking above 15%, the second consecutive quarter of double-digit growth.

Figure 2

In the US, strong earnings beats have been broad-based

Median EPS beat, S&P 500 companies, in %



Sources: FactSet, UBS, as of 17 August 2026

Earnings growth is also accelerating in Europe.

In Europe, 58% of companies have so far exceeded second-quarter earnings estimates versus 33% missing, a net beat rate of 25% compared with an average of 16%, while earnings growth accelerated to 22% year over year.

Looking ahead, our base case is for earnings growth to remain strong, albeit decelerating from currently elevated levels. Importantly, we also expect earnings growth to remain broadly distributed across sectors, with the next phase of the rally continuing to be driven by earnings, rather than by multiple expansion.

While index-level earnings growth is being lifted by AI-related technology strength and higher oil prices, median-company earnings growth for the S&P 500 is also strong at around 14%. In addition to continued growth from technology, we expect a mix of the US manufacturing recovery, capital markets activity, and resilient consumer spending to support the industrials, financials, and consumer discretionary sectors over the next 12 months. In Europe, after three years of broadly stagnant earnings, we also expect growth to continue to spread across industrials, technology, defense, banks, commodities, and consumer discretionary.

We now expect S&P 500 companies to grow earnings by 25% in 2026.

To reflect this encouraging backdrop, the stronger-than-expected first-half earnings, and constructive guidance, we have raised our S&P 500 EPS forecasts to USD 350 for 2026, implying 25% growth, and USD 400 for 2027, implying 14% growth. We now see the index reaching 8,100 by December 2026 and 8,400 by June 2027. In the Eurozone, we expect earnings to grow by 15% in both 2026 and 2027, supported by a cyclical pickup in manufacturing, investment in structural trends (not only AI, but also electrification, defense, and reshoring), and operating leverage as revenues recover. In Asia, we expect earnings growth of 72% this year (MSCI Asia ex-Japan). Markets such as China, India, and select Southeast Asian countries appear well positioned to benefit from improving fundamentals and supportive policy trends.

Such earnings growth, if realized, should help keep equity valuations reasonable. An S&P 500 level of 8,100 at year-end against EPS of USD 400 would imply a forward multiple of about 20x (similar to the current forward multiple). In Europe, the EuroStoxx index trades at around 17.0x trailing earnings and 15.0x forward earnings, versus a 15-year average trailing P/E of 15.1x—according to our 2027 EPS estimate, the multiple falls to around 14.2x.

Geopolitics, inflation, and the Fed in context

Geopolitical uncertainty remains high.

Geopolitical uncertainty remains elevated. While attention has focused on tensions involving Iran, developments in Ukraine also highlight how quickly the global backdrop can shift. For investors, however, the task is not to predict the course of each conflict, but to assess whether and how geopolitical shocks might change the market environment. At present, we think the most important question is how potential disruptions to energy markets, the improving inflation backdrop, and expectations for monetary policy interact.

Our base case is that disruptions to global energy supply remain limited, with oil prices elevated relative to pre-conflict levels but well below the levels associated with a meaningful global growth shock. Six-month forward Brent crude futures currently trade around USD 85/bbl, compared with below USD 70/bbl prior to the US-Iran conflict.

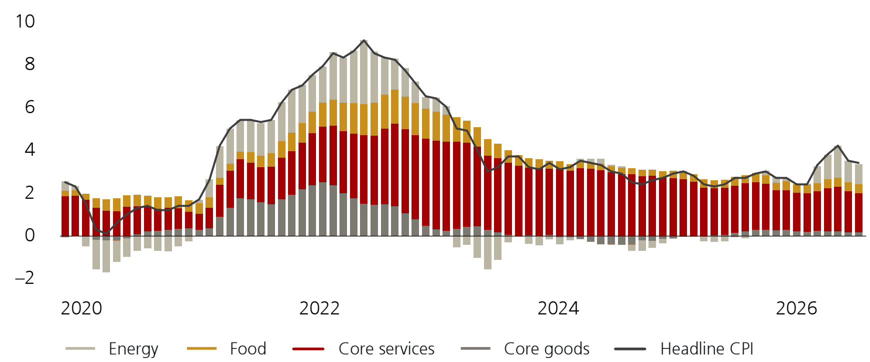
US consumer price inflation moderated in July.

Energy markets aside, the inflation data suggest gradual moderation in underlying price rises. The July US consumer price index (CPI) release showed both headline and core inflation slowing on a year-over-year basis, while monthly price increases remained relatively contained. Housing inflation also continues to cool, although we are monitoring potential AI-related investment and infrastructure spending. Taken together, we think the data is consistent with an environment in which inflation moves lower over time, albeit perhaps more unevenly and slowly than investors might have hoped for earlier in the cycle.

Figure 3

US inflation shows signs of moderating, though the path remains uneven

Breakdown of US CPI inflation, year over year, in %



Sources: Bloomberg, UBS, as of 17 August 2026

What does this mean for the Fed? Our base case is that the US central bank stays on hold in the near term, before lower inflation opens the door to potential rate cuts in the first half of 2027. We think the Fed appears comfortable keeping rates modestly restrictive, while monitoring whether inflation is broadening and becoming embedded in expectations.

The Fed is likely to pursue a more data-dependent and less guided approach to monetary policy.

That said, uncertainty around the precise path of rates is likely to remain higher than in recent years. This is particularly relevant under Chair Warsh, whose "no more oracles" philosophy reinforces a more data-dependent and less guided approach to monetary policy. And what matters most for markets is not whether the Fed cuts, holds, or hikes at a particular meeting, but how incoming data compare with what markets have already priced in.

