



UBS House View

Monthly Extended **October 2025**

Chief Investment Office GWM
Investment Research

Erratum: We expect the Bank of England to cut rates 50bps by mid-2026, not by 75bps as stated in the original report on page 6, published on 18 September 2025.

This report was prepared by UBS AG London Branch, UBS Switzerland AG, UBS AG Hong Kong Branch, UBS AG Singapore Branch and UBS Financial Services Inc.

In this edition, we add more categories to our global asset class preferences, issue a new ratings methodology more focused on factors including 12-month returns, and release our December 2025 price targets for equities.

To see our most recent forecasts, please refer to our publication called "Global forecasts "

To get our most recent CIO Views, click [CIO Views](#)

Please see the important disclaimer at the end of the document.

This document is a snapshot view. For all other forecasts and information, we advise you to check the Investment Views section in your E-Banking or in Quotes.

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Section 1

Investment views

Section 1.1

Asset class outlook

Asset class outlook

Summary of views

We maintain a Neutral stance on global equities, keep the US on Neutral, and move Japan to Attractive.

In bonds, we like investment grade and high grade, whereas emerging market and high yield remain Neutral.

In commodities, we hold a preference for gold.

In foreign exchange, we have the EUR, NOK, and AUD at Attractive; the JPY, CHF, GBP, and CNY at Neutral; and the USD at Unattractive.



Equities

Global equities have extended their gains, supported by resilient corporate earnings and buoyant investor sentiment.

We see scope for further gains, but selectivity and diversification remain key as markets navigate shifting macroeconomic dynamics.

We recommend that investors use any periods of volatility or market pullbacks as opportunities to add exposure—particularly to our Transformational Innovation Opportunities (TRIOs): Artificial Intelligence, Power and resources, and Longevity.

We have upgraded Japan to Attractive, as the new leadership is likely to adopt more accommodative policies and earnings are showing resilience.

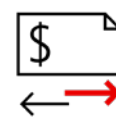


Bonds

We maintain our Attractive asset class recommendations on high grade and investment grade bonds, and rate high yield and emerging market credit as Neutral.

Recent weakness in the US labor market has brought US rate cuts back into focus after an extended pause, providing a tailwind to returns and a drop in yields across the curve. We see downside risks to growth rather than upside risks to inflation as more of a policy priority. Hence, we continue to see total returns as appealing for the asset class.

Tactically we see value in long-duration positioning relative to strategic benchmarks in the US, UK, and Germany, particularly in the belly of the curves. The ultra-long end has continued to cheapen and presents value; however, it will likely remain more sensitive to fiscal developments as we have seen over the past month.



Foreign exchange

The Fed has finally cut rates by 25 basis points and is signaling further reductions ahead. While widely anticipated, the prospect of lower real rates should continue to weigh on the USD, potentially driving mid-single-digit declines.

The combination of cyclical slowdown, structural imbalances, and a still rich valuation gives the USD an unfavorable risk-reward profile. This is reflected in increased demand for FX-hedged USD assets by foreign investors.

We keep the EUR, NOK, and AUD at Attractive. We also prefer long positions in high-yielding currencies versus low-yielders, both within G10 and emerging markets. While this approach carries a pro-growth and risk-on posture, we see attractive carry opportunities, as we expect growth to recover in 2026.



Commodities

Precious metals continue to stand out versus other commodity sectors (in fact, against all asset classes), with gold reaching fresh record highs and silver at a 14-year high. Livestock has also delivered strong double-digit gains in 2H, while energy, industrial metals, and agriculture struggled. We expect these sector trends to persist until year-end, but in 2026, we see an uplift in broad commodity indices as a cyclical recovery emerges.

Section 1.2

Risk scenarios

Key scenarios for June 2026

		Bull case: Tech boom	Base case: Soft landing	Bear case: Material slowdown
Probability		20%	60%	20%
Market path		Bonds mixed, equities much higher	Bonds slightly up, equities moderately higher	Bonds up, equities down
Possible scenario catalysts	Economic growth	Reduced noise and healthy consumption allow the US economy to surprise positively. Residual negative tariff effects are offset by deregulation and lower taxes. Policy stimulus in China and the EU proves effective.	US grows slightly below trend (GDP up 1.5-2.0% in 2025 and 1.0-1.5% in 2026) owing to a soft but healthy labor market (unemployment below 5.0%) and weaker but positive consumption growth. Other major economies also experience below-trend but positive growth in both 2025 and 2026. Policy stimulus in Europe and China helps to partially offset the weakness in economic activity.	Lagged effects of US tariff and migration policies and concerns about AI monetization weigh on consumption, investment, and the labor market. The US economy enters a cyclical recession (c. -2% peak to trough) by mid-2026 as unemployment rises by around 2%. Spillover effects may cause shallow cyclical recessions in other open economies. More severe downside is limited by central bank interventions and policy flexibility.
	Inflation	Continues to fall in Europe but stabilizes above target in the US as consumption remains robust.	Stabilizes around central bank targets in most developed economies by mid-2026. Rises in the US in 3Q25 owing largely to tariffs but resumes weakening trend thereafter.	Remains elevated in the US in the near term as tariffs put upward pressure on prices. Falls globally thereafter as consumer demand deteriorates.
	Central banks	Major central banks hold rates steady as growth and inflation stabilize.	The Fed cuts rates by 75bps by mid-2026 and the BoE by 50bps. The ECB remains on hold. The Bank of Japan hikes rates.	All major central banks cut policy rates toward the lower bound by mid-2026 in response to weakening global economic growth. The Fed cuts by 200-300bps.
	Tariff policy	Effective US tariff rate falls below 10% following trade agreements, carveouts, legal challenges. China tariffs fall below 30% owing to leverage on rare earths. Canada and Mexico tariffs removed in full.	The effective US tariff rate settles in the high teens, with a 30-40% rate on China, limited impact on Canada and Mexico due to USMCA, and 10-15% rates for the rest of the world, including additional sectoral tariffs. Lack of retaliation by trading partners limits macro risks.	The effective US tariff rate settles above 20% (60% for China, blanket tariffs for Canada and Mexico, 15-20% for the rest of the world) owing to unproductive negotiations and unfulfilled investment pledges. Some countries retaliate against the US, prompting an escalatory response.
	Geopolitics	Ceasefire between Russia and Ukraine with strong security guarantees.	Tensions in the Middle East linger but do not cause a sustained oil supply disruption. Russia-Ukraine conflict extends into 2026.	Tensions in the Middle East escalate, with potential for significant and sustained disruption to oil supply. The Russia-Ukraine conflict re-intensifies.
	AI capex and monetization	AI adoption moves ahead of schedule. Perceptions grow about an increasing return on investment.	AI monetization remains on track as revenue growth gradually starts to outpace R&D spending.	Concerns around AI monetization, capex sustainability, and tariffs on chip exports weigh on AI stocks and the tech sector.

