UBS

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What to watch in the week ahead

Weekly Global

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- Higher-than-expected US inflation and strong employment data have reinforced expectations of a Federal Reserve rate increase. With markets already braced for a hike, attention will likely focus on the economic projections and the tone of the Fed chair's comments. We believe resilient growth and robust earnings should enable equities to withstand moderately higher rates.
- The European Central Bank raised rates last week and signaled greater concern about persistent inflation. Decisions from the Bank of England and Bank of Japan will test how higher energy costs are affecting policy across major economies. We expect rates to remain unchanged in the UK through year-end, while Japan continues a gradual tightening cycle.
- Strong cloud results from Oracle reinforced evidence that demand for AI computing capacity remains robust. But leading AI executives have also called for greater attention to safety and oversight. Investors will assess whether this debate could slow model development or redirect spending toward safeguards. We retain conviction in the broader AI growth story and favor diversified exposure across the value chain.

Will the Fed signal more hikes to come?
Markets have become increasingly convinced that Federal Reserve tightening is on the way. US core consumer prices rose 0.3% month over month in August, above the 0.2% consensus forecast. Combined with the strong August employment report, the release reinforced expectations that the Fed will raise rates at the conclusion of this week's meeting. Markets ended the week pricing roughly a 90% probability of a 25-basis-point hike in September, and the S&P 500 rose 0.9% on Friday.

With markets already braced for an increase, the main focus looks likely to be on the tone of the Fed chair's comments, alongside the updated economic projections and projected path for interest rates. Investors will assess whether policymakers present the move as the beginning of a more persistent tightening phase or preserve scope for patience after September. Changes to the inflation and growth forecasts could also help show how officials are weighing uneven disinflation against continued economic strength. US retail sales, released earlier on Wednesday, will offer guidance on whether consumer demand remains strong enough to absorb higher borrowing costs.

Our base case is for the Fed to raise rates by 25 basis points this week and again in December. However, we expect the economic effect of this additional tightening to remain modest. The Fed's model suggests that 50 basis points of rate increases would reduce growth by only a few tenths of

The Fed meeting
- For our latest assessment of why resilient growth and robust earnings should enable equities to withstand moderately higher interest rates, read UBS House View Daily - US Morning: "Stock outlook remains constructive."
- Hear our view on the key questions facing policymakers, including whether the expected September rate increase could mark the start of a more persistent tightening phase, in Jump Start podcast: "Will the Fed signal more hikes to come?"
- For the implications of higher interest rates for investors, watch the Market Playbook video: "What do rate hikes mean for portfolios?"

Will other central banks follow the ECB's hawkish lead?
- For our detailed assessment of the European Central Bank's latest rate increase, the prospect of further tightening, and the implications for European currencies, fixed income, credit, and equities, read "ECB review: Further tightening ahead."
- Attention now turns to the Bank of England. Read Weekly - Regional View UK: "Get ready for another hawkish hold" for Dean Turner's view on how higher energy prices and resilient economic activity are affecting the outlook for UK monetary policy.
- Beyond monetary policy, Europe's changing political landscape could affect fiscal policy, global trade, and investment. In the latest "Across the Pond," Paul Donovan joins Christopher Swann and Belinda Ulander to

a percentage point, while strong employment, expanding factory activity, and AI-related investment continue to support revenues and earnings. We remain Attractive on global equities and recommend broad exposure across sectors and regions, while reducing excessive dependence on individual stocks.

Will other central banks follow the ECB's hawkish lead?

The European Central Bank struck a hawkish tone as it raised rates last week, with its president describing the unanimous decision as a "no-brainer." The deposit rate was raised by 25 basis points to 2.5%, while updated projections showed inflation remaining above the ECB's 2% target throughout the forecast horizon. Core inflation is projected to rise from 2.5% in 2026 to 2.6% in 2027 before easing to 2.3% in 2028. The ECB's message reflected both greater-than-expected economic resilience and renewed pressure from energy prices. Brent crude ended the week about 8% higher, after attacks prompted Saudi Arabia to shut its East-West oil pipeline as a precaution after recent attacks.

The Bank of England and Bank of Japan now face policy tests of their own. UK labor market data arrive on Tuesday and inflation figures on Wednesday, the day before the next Bank of England decision. Investors will assess whether higher energy costs are broadening into wages and services prices, or whether softer areas of employment and growth allow policymakers to remain patient. Japanese trade data arrive on Wednesday, followed by inflation figures and the Bank of Japan meeting on Friday. Attention will focus on the pace of further policy normalization and whether underlying inflation provides sufficient support for another step toward higher rates.

Our base case is for the Bank of England to keep its policy rate at 3.75% through December, before lowering it to 3.50% in March 2027 and 3.25% in June. We expect the Bank of Japan to move in the opposite direction, raising its policy rate from 1% currently to 1.25% by December and 1.75% by June 2027. The ECB is also likely to raise its deposit rate once more, in our view, before pausing. While higher energy costs support restrictive policy, limited evidence of entrenched second-round effects argues against a rapid synchronized hiking cycle. We continue to favor quality bonds: Higher yields are now creating increasingly attractive entry points further out the curve. Medium- to longer-dated high-quality bonds could offer both attractive income and diversification benefits if tighter policy ultimately slows growth or reinforces confidence in the inflation outlook. Meanwhile, broad commodity exposure can help diversify portfolios against further inflation or supply disruption.