Market scenarios

Scenario analysis can help investors navigate an uncertain environment.

With uncertainty around a number of variables—from AI to geopolitics, inflation, and monetary policy—rather than attempting to forecast a single outcome, we think it is more meaningful to consider the range of plausible scenarios and the signals that would indicate which path is becoming more likely.

This approach helps us look beyond headlines, focus on the most relevant underlying data, and position portfolios not just for upside, but also for more potentially challenging scenarios.

Our base case is one of resilient growth. In this scenario, AI investment continues to grow, earnings growth stays broad and robust, and inflation eases gradually. In that environment, we believe equities can continue to grind higher. We think that this is also likely to be consistent with the Fed cutting interest rates twice in 2027, and with somewhat lower benchmark bond yields.

US midterms: A divided Congress?

The US midterm elections take place on 3 November and will inevitably attract significant attention from investors.
Our base case, to which we assign a 50% probability, is for Republicans to lose control of the House of Representatives while retaining control of the Senate, resulting in a divided government. This outcome would be broadly consistent with historical experience and current polling trends.

A divided government could lead to greater congressional oversight of the administration and tougher budget negotiations. It could also have implications for US fiscal policy, at a time when the large budget deficit and elevated long-end yields are under scrutiny. Current legislation points to a shift from fiscal stimulus toward restraint. A Democratic gain in one or both chambers could soften or delay some spending cuts, although reversing enacted tax cuts remains unlikely.

We would not expect a divided Congress to materially alter the outlook for trade policy, or displace AI investment, earnings growth, inflation, and geopolitics as the key drivers of markets.

In our bull case scenario, an "AI lift-off" fuels a stronger rally in equity markets.

We also see even further potential for market gains if continued rapid growth in AI investment combines with clearer evidence of monetization and productivity gains, and a further upswing in earnings growth. The trade-off would likely be somewhat stickier inflation, higher bond yields, and higher interest rates. We believe the Fed would hike interest rates up to three times in this scenario, as the FOMC revises its estimate of productivity growth higher.

Beyond these more positive outcomes, we see two challenging alternative scenarios for which we want to be prepared.

An "AI bear market" scenario would likely be the most negative for equity markets.

The most negative for equity markets would likely be an "AI bear market" scenario. AI has become one of the most significant drivers of both economic growth expectations and equity market performance. The scale of planned AI investment is unprecedented, and the market's confidence that this investment will ultimately generate productivity gains and earnings growth has helped underpin the rally of the past few years. As a result, signs that investment is slowing or that returns are failing to materialize would likely have implications extending well beyond the technology sector.

While the lower inflation and policy easing that would likely accompany such a scenario could eventually provide support, equity markets would likely struggle until a trough in earnings estimates becomes more visible. Potential catalysts for this scenario could include higher financing costs, a loss of confidence in monetization potential, or new technological developments.

	Base case: **Resilient growth** *Probability: 60%*	**Bull case:** **AI lift-off** *Probability: 20%*	**Bear case I:** **Fed policy test** *Probability: 10%*	**Bear case II:** **AI bear market** *Probability: 10%*
Targets (June 2027)	S&P 500: 8,400 10yr Treasury yield: 4.00%	S&P 500: 9,500 10yr Treasury yield: 5.00%	S&P 500: 7,000 10yr Treasury yield: 5.00%	S&P 500: 5,500 10yr Treasury yield: 3.00%
AI capex	Remains solid	Exceeds expectations	Remains solid	Slows sharply
Earnings expectations	Broad and robust	Stronger for longer	Fall	Much lower
Inflation	Eases gradually	Sticky	Accelerates	Eases
Growth	Resilient, around trend	Above trend	Muted, below trend	Severe slowdown, US GDP growth <1.0%
Market character	Equities higher, yields fall	Equities much higher, yields rise	Stocks and bonds struggle	Equities decline, quality bonds outperform
Catalysts / what to watch	AI capex remains robust, earnings revisions stabilize, inflation trends lower	Better AI monetization, rising productivity, continued capex increases	Oil spike, supply disruption, Fed commentary and action, rising inflation expectations	AI spending cuts, weaker demand, negative earnings revisions

For a full description of our key market scenarios and the respective asset class targets, please refer to the *UBS House View Monthly Extended* publication (20 August 2026).

We are also watching for a Fed "policy test" scenario. Fears of persistently elevated inflation that drive longer-term yields higher, potentially amplified by excess sovereign and corporate bond issuance, could pressure the Fed to increase short-term rates to assert its credibility. But higher energy prices and renewed inflation pressures occurring against a backdrop of weaker growth would leave the Fed in a bind. Both equities and bonds would face headwinds as investors adjust to the prospect of higher rates.

Markets often react to fears well before the underlying data fully justify them.

As we prepare portfolios for these more challenging scenarios, we also need to consider whether shifts in market narratives toward them could themselves create opportunities. Markets often react to fears well before the underlying data fully justify them. For example, concerns about an AI slowdown may lead to weaker sentiment and lower valuations, but the key question is whether capital spending, monetization, and earnings trends are actually deteriorating. Similarly, fears of a Fed policy mistake or rising bond yields may pressure risk assets, but what matters is whether inflation, labor market, and growth data genuinely support a more restrictive policy path. As we have seen in the past week, Treasury policy can also have a meaningful impact.

In both cases, periods of narrative-driven volatility can create opportunities for investors who remain focused on the underlying fundamentals rather than the headlines.

Investment conclusion

The market outlook is constructive, but investors should avoid depending on any single outcome.