Note: Each scenario narrative represents a non-exhaustive list of events that could lead to a market path outlined in our scenario targets. The probabilities represent CIO's view on the overall probability of reaching the market targets for the given scenario, rather than the probability of a single event or chain of events materializing.

Asset class targets - June 2026

Probability		20%	60%	20%
Targets (June 2026)	spot*	Bull case: Tech boom	Base case: Soft landing	Bear case: Material slowdown
MSCI AC World	1,161	1,300 (+12%)	1,190 (+3%)	820 (-29%)
S&P 500	6,600	7,500 (+14%)	6,800 (+3%)	4,500 (-32%)
EuroStoxx 50	5,370	6,200 (+15%)	5,600 (+4%)	4,200 (-22%)
SMI	11,999	13,600 (+13%)	12,600 (+5%)	10,200 (-15%)
MSCI EM	1,348	1,420 (+5%)	1,310 (-3%)	980 (-27%)
Fed funds rate (upper bound)	4.25	4.50	3.50	1.50
US 10y Treasury yield (%)	4.09	4.75	3.75	2.50
US high yield spread**	279bps	280bps	350bps	650bps
Euro high yield spread**	280bps	260bps	330bps	630bps
US IG spread**	67bps	60bps	80bps	180bps
Euro IG spread**	80bps	70bps	90bps	190bps
EURUSD	1.19	1.15 (-3%)	1.23 (+4%)	1.28 (+8%)
EURCHF	0.93	0.97 (+4%)	0.94 (+1%)	0.90 (-4%)
Commodities (CMCI Composite)	1,848	2,100 (+14%)	1,950 (+6%)	1,700 (-8%)
Gold***	USD 3,718/oz	USD 3,600/oz (-3%)	USD 3,900/oz (+5%)	USD 4,200/oz (+13%)

* Spot prices as of market close of 17 Sep 2025. Developed market constituents of the MSCI All Country (AC) World index display in the local currency. The MSCI EM index displays in US dollar. Values in brackets are expected percentage changes from the quoted spot levels. Dividends, share buybacks and other sources of carry are not included.

** During periods of market stress, credit bid-offer spreads tend to widen and result in larger ranges.

*** Gold is a safe-haven asset whose price tends to rise when risk assets, such as equities, fall, and vice versa.

Note: asset class targets above refer to the respective macro scenarios. Individual asset prices can be influenced by factors not reflected in the macro scenarios.

Section 1.3

Asset class preferences

Global asset class preferences (1/3)

	Unattractive	Neutral	Attractive
Equities		=	
Regions			
United States		=	
Europe		=	
Eurozone		=	
Switzerland		=	
United Kingdom		=	
Asia ex Japan		=	
Emerging Markets		=	
Mainland China		=	
India			+
Taiwan		=	
Brazil			+
Japan		= →	+
Transformational Innovation Opportunities (TRIOs)			
AI			+
Power and resources			+
Longevity			+
Thematic investment opportunities			
High-quality dividends (CH)			+
Six ways to invest in Europe (Eur)			+
European Quality (Eur)			+

	Unattractive	Neutral	Attractive
Sectors			
Comm Services (US)			+
Tech (US)			+
Tech (Eur)			+
Tech (China)			+
Utilities (US)			+
Financials (US)			+
Real Estate (Eur)			+
Health care (US)			+
Industrials (Eur)			+

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

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

Note: For equities, we have collapsed “Most Attractive” with “Attractive” and “Least Attractive” with “Unattractive” from the five-tier rating system that is found in the Equity Compass into three tiers.

Global asset class preferences (2/3)

	Unattractive	Neutral	Attractive
Bonds		=	
High grade			+
Investment grade			+
High yield		=	
Emerging markets		=	
Commodities		=	
Oil		=	
Gold			+
Foreign exchange			
USD	-		
EUR			+
JPY		=	
GBP		=	
CHF		=	
AUD			+
CNY		=	
FX carry*			+

*Long INR, AUD, MXN, BRL, ZAR

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Global asset class preferences - Hedge funds, private markets (3/3)

	Unattractive	Neutral	Attractive
Equity Hedge			
Directional		=	
Equity Market Neutral			+
Event Driven			
Credit Arbitrage		=	
Merger Arbitrage		= →	+
Distressed		=	
Relative Value			
FIRV			+
Convertible Arbitrage		=	
Structured Credit		=	
Macro			
Discretionary Macro			+
CTAs		=	

	Unattractive	Neutral	Attractive
Global private equity			+
Buyout			+
Growth equity			+
Venture capital		=	
Secondaries			+
Direct lending		= ←	+
Real estate			+
Infrastructure			+

The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the analyst convictions over the coming quarters. Note that alternative allocations must be viewed within the context of long-term strategic asset allocation and should be in line with an investor’s liquidity needs, investment time horizon and personal objectives. Investors looking to invest should consider the risks related to these strategies which are described in the disclaimer

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US asset class preferences

	Unattractive	Neutral	Attractive
Cash		=	
Fixed Income		=	
US Gov't FI		=	
US Gov't Short		=	
US Gov't Int.		=	
US Gov't Long		=	
TIPS		=	
US Agency MBS			+
US CMBS		= →	+
US Municipal		=	
US IG Corp FI		= ←	+
US HY Corp FI		=	
Senior Loans		=	
Preferreds		=	
EM Hard Currency FI		=	
EM Local Currency FI		=	
Commodities		=	
Gold			+
Oil		=	

	Unattractive	Neutral	Attractive
Equity		=	
US Equity		=	
US Large Cap		=	
Comm Services			+
Cons Discretionary		=	
Cons Staples		=	
Energy		=	
Financials			+
Health Care			+
Industrials		=	
Info Technology			+
Materials		=	
Real Estate		=	
Utilities			+
US Growth Equity		=	
US Value Equity		=	
US Mid Cap		=	
US Small Cap		=	
Int'l Developed Markets		=	
Emerging Markets		=	

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Asia asset class preferences

	Unattractive	Neutral	Attractive
Equities			
Asia ex-Japan		=	
China		=	
China Tech			+
Hong Kong		=	
India			+
Indonesia		=	→ +
Malaysia		=	← +
Philippines			+
Singapore			+
South Korea		=	
Taiwan		=	
Thailand		=	
Australia		=	
Japan		=	→ +

	Unattractive	Neutral	Attractive
Bonds			
Asian credit			+
Investment grade			+
High yield		=	
Asian local currency bonds			+
Chinese government bonds		=	
Foreign exchange			
CNY		=	

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Messages in Focus



Buy on dips in equities

We believe lower interest rates, robust earnings growth, and AI tailwinds will support further upside for global equities over the coming year. Investors underallocated to equities and looking to manage timing risks should consider phasing in and using market dips to add exposure to preferred areas. Globally, we recommend areas benefitting from transformational innovation, including artificial intelligence (AI), power and resources, and longevity. In the US, we favor the tech, health care, utilities, and financials sectors. In Europe, we like Swiss high-quality dividends, European quality stocks, European industrials, and our “Six ways to invest in Europe” theme. In Asia, we prefer Japan, China’s tech sector, Singapore, and India. We also see opportunities in Brazil.