Can the AI investment cycle withstand calls for restraint?

Recent cloud results provided striking evidence that demand for AI computing capacity remains robust. Oracle reported more than USD 30 billion of additional AI cloud contracts in its fiscal first quarter, lifting its revenue backlog to USD 664 billion, while cloud infrastructure revenue rose 121%. The resulting optimism was tempered over the weekend, however, when several prominent AI executives also publicly acknowledged that oversight may need more time to catch up with model development. The debate contributed to weakness in AI-linked stocks in Asia on Monday, with the Kospi falling 3.3% and semiconductor shares leading the decline —despite a skeptical response to the calls from President Trump.

Investors will closely follow whether the debate changes the pace or composition of AI investment. A broad voluntary slowdown appears

discuss the implications for European integration and portfolio diversification. Apple I Spotify

AI and diversification

- Stronger safeguards for advanced AI models have raised concerns about the sustainability of the AI investment cycle. Read "AI quick pulse: Separating AI safety concerns from AI spending reality" for our view on why AI adoption, inferencing demand, and competitive pressures should continue to support infrastructure investment.
- For the broader portfolio implications, read "How can I invest in transformational innovation?", which considers targeted exposure to *AI*, *Power and resources*, and *Longevity* alongside a diversified equity portfolio.
- Strong earnings growth is also broadening beyond the US and AI. Read "Why should investors broaden beyond US stocks?" for our view on diversifying stock exposure across preferred regions, sectors, and return drivers while managing concentration risk.

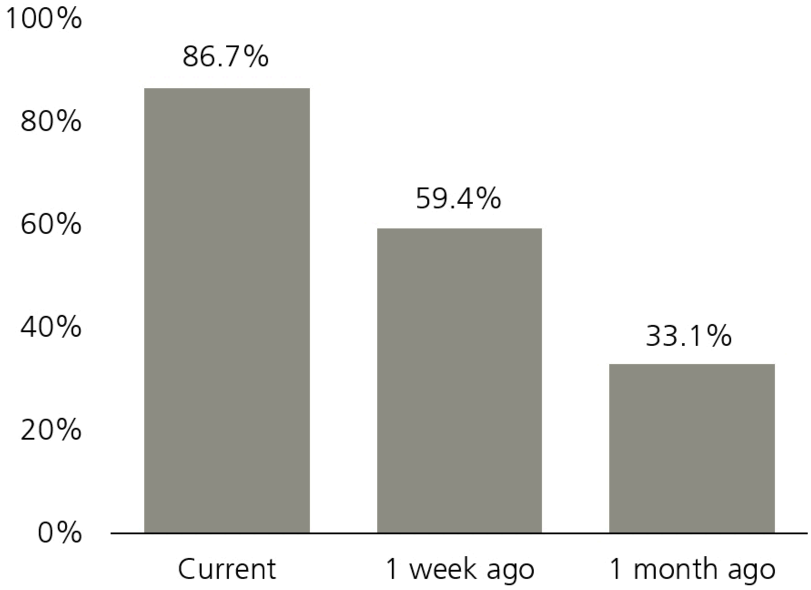
difficult while competition between companies and countries remains intense. Even so, greater spending on safety, monitoring, and governance could redirect some investment without reducing its overall scale. Meanwhile, economic data from around the world this week will provide a test of whether AI-led investment strength is part of broader economic resilience. Chinese industrial production and retail sales are due on Tuesday, US retail sales on Wednesday, and US housing starts and building permits on Thursday.

Our base case is that AI investment will remain robust and continue to support economic growth and corporate earnings. We project global AI-related capital expenditure to rise from around USD 900 billion in 2026 to USD 1.2 trillion in 2027. Rapid growth in AI usage and cloud revenue provides encouraging evidence on demand and monetization. Investors should retain selective and diversified exposure to AI, including semiconductors and cloud computing, while also considering more defensive technology segments. More broadly, robust investment and earnings growth support our Attractive view on equities and our expectation that market participation can broaden beyond a narrow group of technology leaders.

Chart of the week

US inflation came in slightly stronger than expected in August, with core CPI rising 0.3% monthly versus the 0.2% consensus forecast, while headline CPI increased 0.4%, marginally above expectations of 0.38%. Much of the upside surprise in core inflation came from non-rent core services, including communications and education services, which contributed around 12bps to core CPI. Other stronger categories included more volatile components such as hotel and airfare inflation. While the inflation report does not signal a reacceleration in inflation, it suggests that disinflation progress may be stalling. Following the inflation release, markets have swiftly increased the probability of a Fed rate hike at the September FOMC meeting to nearly 90%, up from about 60% just a week ago. Given Fed Chair Warsh's emphasis on inflation needing to improve at a "satisfactory speed," we believe the latest data strengthen our base case for a 25-basis-point rate hike in September, followed by another in December.

Warm inflation data strengthen the case for Fed rate hikes
Market implied probabilities for a 25bps rate hike at the September Fed meeting, %



CME FedWatch, UBS, as of Sep 2026

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, 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.
- Foreign Exchange/Currency Risk: Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

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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 a five-tier rating system with two additional preferences
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."

Appendix

Risk information
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