Our base case remains constructive, but outcomes could still vary, depending on developments in AI, earnings, and inflation. Investors should position for opportunity, but also avoid becoming dependent on any single outcome.

In our view, that leads to three key priorities: ensuring cash is working as hard as possible, positioning to capture market upside, and strengthening core portfolios to improve resilience to a range of market environments.

Put cash to work
In a market where investment opportunities are abundant and inflation is still elevated, it is important that investors are intentional with their cash holdings. A first priority should therefore be to optimize returns on cash—earning attractive interest rates while also accounting for counterparty risks.

Then, investors should build a plan to deploy excess liquidity to phase into markets. Typically, we recommend that investors hold no more than two to five years of expected net portfolio withdrawals in a liquidity strategy. Phasing strategies can help investors deploy capital while reducing the risk of mistiming markets.

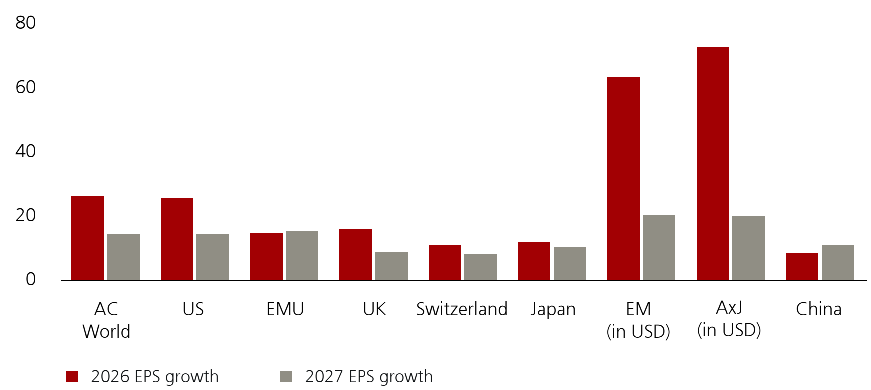
We expect further gains for equity markets over the coming year.

Position for market upside
In our base case and upside scenarios, we see further gains for broad equity market indices. Investors should position for this in a diversified and risk-controlled way.

First, *diversify single-stock and technology exposure.* We continue to favor exposure to transformational innovation, but investors should attain this by complementing a broad equity portfolio with targeted and diversified exposure, rather than through taking on excess single-stock risk. In an era of transformation, higher single-stock dispersion is increasing the risk inherent in concentrated portfolios.

Second, *position for cyclical broadening*. Earnings growth and market leadership are becoming more widely distributed, and we see opportunities across a broad range of sectors and regions. Industrials, financials, consumer discretionary, and select regional exposures should benefit if growth remains resilient and earnings momentum continues to broaden.

Figure 4
Earnings growth is likely to remain broad-based
CIO EPS growth estimates for select regional indices, in %



Sources: UBS, 20 August 2026. MSCI indices except for US (S&P 500), EMU (EuroStoxx 50), UK (FTSE 100), Switzerland (Swiss Market Index), and Japan (TOPIX).

Strengthen the core portfolio
With a range of outcomes still possible, investors should ensure their portfolios are resilient to the downside risks identified in our scenario analysis.

Investors should ensure their portfolios are resilient to key downside risks.

Beyond investing in a well-diversified balanced portfolio, investors can consider a number of approaches to improve resilience across a range of market environments:

Capital preservation strategies can substitute part of an equity allocation for approaches that can help limit any declines while retaining some exposure to potential gains. Index-level volatility is relatively low, and interest rate expectations relatively high, improving the terms on such strategies.

We also see an opportunity for investors to *lock in yields* in quality bonds at current levels. We believe this can help prepare portfolios for scenarios in which growth slows and interest rate expectations fall. Our preferred duration remains between two and five years.

Diversification beyond traditional equities and bonds is also important.

Alternatives can help investors broaden sources of return.

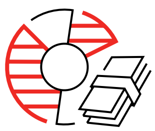
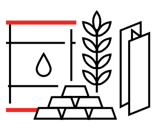
Alternatives—including hedge funds, private equity, and private credit—can help broaden sources of return. *Positioning for a commodity upcycle* can offer potential protection in scenarios where higher inflation expectations challenge both equities and bonds. It can also provide a structural source of return, supported by trends such as electrification and rising power demand. Investors should be aware of idiosyncratic risks of private market investments, including illiquidity and lower transparency.

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
Position for market upside	Our base case of robust AI investment, broadening earnings growth, and gradually easing inflation supports further equity market gains. But investors should ensure single-stock exposures are diversified, while positioning for cyclical broadening. Becoming dependent on a few individual stocks, particularly in the fast-moving technology sector, increases portfolio risks. Investors should combine a broadly diversified core equity allocation with targeted exposure to transformational innovation and cyclical opportunities across sectors including industrials, financials, consumer discretionary, and select regional markets.	• Diversify single-stock exposure • Targeted exposure to Transformational Innovation Opportunities (TRIOs) and longer-term investments • Position for a cyclical broadening (through our preferred regional markets and sectors) • Multifactor strategies • Structured upside participation strategies **Source of funds** • Excess single-name exposure • Excess US tech exposure • Cash • Money market funds • Expiring fixed-term deposits
Lock in yields	Current bond yields provide an opportunity to lock in attractive income and strengthen portfolio resilience. We favor quality bonds with short- to medium-term maturities, which could perform particularly well if growth slows materially and interest-rate expectations decline. Building this exposure now can diversify equity risk while reducing reinvestment risk if yields fall.	• Diversified fixed income strategies (with preference for quality bonds, EM credit, high yield) • Select exposure to subordinated debt • Equity income strategies • Yield-generating structured investment strategies **Source of funds** • Cash • Money market funds • Expiring fixed-term deposits