- *Phasing-in strategies*
- *Preferred areas:*
- *US: Technology, health care, utilities, financials*
- *Europe: Swiss high-quality dividend and income strategies, "Six ways to invest in Europe," quality stocks, European industrials*
- *Asia: Japan, China tech, Singapore, India*
- *Brazil*

Source of funds

- Cash
- Money market funds
- Expiring fixed-term deposits



Go for gold

Gold has rallied strongly year-to-date. In our view, the yellow metal remains an effective portfolio diversifier and hedge against political and economic risks. We expect gold to benefit from lower real interest rates, a weaker dollar, robust central bank demand, and investor concerns about rising government debt levels, the potential for financial repression, and ongoing geopolitical risks.

- *Gold*

Source of funds

- Cash
- Money market funds
- Excess low quality fixed income
- Excess US dollar holdings



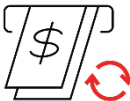
Reduce excess dollar exposure

After a period of relative stability, we expect the US dollar to resume its downward trend in the months ahead. The Fed is set to cut interest rates more quickly than in other regions, there is a high outstanding volume of unhedged overseas investment in the US, and the economy’s significant current account and fiscal deficits pose headwinds. Tactically, we prefer the euro, Australian dollar, and Norwegian krone. Strategically, we believe investors should review their currency allocations to ensure they match future liabilities and spending needs.

- *Tactically increase allocations to EUR, NOK, and AUD*
- *Strategically review USD exposure*
- *Consider switching USD bond holdings to EUR IG*

Source of funds

- Excess US dollar holdings



Put cash to work

The Fed has resumed its rate-cutting cycle, and rates are already low in much of Europe. This increases the imperative to put cash to work, and we believe investors should limit cash holdings to those needed for near-term expected portfolio withdrawals. Investors can potentially improve upon cash returns by optimizing their liquidity strategy, phasing excess liquidity into diversified portfolios to participate in long-term market gains while managing timing risks, and considering ways to replace income with equity income or yield-generating structured strategies. Annuities and borrowing capacity can also help investors manage cash flow more efficiently.

- *Optimize liquidity: High grade and investment grade bonds, select credit opportunities, active fixed and multi-asset income strategies, and capital preservation strategies.*
- *Invest excess liquidity: Phasing into diversified portfolios*
- *Income generation: Equity income strategies (e.g. high-quality dividend stocks) and yield-generating structured investments*
- *Annuities and borrowing capacity*

Source of funds

- Cash
- Money market funds
- Expiring fixed-term deposits

Messages in Focus



Invest in transformational innovation

We believe investors focused on transformational innovation will outperform broader markets. The AI trend continues to drive equity performance, and we expect global AI revenues to grow at a 41% compound annual growth rate through 2030, benefiting infrastructure, semiconductors, and applications. Rising data center demand is pushing US electricity prices higher, spurring record investment in grid infrastructure. We also see opportunities in longevity, as companies providing products and services that help extend healthy lifespans are gaining momentum. Health care sector momentum is improving, and we expect the global obesity drug market to reach USD 200 billion by 2030. Oncology and medical device firms are also set to benefit from structural growth.

- *AI*
- *Power and resources*
- *Longevity*

Source of funds

- Cash
- Money market funds
- Home-biased equity exposure

Strategic Messages in Focus

Strengthen your core

Periods of market volatility can quickly reveal parts of a portfolio that may not be working effectively toward long-term goals. We generally recommend that investors implement a “core” portfolio that is well diversified across asset classes, geographies, and sectors and designed to grow wealth steadily over time. This “core” can be held alongside more opportunistic “satellite” investments, allowing investors to stay on course for long-term goals even as markets and “satellite” investments become more volatile.

- *Diversified portfolios*

Source of funds

- Cash
- Correcting home bias
- Overexposure to specific asset classes
- Traditional assets

Be active

Mixing index-tracking and more active approaches may help balance costs, access less liquid markets, and potentially generate alpha in a risk-controlled way. Active investing also allows investors to capitalize on equity volatility. In bonds, active management can provide superior risk management for complexities like duration and credit risk. For alternatives, returns can vary significantly among managers, making it important to seek the right ones.

- *Actively managed equity approaches*
- *Actively managed FI approaches*
- *Alternatives*

Source of funds

- Cash
- Money market funds
- Expiring fixed-term deposits

Optimize your leverage

Proactive, prudent, and strategic borrowing can enhance an investor’s financial plan, even if interest rates remain elevated. Managed correctly, borrowing can reduce the need for excess cash holdings by providing flexible credit access, enabling rapid diversification, and helping manage exchange rate risks. For investors with a high risk-tolerance, borrowing can also boost returns if expected gains exceed costs. Borrowing is risky and investors should carefully analyze their capacity and willingness to take on leverage.

- *Managing liquidity (credit lines)*
- *Borrowing to invest in less-correlated assets*
- *Currency management*
- *Boosting return potential*

Source of funds

- Existing assets

Go sustainable

Sentiment toward sustainable investment strategies has turned more cautious, largely due to concerns about potential changes in US policy. While some sustainability-related policies may be revised, we do not expect sweeping changes and continue to see attractive long-term growth opportunities. The energy transition, for example, presents significant potential in both public and private markets. We recommend a diversified approach across sustainable equities, bonds, hedge funds, and private assets. Strategies focused on ESG leaders—regardless of sector—have demonstrated resilience versus non-ESG benchmarks and remain attractive for investors.

- *ESG equities (leaders, improvers, engagement)*
- *ESG fixed income (MDBs, green bonds, engagement, high yield)*
- *Sustainable hedge funds*
- *Private market impact*

Source of funds

- Cash
- Correcting home bias
- Overexposure to specific asset classes
- Traditional assets

Strategic Messages in Focus

Diversify with alternatives

We believe building portfolios for opportunity and resilience can be enhanced by adding alternative investment levers. In our view, including an allocation to alternatives can improve the diversification, growth potential, and downside protection that investors seek. Investors should be aware of the various risks and drawbacks when investing in alternatives, including illiquidity, limited transparency, and the use of leverage.

- *Private markets: private credit, value-oriented buyout, secondaries including infra, and thematically software, health, and climate*
- *Hedge funds: Low net equity IIs, macro, and multi-strategy*
- *Real estate: Commercial (US and Europe): Logistics, data centers, telecoms, residential (broad exposure), core-plus real estate managers, real estate debt*

Source of funds

- Cash
- Overexposure to stocks
- Overexposure to bonds

Summary of asset class views

		We like	Source of funds
Equities		• US: Technology, health care, comm services, financials, utilities • Asia: Japan, China tech, India, and Singapore • Europe: Quality stock, technology, industrials, "Six ways to invest in Europe" • LATAM: Brazil • AI, power & resources, and longevity • Swiss high-quality dividends and income strategies	Cash Money market funds Excess equity exposure Least preferred single stocks
Bonds		• High grade and investment grade bonds • Select credit opportunities	Excess cash Money market funds Excess HY and EM bonds
Foreign exchange		• EUR • AUD • NOK • FX carry (long INR, AUD, MXN, BRL, ZAR)	Excess cash Money market funds Excess USD holdings
Commodities		• Gold • Active commodity strategies	Excess cash Money market funds Excess USD holdings
Hedge funds, private markets		• Hedge funds: Low net equity I/s, macro, and multi-strategy • Private markets: private credit, value-oriented buyout, secondaries including infra, and thematically software, health, and climate	Excess bonds and equities Excess cash

Section 2

Macroeconomic outlook

Global economy: **Waiting for the impacts**

Base case (55%)

The US economy continues to experience headwinds. The labor market is now more fragile than at the start of the year, and things like long-term unemployment signal an ongoing reluctance to hire on the part of employers. However, the rate of firing remains relatively restrained, and that continues to prevent a significant fear of unemployment. This reduces the risk of a more abrupt consumer slowdown. Slowing real wage growth as prices continue to increase will be the main constraint on economic activity.

The US position is largely unique, a function of domestic policy choices. International trade that does not involve the US remains relatively robust. Outside the US, disinflation forces are more normal than inflation, though administered prices can occasionally provide some quirks. The result is that most advanced economies are operating only a little below their trend rates. Central banks seem content to maintain current interest rate levels in this scenario, regarding recent rate cuts as having achieved a neutral policy position.

Despite the relatively benign outlook outside the US, increasing problems with the reliability of data have increased risk weightings. The current course could be derailed by policy error

Positive case (20%)

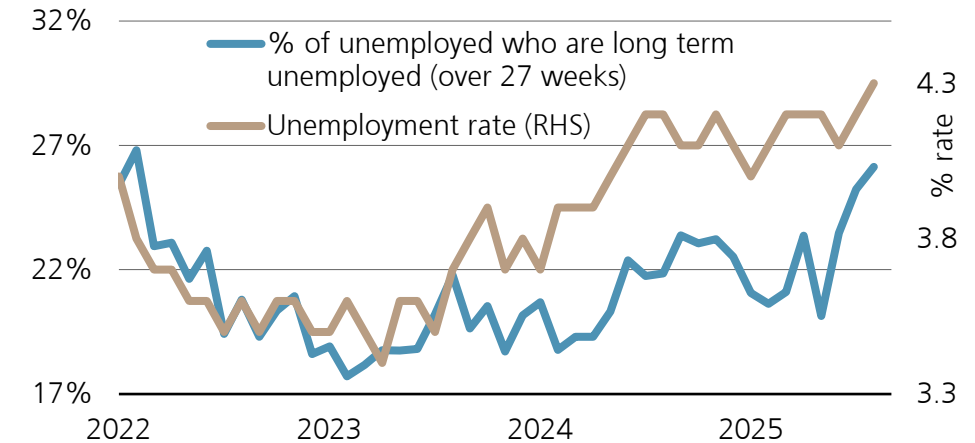
Certainty about the direction of US policy improves, giving firms the confidence to make longer-term decisions and resume hiring. International trade, excluding the US, moves from stability to a stronger performance. European consumers are willing to cut their savings rate while maintaining their stock of savings, supporting overall demand. Lower interest rates allow a modest increase in private sector borrowing, causing household debt ratios to stop falling. Inflation outside of the US remains low.

Negative case (25%)

US effective tariff rates increase from current levels, and uncertainty about policy causes US firms to fire workers (not merely suspend hiring). Falling US real incomes and rising fear of unemployment cause a further slowdown in US growth, which Fed policy can do little to shift. Higher oil prices combined with higher US food prices raise inflation perceptions and weaken consumer spending. European consumer sentiment sours, causing savings rates to remain high. Disrupted trade weighs on global sentiment.

US signals of uncertainty in the labor market

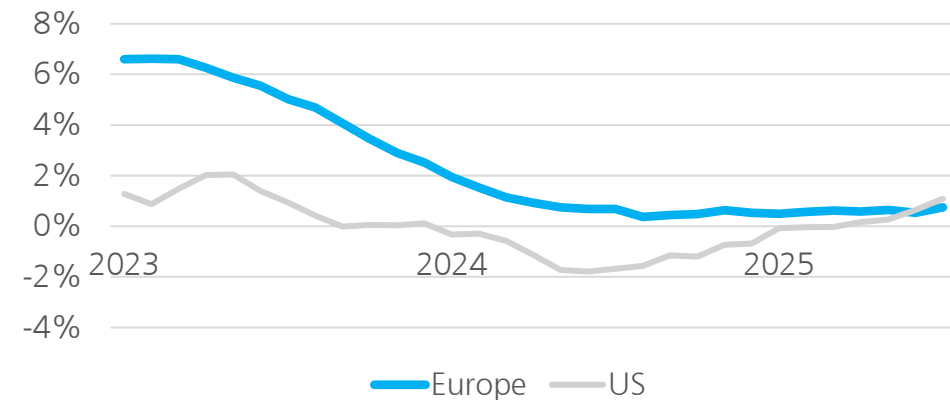
Long term unemployment as a share of total unemployment, and unemployment rate



Source: Haver, UBS, as of 15 September 2025

US disinflation forces fade

Core consumer goods price inflation, Europe and US, % yoy



Source: Bloomberg, UBS, as of 15 September 2025

Analyst: Paul Donovan

US economy: Marginally more optimistic

Base case (55%)

Growth

Recent data releases show the US economy continuing to expand, with consumer spending holding up despite a sharp slowdown in job growth. Business sentiment indicators have inflected higher and AI-related investment continues to provide a tailwind. The economy faces pressure in the near-term and we expect job growth to remain weak, but the One Big Beautiful Bill Act will provide some stimulus in early 2026, and we look for trend-like growth to resume by the middle of the year. A bipartisan budget deal will be needed to avoid a government shutdown after 30 September.

Inflation

The multi-year disinflation trend has been broken, but price increases have so far not been as bad as feared. We expect prices to rise on a broad range of goods as businesses pass along their increased costs, while shelter inflation should trend lower. With the Fed seeming to put more focus on the weaker labor data than on its inflation target, we expect 100bps of rate cuts through early 2026, bringing monetary policy to a neutral stance.