MIFs	Elevator pitch	Investment ideas
Consider capital preservation 	Investors can make their portfolios more robust to potential adverse scenarios by incorporating strategies designed to help manage downside risks while retaining participation in potential gains. This may be particularly relevant for investors with concentrated portfolios, lower tolerance for drawdowns, or near-term liquidity needs. Capital preservation approaches can strengthen portfolio resilience while allowing investors to maintain some upside exposure.	• Capital preservation strategies
		Source of funds • Existing equity allocations • Cash • Money market funds • Expiring fixed-term deposits
Position for a commodity upcycle 	Commodities can provide both a structural source of return and diversification in scenarios where energy disruption or renewed inflation challenges equities and bonds. Electrification, rising power demand, AI infrastructure investment, and constrained supply support the longer-term outlook. Investors should diversify across precious metals, energy, industrial metals—including copper—and agriculture. An actively managed approach can help navigate changing supply conditions, geopolitical risks, and shifts in market leadership.	• Broad commodities • Copper • Structured investment strategies in gold
		Source of funds • Excess gold • Cash • Money market funds • Expiring fixed-term deposits • Correcting overexposure to other asset classes

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 17).

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 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 Equity	
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.	Q2 earnings have generally been received favorably by the market, with S&P 500 EPS growth over 30% and broadly positive guidance. Sectors benefiting from the first- and second-order effects of the AI trade, including Consumer Discretionary, Financials, Health Care, Industrials, and Utilities, should continue to perform well in this environment. Index volatility has remained muted, while single-stock dispersion remains elevated, though it has retreated from extreme levels, implying continued alpha opportunities.
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. Macro conditions are supportive, with the economy currently in a reflationary regime, and it should remain that way over the medium term. Earnings fundamentals are even stronger, boosted by AI investment. Declining inflation should keep the Fed on hold, allowing yields across the Treasury curve to fall. A continued rise in energy prices and a policy error are near-term risks. We prefer to express this beta view by adding to global equities.
Carry	Carry positions are those that increase portfolio income relative to their funding sources.	Spreads across most fixed income asset classes are near recent tights and below their long-term averages. Investment-grade technology credit remains an outlier as the market continues to absorb more than USD 200bn of year-to-date AI-related issuance. Consequently, we are selective when seeking carry, generally favoring a diversified allocation to high-quality fixed income. We maintain a preference for agency MBS and high-quality CMBS, and prefer to take corporate credit risk through high yield, which offers higher income with lower interest-rate sensitivity.
Duration	Duration positions either shorten or lengthen portfolio duration relative to the benchmark.	Volatility on rates is elevated and likely to remain so, especially on the long end of the curve. We expect the yield curve will steepen with short-end yields declining as the market prices out expected Fed rate hikes. Longer-duration yields may remain elevated with the risk that stronger growth, firming term premiums, and higher inflation expectations contribute to a rise in long-end yields. As a result, we maintain short- to intermediate-duration bias.
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 adversely impact almost all asset classes. Gold has recently benefited with the buyback announcement from the Treasury and is an attractive diversifier over the medium to long term against rising geopolitical and de-dollarization risks.

US economic outlook

Resilient growth supported by private demand and AI investment, while elevated inflation keeps the Fed on hold

Andrew Dubinsky, US Senior Economist

Overview

US economic activity remained solid through the first half of 2026, supported by tax cuts, wealth effects from higher equity prices, and strong AI-related investment. While fiscal support is set to fade and elevated inflation continues to weigh on real incomes, underlying private demand remains healthy and growth should remain near 2% in 2H26, broadly in line with 1H26. Inflation has improved but remains above 3%, reinforcing the Fed's restrictive policy stance. Consistent with post-July FOMC communication, we expect policymakers to remain in wait-and-see mode going into 2027 as long as inflation continues to improve gradually.

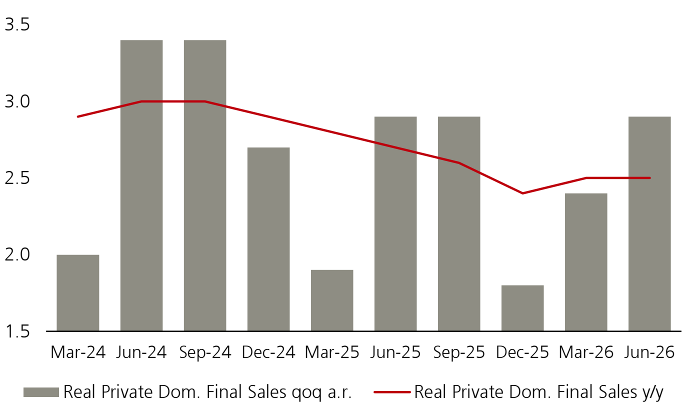
Growth

Growth remained resilient through the first half of the year, supported by strong consumer spending, healthy private demand, and continued strength in business investment. Although second-quarter GDP growth was restrained by inventory reductions, underlying demand conditions remained firm, with consumption and fixed investment expanding at a near 4% pace. Tax cuts and wealth effects from higher equity markets continue to support activity, while AI-related capital expenditure remains a tailwind. Adjusting for trade-related distortions, AI investment has added roughly 50bps to GDP growth over the past year and should continue to provide meaningful support into 2027. While fading fiscal stimulus and pressure on real household incomes are expected to moderate activity in the second half, overall GDP growth should remain near trend at around 2%.