Positive case (20%)

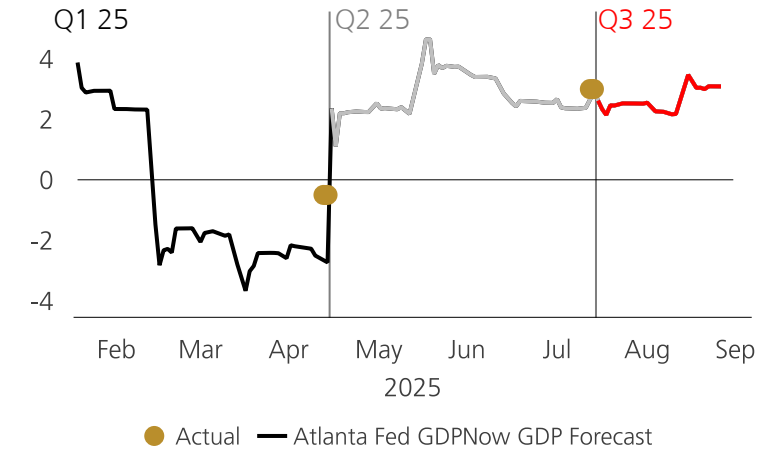
We raised our positive risk probability to reflect stronger tracking estimates for 3Q GDP growth. Despite a weaker labor market and pessimistic consumer sentiment, consumer spending has held up. Household wealth has soared in recent years, and strong spending growth among the top 20% of households could be enough to keep the economy growing near trend even as more consumers experience financial pressure.

Negative case (25%)

Policy uncertainty increases as international trade becomes more acrimonious. Congress fails to pass a budget, leading to an extended government shutdown. Further pressure on immigration accelerates the loss of foreign workers, leading to more inflation even as payroll growth turns negative and the economy falls into recession. The Fed cuts rates by around 300 basis points, more concerned about labor market weakness than supply-side-driven price increases.

Another above-trend GDP print for 3Q likely

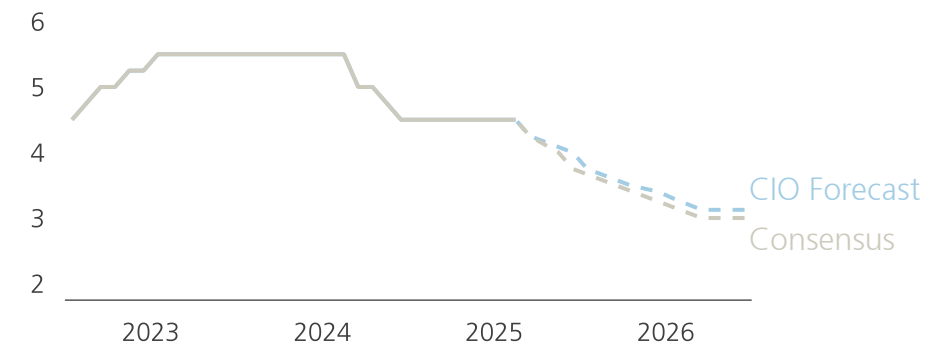
Atlanta Fed GDPNow Forecast, q/q SAAR %



Source: Bloomberg, UBS, as of 15 September 2025

We expect the Fed to cut rates 100 bps by 1Q26

Federal Funds rate and forecast, in %



Source: Bloomberg, UBS, as of 15 September 2025

Eurozone economy: ECB pauses amid still uncertain outlook

Base case (60%)

Growth

The Eurozone economy continues to show resilience. Growth, which was positive in the first half of the year, should continue albeit at a lackluster pace, aided by the clarity around a trade agreement with the US. Survey data are also signaling that activity is stabilizing and crucially this being seen in the manufacturing sector. Following a strong start to the year, we expect growth of 1.1% for 2025. In time, a more supportive policy mix in Germany and the benefits neutral monetary policy should aid an economic recovery, as should high levels of consumer savings and low corporate leverage.

Inflation

Inflation remains close to the ECB's 2% target, but we expect it to fall below the 2% through next year thanks to lower energy prices and a higher euro. Forward-looking indicators also point to a moderation in wage growth.

The ECB is signaling that the bar for further cuts suggesting that rates will remain at 2% for a prolonged period. The risks to this call are to the downside, in our view.

Positive case (20%)

Household confidence rises, precautionary savings fall, and consumption rebounds.

A lasting ceasefire between Russia and Ukraine could lead to lower energy prices and higher business and consumer sentiment.

EU secures better trade agreements with the US and other major trading blocks.

Negative case (20%)

Consumption remains muted as households show reluctance to spend their income gains amid low confidence in the economic outlook and rising concerns about the labor market.

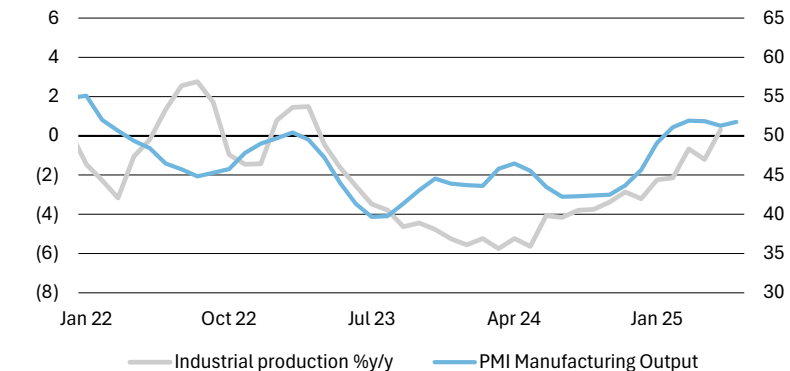
Fiscal consolidation proceeds more forcefully next year owing partly to bond market pressures.

Geopolitical tensions push energy prices higher, leading to renewed inflation.

The US and EU trade agreement does not hold, resulting in a tit-for-tat tariff war.

Improving sentiment in the manufacturing sector likely helped by increased fiscal support

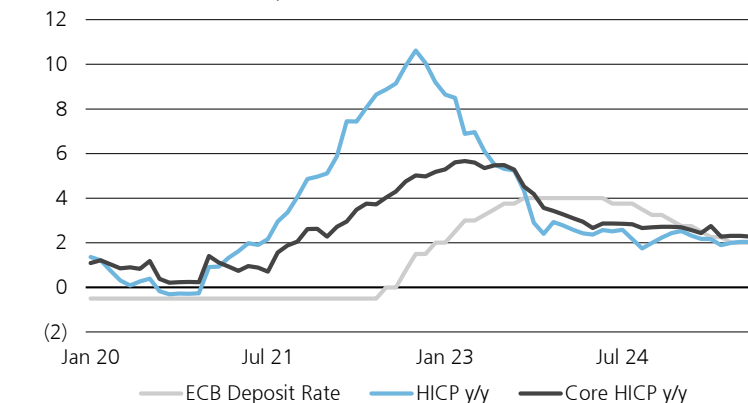
German industrial production and manufacturing surveys, 3mma



Source: Haver Analytics, UBS, as of 17 September 2025

The bar for further rate cuts has risen

ECB rate and inflation, %



Source: Haver Analytics, UBS, as of 17 September 2025

Swiss economy: Growth outlook subdued

Base case (50%)

Growth

Following robust growth of 0.7% in 1Q25, the Swiss economy expanded by a mere 0.1% in the second quarter.

Switzerland's growth outlook for late 2025 and 2026 depends on ongoing tariff negotiations, with a decision expected by October. Given the strong first quarter, GDP growth should reach 1.3% this year, with 0.9% expected for 2026 (sports events adjusted). Consumption will remain the main growth driver, though weaker real wages and higher unemployment may weigh on spending.

Inflation

Inflation in Switzerland remained at 0.2% y/y in August, in line with expectations. We expect a gradual increase toward year-end, averaging 0.2% in 2025 and 0.5% in 2026. Lower electricity prices, declining reference rates, and a stronger Swiss franc continue to weigh on inflation. Provided inflation stabilizes on low levels and appreciation pressures on the franc remain contained, we expect the SNB to keep rates at 0.0% in September and over the next 12 months.

Positive case (20%)

Better global growth momentum:

Switzerland reaches a trade deal swiftly, which cushions the effects of tariffs. US growth could surprise positively and reaccelerate, while European growth would benefit from stronger global demand and fiscal easing. Switzerland would benefit from this stronger global backdrop and from a weaker Swiss franc on the back of risk-on sentiment.

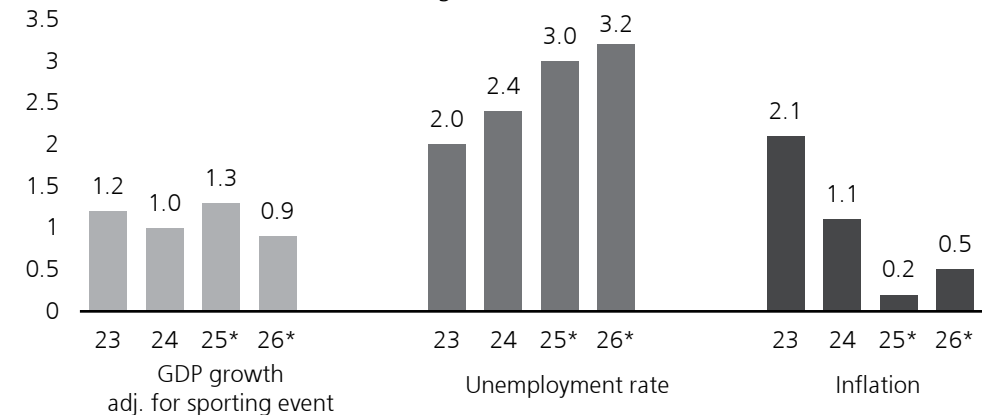
Negative case (30%)

Trade-related slowdown:

Swiss exports are experiencing a sustained, trade-policy-induced contraction, amplifying downside risks for the Swiss economy. If tariffs of 39% persist, growth could be up to 0.4 percentage points lower. Global economic and political tensions are putting further appreciation pressure on the Swiss franc and dampen foreign demand. Both weigh on Swiss industrial activity and investments, weakening the labor market and consumer sentiment.

Inflation within lower half of SNB's target range

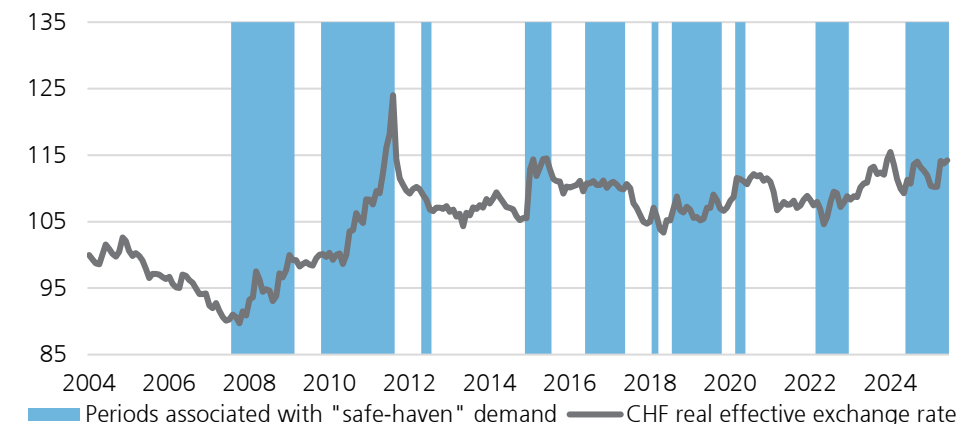
Swiss economic data, in %, including UBS forecasts (*)



Source: procure.ch, UBS, as of September 2025

Global economic and political tensions put pressure on CHF appreciation

CHF exchange rate against a basket of currencies weighted by trade share and adjusted for inflation (real effective exchange rate), 01/2024 = 100



Source: Macrobond, UBS, as of September 2025

Chinese economy: Reactive easing to cushion slowdown

Base case (60%)

Growth

July-August activity data showed tapering growth momentum mainly for retail sales and investment after strong front-loading, but industrial production stayed resilient and export moderation remained manageable.

US-China trade talks in Madrid signaled a framework deal on TikTok, paving the way for a potential Xi-Trump meeting at ASEAN or APEC summits in late October. Both sides will balance negotiation and assertive actions until deals are reached.

GDP is expected to reach ~4.5% y/y in 3Q and ~4% in 2H, with full-year growth at 4.7% y/y, still within the “around 5%” growth target. We therefore anticipate no major stimulus despite recent data weakness.

Inflation

CPI is likely to stay near muted (August: -0.4% y/y). PPI is likely to stay negative in the near term (August: -2.9% y/y), despite steady narrowing helped by anti-involution initiative to curb overcapacity and price competition.

Positive case (20%)

US effective tariffs on China drop to less than 30%.

China’s trade with non-US partners strengthens with relatively resilient supply chains.

Stronger Chinese stimulus boosts market confidence.

Negative case (20%)

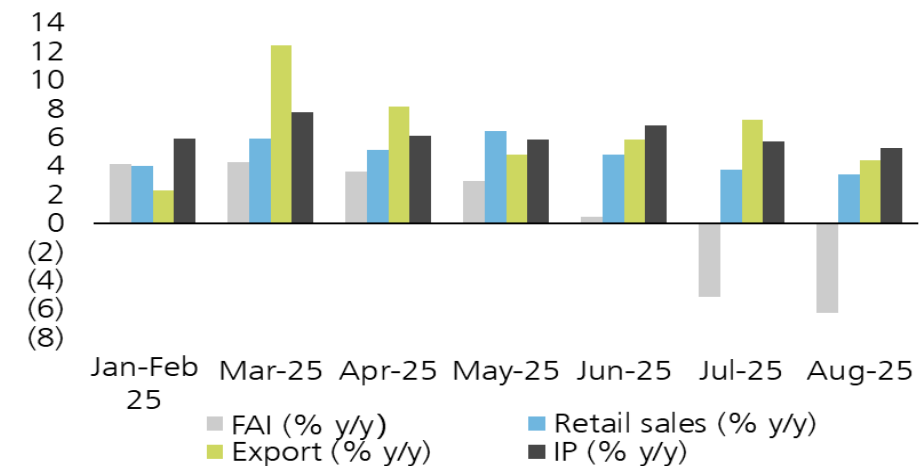
US effective tariffs on China reach 60% or higher.