Figure 1

Private spending remains strong in 1H aided by wealth gains and capex

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

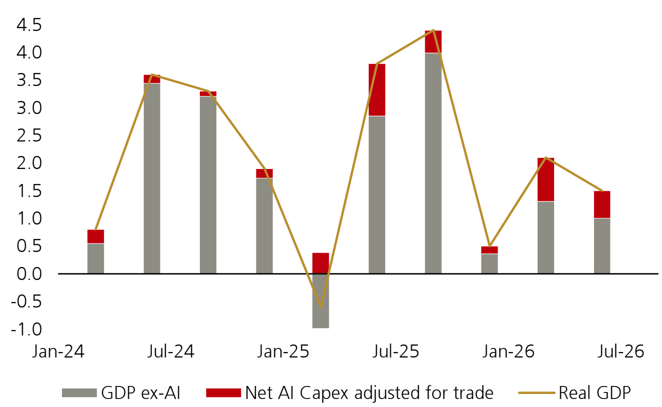


Source: Bloomberg, UBS, as of 19 August 2026

Figure 2

GDP growth continues to be boosted by AI-capex

Real GDP q/q a.r. and AI Capex contrib. adj. for trade (%)



Source: Macrobond, UBS, as of 19 August 2026

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

Read the report ›

Inflation

Inflation remains the primary challenge for the Fed, although recent data have been encouraging. Core CPI eased to 2.5% y/y in July, while core PCE is tracking at approximately 3.3% y/y. Monthly inflation trends have moderated from the pace seen earlier in the year, reflecting easing tariff-related goods inflation. Services inflation, particularly rent, remains contained, while ongoing cooling in wage growth should support further disinflation over time. Nonetheless, inflation remains above target, and AI-driven demand pressures alongside potential Middle East-related supply disruptions present important upside risks for the second half of the year.

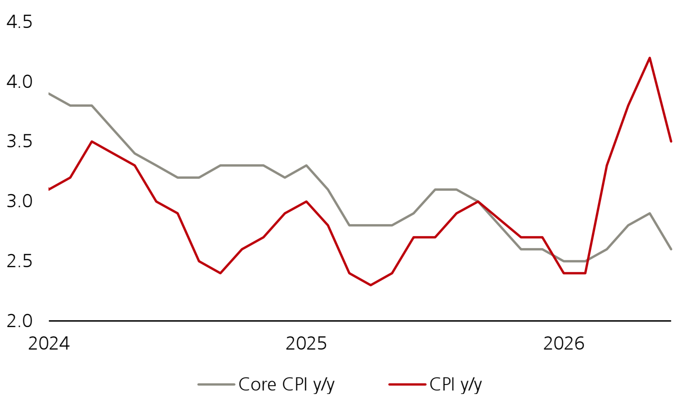
Fed policy

The July FOMC meeting highlighted ongoing divisions within the Committee, but recent communication suggests Fed leadership remains comfortable maintaining a restrictive policy position while inflation continues to improve. Above-target inflation, with core PCE still over 3% y/y, and lingering upside risks argue against near-term easing, while moderating tariff-related inflation pressures support the outlook for further core disinflation. We continue to expect the Fed to remain on hold for the remainder of 2026, with policymakers focused on clearer evidence that inflation is moving toward target. As inflation gradually moderates and labor market risks potentially increase given the restrictive policy stance, we expect conditions to emerge for rate cuts in mid-2027. However, if inflation progress stalls during the second half of 2026, the case for renewed policy tightening would strengthen.

Figure 3

July showed more disinflation and more expected in 2H

Core and CPI y/y (%)

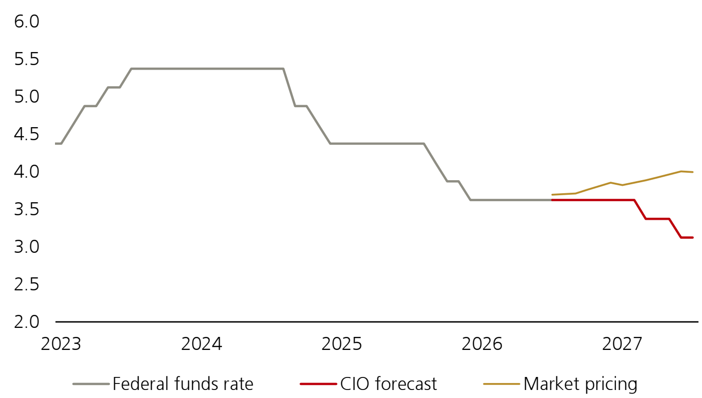


Source: Bloomberg, UBS, as of 19 August 2026

Figure 4

FOMC market pricing of hikes is hawkish vs. the CIO forecast

Midpoint of FOMC policy rate range



Source: Bloomberg, UBS, as of 19 August 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: 6,444)	June 2027 target
House view	**7,100**
↗ Positive scenario	7,600
↘ Negative scenario	4,700

Note: All current values as of 19 August 2026

We rate Eurozone equities as Attractive. Europe's 2Q results reinforce our view that a strong and increasingly broad earnings cycle is underway. We lift our earnings growth forecast to 15% and continue to see around the same in 2027. This supports further upside for European equities. European IT is upgraded to Attractive after its recent correction. P/E valuations are no longer stretched and renewed strength in earnings momentum adds fundamental support with AI capex expectations continuing to rise. We favor a combination of cyclical and structural growth opportunities in the region.