More countries raise tariffs on China under US pressure.

US-China tensions broaden into financial field.

Activity data indicated slowing growth momentum in 2H

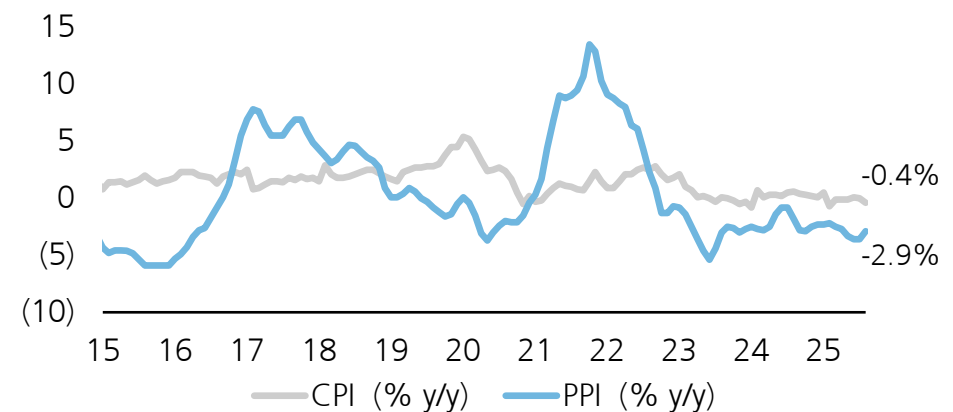
Monthly key activity data



Source: CEIC, UBS, as of September 2025

Broad-based reflation requires a stronger demand boost

CPI and PPI inflation



Source: CEIC, UBS, as of September 2025

Section 3

Asset class views

Section 3.1

Summary of major asset classes

Equities

Central scenario

MSCI AC World June 2026 target: 1,190

Global equities have continued to grind higher over the past month. Signs of a softening US labor market have reinforced expectations for Federal Reserve rate cuts, while the overall economic backdrop remains broadly favorable. In this context, Asian and emerging markets have outperformed, driven by a weaker US dollar and unique local factors—most notably, strength in China’s technology sector. While we remain Neutral on global equities overall, we maintain a positive bias for the next 12 months. Regionally, we are taking on additional risk by upgrading Japanese equities to Attractive.

Recent deterioration in US labor market data has attracted significant attention. Sharp downward revisions to previous employment figures prompted Fed Chair Powell to suggest that waiting for inflation to reach target before easing policy may not be prudent. Nevertheless, despite labor market weakness, the broader economy remains resilient, with ongoing positive surprises in economic data and upward revisions to global growth forecasts.

Barring a recession, Fed cuts typically support equities by reducing the risk of valuation contraction and boosting prospects for economic and earnings growth. We expect earnings to grow at a mid-to-high single-digit pace this year and next. Leadership should come from Asia and the US, while European earnings are expected to rebound sharply after two years of stagnation. Over the next year, we anticipate earnings—not valuations—will be the primary driver of price appreciation.

Given this backdrop, we remain Neutral in the near term but recommend gradually phasing in and using potential market dips to increase exposure. Beyond short-term growth risks, the combination of resilient economic growth, Fed cuts, and powerful structural trends like AI provides a constructive environment for equities.

Regionally, we upgrade Japan to Attractive. New leadership is expected to usher in more accommodative, pro-growth policies. Earnings per share have bottomed out earlier than anticipated and are supported by share buybacks, while ongoing structural reforms aimed at boosting returns on equity remain a tailwind. Furthermore, Japan’s exposure to cyclical industries and manufacturing makes it well-placed to outperform should the global economy recover earlier than anticipated.

Outside of Japan, we advocate a selective approach in the near term. Technology remains our preferred sector across regions. In the US, pro-growth policies and deregulation are likely to benefit sectors like financials. In Europe, we like quality, industrials, and our “Six ways to invest in Europe” theme.

Finally, we expect structural trends to provide strong support for equity returns. Our TRIOs—Artificial Intelligence, Power and resources, and Longevity—remain at the core of our strategy, as these themes continue to deliver robust earnings growth. We view any potential market dips as opportunities to gradually increase long-term exposure to these themes.

Equities

Upside scenario

MSCI ACWI June 2026 target: 1,300

Tech boom: Investment in AI continues to surprise positively and leads to earlier- and larger-than-expected productivity gains.

Growth surprises positively, inflation negatively: The growth slowdown is shallower than expected and inflationary pressures dissipate quickly.

Benign tariff policy: The Trump administration significantly reverses its proposed very high tariffs. Business and consumer confidence rebounds sharply, driving better-than-expected economic and corporate profit growth.

Downside scenario

MSCI ACWI June 2026 target: 820

Material slowdown: Trade tariffs drive a fall in consumer spending and business investment, which materially slows economic growth, potentially to recessionary levels.

Geopolitical turmoil: Escalations in geopolitical tensions in the Middle East, Russia/Ukraine or heightened US-mainland China tensions, potentially around Taiwan, dampen sentiment.

Bonds

The last month has delivered strong performance for the asset class. The primary driver of returns was a further downward recalibration of Federal Reserve rate-cut expectations, as evidence mounted that the US labor market was in a slowdown. This translated into a drop in yields of between 20bps and 25bps across the curve as an extra cut was priced in, resulting in capital gains. Credit spreads, on top of the yield moves, continued to grind tighter across the ratings spectrum, adding additional gains.

Global trade uncertainty remained a headwind to global growth. Deals with Japan, the EU, and South Korea were announced in August with 15% tariffs, while other Asian countries saw slightly higher rates, including Vietnam at 20%, and Indonesia and the Philippines at 19%. Despite this, many details regarding sector-specific tariffs and how tariffs would be enforced remain unknown, in addition to the timeframes around investment pledges into the US. Furthermore, a number of key trading partners, like Mexico and Canada, continue to negotiate, while India and Brazil were hit with tariffs of 25% and 50%, respectively, for grievances by the US on matters outside of trade. As a consequence of the uncertainty, trade-sensitive and cyclically exposed industries continue to show lackluster growth as major investment decisions are essentially on hold until more clarity emerges. The exception to the rule is the technology sector, where large investments continue, particularly at the enabling layer of the AI value chain. Similarly, defense industries continue to invest as countries ramp up spending given ongoing geopolitical uncertainty.