Emerging markets

ATTRACTIVE

MSCI EM (index points, current: 1,668)	June 2027 target
House view	**1,920**
↗ Positive scenario	2,050
↘ Negative scenario	1,300

Note: All current values as of 19 August 2026

We rate Emerging market equities as Attractive. This is supported by resilient earnings momentum, easing macro uncertainties, continued AI demand, and improving market breadth. EM earnings momentum remains robust and is broadening beyond AI-related technology stocks, with positive revisions spreading across regions and sectors. We upgrade Taiwan to Attractive. We favor maintaining a full strategic allocation to the asset class and diversifying across regions and sectors to capture potential recovery and structural growth opportunities.

Japan

ATTRACTIVE

TOPIX (index points, current: 4,012)	June 2027 target
House view	**4,500**
↗ Positive scenario	4,800
↘ Negative scenario	2,800

Note: All current values as of 19 August 2026

We rate Japanese equities as Attractive. While the Nikkei 225 and Topix corrected by 15% and 4% in July from their recent peaks, they have still delivered YTD gains of 31% and 19%. The market has likely established a cyclical bottom, supported by resilient earnings growth and attractive valuations. Despite the recent correction driven by AI-related weakness and yen appreciation, underlying fundamentals remain intact. Corporate earnings continue to exceed expectations, with June-quarter EPS growth above 60% y/y. Japanese equities remain among the best-performing developed markets this year.

UK

NEUTRAL

FTSE 100 (index points, current: 10,743)	June 2027 target
House view	**11,500**
↗ Positive scenario	12,300
↘ Negative scenario	7,700

Note: All current values as of 19 August 2026

We rate UK equities as Neutral. We see a supportive backdrop with reasonable valuations and strong earnings—we forecast 16% earnings growth this year and 9% 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

We retain our Attractive view on US equities. Resilient economic growth, a patient Federal Reserve, and accelerating AI adoption remain the three key pillars supporting our view that the bull market remains intact.

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

US equities

ATTRACTIVE

Stocks have continued to rise despite periodic bouts of volatility tied to AI sentiment, interest rates, energy prices, and geopolitics. More importantly, the rally has become increasingly broad-based. The second-quarter earnings season has produced strong results: not only has AI adoption continued to exceed expectations, but conditions have also improved in more cyclical parts of the economy. Reflecting these developments, we have increased our S&P 500 earnings estimates. Our 2026 EPS estimate is now USD 350 (25% growth) and our 2027 EPS estimate is now USD 400 (14% growth). The stronger earnings outlook led us to raise our S&P 500 targets to 8,100 for December 2026 and 8,400 for June 2027. While risks remain, in our view, the three pillars of the bull market remain firmly in place: resilient growth, a patient 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 angles. In industrials, long cycle end-markets like aerospace provide good growth, and segments such as transportation provide short-cycle upside. For consumer discretionary, AI adoption is a key driver for the largest companies in the sector. Wealth effects and moving past 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 some exposure to AI trends.

US equities – size

We are neutral across size segments. Smaller size segments have benefited more so this year from an improving earnings backdrop, the AI infrastructure buildout, resilient growth, 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, driven by a more moderate benefit from fiscal stimulus and decelerating, but resilient, economic growth.

US equities – style

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

S&P 500 (index points, current: 7,708)	June 2027 target
House view	**8,400**
↗ Upside	9,500
↘ Downside	5,500

Note: All current values as of 19 August 2026

Figure 1

Selective within US equity sectors

S&P 500 sector preferences

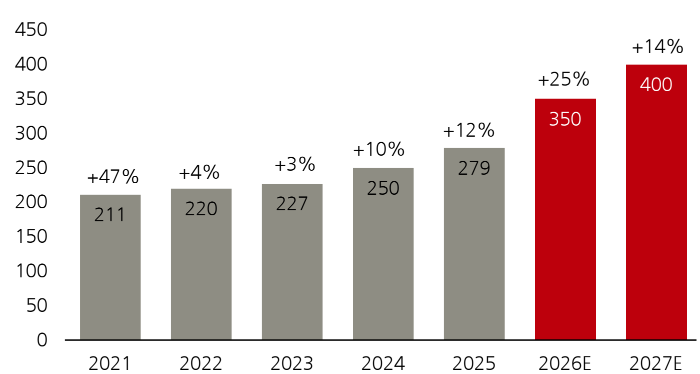
	Unattractive	Neutral	Attractive
US equities			
Communication services		=	
Consumer discretionary			+
Consumer staples		=	
Energy		=	
Financials			+
Health care			+
Industrials			+
Information technology		=	
Materials		=	
Real estate		=	
Utilities			+

Source: UBS, as of 20 August 2026

Figure 2

Stronger earnings outlook for the S&P 500

Annual S&P 500 EPS, actuals and CIO estimates



Source: FactSet, UBS, as of 20 August 2026

Bonds

We maintain Attractive views on the sub-segments US government, emerging market and high yield. Elevated starting yields may support total returns and provide some cushion against changes in interest rates and credit spreads. Minutes from the July FOMC meeting highlighted continued concerns about inflation. However, recent data do not indicate that further policy tightening is imminent. We expect Treasury yields to moderate next year, with the 2- to 5-year segment offering the most favorable risk-reward profile. Long-end yields may also moderate, although fiscal deficits, heavy investment-grade issuance, and concerns about debt sustainability could continue to generate volatility. In addition to our preference for short-maturity Treasuries, we maintain Attractive views on agency mortgage-backed securities (MBS), high-yield 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; **Sudip Mukherjee,** Fixed Income Strategist

Government bonds

ATTRACTIVE

US 10-YEAR YIELD (current: 4.7%)	June 2027 target
House view	**4.0%**

Note: All current values as of 19 August 2026

We expect the Fed to remain on hold in 2026 before implementing two rate cuts in 2027. While we see value in current longer-end yields, volatility in the long end should remain elevated in the near term. We still are in the short to intermediate part of the yield curve and remain patient for our next move to extend interest rate risk. We continue to believe yields will trend lower into year-end, reaching ~4.25% by year-end and ~4% by mid-2027 as the market shifts to a dovish bias on the heels of lower inflation and softer growth.

US investment grade corporate bonds

NEUTRAL

US IG SPREAD (current: 81bps)	June 2027 target
House view	**80bps**
↗ Positive scenario	70bps
↘ Negative scenario	180bps

Benchmark: ICE BofA
Note: All current values as of 19 August 2026

All-in yields stand at 5.4% 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 should government bond yields move lower. We recommend investors with excess cash holdings add short- to medium-duration IG bonds for income.

Emerging market bonds

ATTRACTIVE

EMBIG DIV. / CEMBI DIV. SPREAD (current: 245bps / 214bps)	June 2027 target
House view	**250bps/220bps**
↗ Positive scenario	210bps/190bps
↘ Negative scenario	500bps/450bps

Note: All current values as of 19 August 2026

We keep emerging market credit at Attractive. The asset class has been resilient in the face of ongoing geopolitical stress, enhancing its role as a key portfolio diversifier amid developed markets' fiscal challenges. We expect range-bound to slightly wider spreads over the investment horizon, which should result in carry-driven mid- to high-single-digit total returns. Key risks include US policy uncertainty, inflation worries, 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: 273bps)	June 2027 target
House view	**300bps**
↗ Positive scenario	250bps
↘ Negative scenario	650bps

Benchmark: ICE BofA
Note: All current values as of 19 August 2026

High yield is one of the top performers within fixed income, gaining 2.5% year to date. 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 high yield over the next 12 months. We consider the 7.1% yield an attractive carry for investors, as returns are likely to be driven primarily by income rather than price appreciation.

Municipal bonds

NEUTRAL

We remain Neutral. Munis have experienced elevated volatility since the end of June, driven by Treasury rate volatility as geopolitical tensions and concerns over sticky inflation remain front and center. Year to date, munis are still outperforming Treasuries, IG corporate bonds, and MBS. The index tax-equivalent yield at 6.6% is attractive. Despite modest outflows recently, net inflows have been strong YTD, although technicals are expected to weaken in the near term. Overall, we maintain a constructive outlook.

Non-US developed fixed income

NEUTRAL

Long-maturity non-US developed-market (DM) government bond yields rose over the month and remain elevated, near their highest levels of the year. Central bank expectations are skewed to hikes across regions, with around 60bps of ECB hikes and more than 70bps of BoJ hikes priced in. In addition to expectations of near-term policy tightening, which anchor the front end, long-maturity bonds have seen term premiums increase. The rising compensation for uncertainty in long-maturity bonds can be attributed to elevated government deficits, corporate supply linked to financing AI capex, and concern about more frequent supply shocks. However, we continue to question whether the extent of rate hikes currently priced by markets will be sustained as upside inflation risks moderate and central banks' hawkish rhetoric softens. US Treasuries continue to offer the highest yields in developed markets. As a result, we do not see a compelling case for a strategic allocation to non-US bonds at this time.

Additional US taxable fixed income (TFI) segments

Agency bonds

We have an Unattractive view on agency debt. With spreads tight, we see greater value and higher yields in agency MBS and taxable municipals. The current spread is +9bps (versus +8bps last month).

Mortgage-backed securities (MBS)

ATTRACTIVE

We maintain an Attractive allocation to agency MBS. The high credit quality, lower supply, and ample liquidity combined with the 5.6% 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, within a range of 105-118bps since mid-June. Bank buying has picked up as the yield curve steepened, and although securitized products have outperformed the IG index by 65bps and 130bps, respectively, we continue to favor the sector.

AGENCY MBS SPREAD (current: 114bps)

June 2027 target	**85bps**
↗ Positive scenario	80bps
↘ Negative scenario	160bps

Note: All current values as of 19 August 2026

Preferred securities

NEUTRAL

Surging rates created a summer storm of headwinds for fixed income, especially USD 25 par preferreds where duration extended to record levels of 9 years. Returns have been more resilient for lower-duration USD 1,000 pars and the performance disparity widened in August, bringing the longest stretch of return divergence since at least 2016. YTD returns stand at roughly -2% versus 2% for USD 25 pars and USD 1,000 pars, respectively. Mean reversion suggests potential gains ahead for USD 25 pars, especially if Treasury rates stabilize and trend lower. USD 1,000 pars may find continued support from a wave of upcoming redemptions.

Treasury Inflation-Protected Securities (TIPS)

NEUTRAL

The rise in real yields has been the driver of rising nominals as growth remains resilient and longer-term inflation expectations, while above the 2% 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: 2.36%)	June 2027 target
House view	**1.60%**
↗ Positive scenario	0.75%
↘ Negative scenario	2.50%

Note: All current values as of 19 August 2026

Figure 1

UBS CIO interest rate forecast

In %

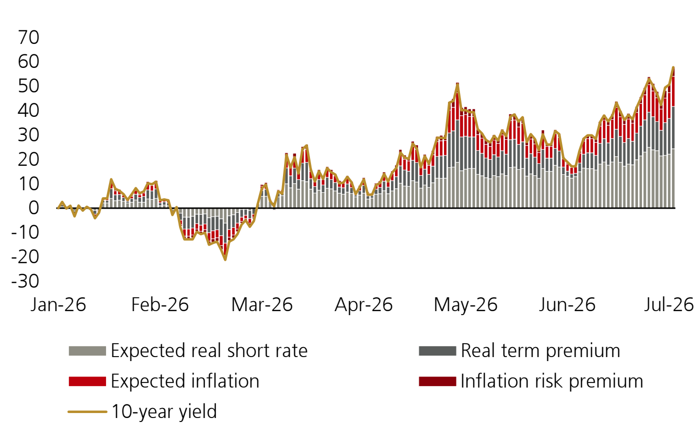
UST	Current	Sep-26	Dec-26	Mar-27	Jun-27
2-year	4.2	4.1	3.9	3.5	3.3
5-year	4.3	4.2	4.0	3.6	3.4
10-year	4.7	4.5	4.3	4.0	4.0
30-year	5.2	5.0	4.8	4.5	4.5

Source: Bloomberg, UBS, as of 19 August 2026

Figure 2

10-year Treasury yields have risen mostly due to higher expected real short rates and term premium

YTD change, in bps



Source: NY Fed, Moody's, UBS, as of 31 July 2026

Commodities

We believe broad commodity exposure offers an attractive mix of diversification and growth potential. Commodities can offer a valuable hedge against inflation and supply shocks, and their typically low correlation with equities and bonds can make them an effective portfolio diversifier, especially in periods of market stress. In the current environment, we believe energy exposure can help buffer against renewed supply disruptions, El Niño-related risks should support agricultural commodities, and 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 global debt concerns over the long term.

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 4,397/oz) June 2027 target

NEUTRAL

House view	USD 5,200/oz

Note: All current values as of 19 August 2026. Gold may sometimes be considered a relative "safe haven" asset whose price tends to rise when risk assets, such as equities, fall, and vice versa.

BRENT (current: USD 91.1/bbl) June 2027 target

NEUTRAL

House view	USD 80/bbl

Note: All current values as of 19 August 2026

Gold

Gold has rallied sharply, but we believe a sustained higher move requires further macroeconomic support. In our view, disinflation, lower interest rates, and firmer investment demand should drive prices higher over the next 6-12 months. Recent communication from the Federal Reserve has left the near-term path for interest rates uncertain. Softer US labor market data have also reinforced expectations that the Fed may be able to keep rates unchanged if inflation pressures remain contained. Demand-related factors have provided additional support. Gold exchange-traded fund (ETF) inflows have resumed, initially driven by China and, more recently, by Europe. Meanwhile, central bank activity has remained solid. According to the World Gold Council, central bank net purchases reached 51 metric tons in June. In July, the People's Bank of China (PBoC) increased its gold reserves by 20 metric tons, the largest monthly increase since October 2023.

Base metals

LME copper prices rose above USD 14,500 per metric ton (mt) after the Democratic Republic of the Congo (DRC) imposed an immediate ban on copper-concentrate exports, adding to an already tight market. At the same time, copper shipments to the US have surged ahead of a potential decision on refined-copper imports, drawing the metal into the country, reshaping global trade flows, and reducing inventories elsewhere. Meanwhile, China's Yangshan copper premium—an indicator of demand for imported copper—rose to USD 115/mt in July from around USD 50/mt at the start of 2026, before easing to below USD 85/mt this week. Despite the pullback, the premium remains elevated, signaling continued tightness in the physical market.

Crude oil

In recent years, we have regularly encountered claims that oil demand is close to peaking and that demand growth is slowing rapidly. Over the past few years, oil demand forecasts from the International Energy Agency—widely used by market participants as a baseline for analysis—have repeatedly been revised significantly higher. We believe oil demand will continue to grow over the coming years, supported by emerging markets.

Agriculture

In the current environment, we believe energy exposure can help buffer against renewed supply disruptions, El Niño-related risks should support agricultural commodities, and the AI boom and electrification trend remain positives for industrial metals.

Foreign exchange

We maintain a Neutral view on the US dollar. The currency has weakened around 2.5% over the past month as softer labor market and inflation data have contributed to reducing Fed policy tightening expectations. A more dovish July Fed meeting also led to unwinding of long USD positions, thereby weakening the USD. The recent US Treasury announcement to increase buybacks of long-term bonds also weighed on both US yields and USD valuations. We expect the high carry and commodity theme to be supportive for the GBP, NOK, and NZD, and we have an Attractive view on those currencies. 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 be muted in the near term by a stable policy rate with the market pricing in hikes.

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

We maintain a Neutral view on the US dollar. The currency has weakened by around 2.5% over the past month, as softer labor market and inflation data have reduced expectations for further Fed policy tightening. A more dovish July Fed meeting also led investors to unwind long US dollar positions, further weakening the currency. Recent US Treasury actions to increase buybacks of long-term bonds also weighed on US Treasury yields and USD valuations. We expect the high-carry and commodity theme to be supportive for the GBP, NOK, and NZD, and therefore maintain an attractive view. 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 be muted in the near term by a stable policy rate, despite market pricing for further 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	Dec-26	Mar-27	Jun-27	Sep-27
EURUSD	1.17	1.18	1.20	1.20	1.20
USDJPY	158	160	158	158	158
GBPUSD	1.36	1.40	1.41	1.41	1.41
USDCHF	0.80	0.80	0.78	0.77	0.77
USDCAD	1.38	1.39	1.38	1.36	1.36
AUDUSD	0.71	0.70	0.71	0.72	0.73
NZDUSD	0.59	0.61	0.62	0.62	0.63
USDSEK	9.45	9.32	9.08	8.92	8.83
USDNOK	9.33	9.07	8.83	8.75	8.75

Sources: SIX Financial Information, UBS, as of 20 August 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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