For the labor market, it is now becoming apparent that conditions continue to loosen. Companies have been reducing wage growth, working hours, and new hiring for some time. Now, given the recent backward revisions to official labor market statistics, it would appear that companies in the second quarter were also laying off workers in some sectors. Given sampling issues,

seasonality, and statistical adjustments, it remains a challenge to gauge whether the labor market is in the process of a more serious downward adjustment. Consumption remains strong, which would counter this concern. Additionally, in the last few months, we have seen inflation trending back toward an annualized rate of 3%, which is above the official target. That said, recent commentary from Fed officials suggests they see any tariff-induced rise in inflation as temporary. Furthermore, long-term inflation expectations remain well anchored.

For the Fed, striking the balance on their mandate of maximum employment and price stability has become increasingly challenging given the upside risks to inflation and downside risks to growth presently. The recent weakness in the labor market appears to be tilting the balance. The Fed committee has tilted more dovish, particularly with recent Board member changes. The Fed consensus continues to signal that ongoing rate cuts are warranted, even if opinions on the speed and magnitude may differ.

Outside of monetary policy considerations, the long end of bond curves continues to demonstrate sensitivity to fiscal and political challenges across the developed world. Elevated yields are already weighing heavily on government debt-servicing costs and feeding back into the fiscal fragility. Governments are attuned to this fragility and the importance of lower rates for the budget and stimulating demand, particularly when it comes to hot button political issues such as housing affordability. Our base case is that fiscal concerns will not cause a breakdown at the long end of the market. It remains well within the power of governments and central banks to manage interest rates across the curve and maintain stability, ensuring public and private sector debt remains serviceable. Governments are skewing issuance toward the short end of the curve, where there is more demand, to address supply-demand imbalances at the long end.

Outside the US, the European Central Bank (ECB) is holding policy rates steady at 2%. President Lagarde communicated that the central bank considers policy to be in balance and she has expressed a variety of possible scenarios in terms of the direction of the policy rate going forward. We believe risks are on balance more skewed to lower policy rates than higher. Inflation in the Eurozone has been at or below the ECB's target for the past three months now, while a relatively strong currency as well as the risk of cheap Chinese imports being diverted from the US to Europe could put further downside pressure on prices. On the European fiscal front, Germany disclosed draft budget details, which signaled more front-loaded stimulus, in line with recent announcements on defense and infrastructure spending. We would caution that fiscal implementation will take time. In the short term, given Europe's reliance on global trade, the tariff impact is more critical to the near-term outlook and market direction. The agreed 15% tariff rate on exports to the US is lower than for some other trading partners, but still significantly higher than at the start of the year, affecting companies' growth and margin outlooks. In addition, the recent fall of the French government due to the inability to pass spending cuts has created a situation of political paralysis and little likelihood of reform or meaningful budgetary change. This will continue to weigh on the existing stagnant growth backdrop.

In Switzerland, the policy rate is already back at the zero lower bound, as deflation amid a very strong currency remains the key risk. The 39% US tariff is making things even trickier for the Swiss National Bank (SNB). While the central bank is aware of the downsides of negative rates and communicated that the bar to go there is high, current market pricing suggests that a step into negative territory over the next six months remains more likely than not. Current headwinds to Swiss growth and inflation should keep already very low Swiss bond yields (0.2% for the 10-year) well anchored.

In the UK, the Bank of England (BoE) cut its policy rate to 4% in early August as expected. But the decision was surprisingly close as four out of nine committee members voted against the move. As a result, markets significantly reduced the odds of another rate cut before

Bonds

year-end. The outlook for longer-dated gilts largely hinges on fiscal policy. The U-turn on welfare spending cuts added to supply concerns with UK yields recently decoupling from US rates and moving higher over the month at the long end. Chancellor Reeves is set to release her Autumn Budget in late October. We expect the government to be as prudent as it can be in its fiscal policy with tax hikes looking more likely, from which gilts should benefit. Also, the BoE is looking to slow the pace of quantitative tightening, which has been running at USD 100 billion per annum. This would marginally reduce some of the supply-demand imbalances and ease financial conditions.

Over in Asia, the snap upper house elections in Japan on 20 July, which saw the ruling LDP-Komeito coalition lose their majority, put some pressure on JGB yields as BoJ members continue to signal a desire to raise policy rates, while political uncertainty and campaigning could lead to lower fiscal discipline.

Our current view is that we see value in long-duration positioning relative to strategic benchmarks in the US, UK, and Germany, particularly in the belly of the curves. The ultra-long end has cheapened significantly and presents value, but it will likely remain more sensitive to fiscal developments in the near term. Fed expectations are currently priced for a terminal policy rate just below 3%, which would be elevated relative to recent history and provides ongoing potential capital gains if growth slows more rapidly. Although there are near-term inflation risks as tariffs are implemented, we believe the Fed will prioritize growth and full employment, and continue to cut rates. This should be the primary driver of rates and returns.

From a credit point of view, valuations have richened further. Although corporate fundamentals on the whole are solid, tactically

we see moving down the credit spectrum into the more cyclical higher-levered pockets of the market as unappealing given a poor risk-return profile. That said, we maintain an up-in-quality tactical bias and Attractive recommendations on high grade and investment grade. We see the main source of returns coming from duration and the outright level of rates, rather than material spread compression at this juncture.

High grade bonds

We view HG bonds as Attractive. The asset class offers an appealing risk-return profile, in our view, particularly in an uncertain macroeconomic environment with downside risks to growth. With rate-cut expectations priced for a scenario in which the Fed returns the policy rate to slightly below 3%, we see forward total returns coming from high outright rates and plenty of scope for capital gains in a more adverse macro scenario. High grade bonds are rated AA- or better and therefore have lower default risk. We also continue to see the asset class as a credible alternative to cash for investors looking to lock in currently elevated yields.

Investment grade bonds

We view IG bonds as Attractive. Looking ahead, we continue to see returns in the mid-single-digit range over the next 12 months, supported primarily by elevated yields and low spread volatility. Within EUR IG, the average yield is around 3%. For US IG, yields for all maturity and intermediate profiles are around 5%. Credit fundamentals on the US IG corporate side remain solid, and we expect limited credit-quality deterioration in our base case. Any widening of spreads due to growth concerns should be more than offset by falling interest rates, as the focus would shift to more aggressive rate cuts.

High yield bonds

We are Neutral on the asset class as we see more pronounced risks of spread widening and decompression relative to higher-quality segments. Spreads are at the rich end of the valuation spectrum. From a fundamental standpoint, there is some justification to valuations as there has only been a limited amount of time since the last downturn, so we have not seen leverage/debt growth pick up sharply. Companies continue to focus on ensuring balance sheet strength; indeed, the average credit quality in HY has improved. Additionally, the outright level of yields in US HY and EU HY are low-7% and mid-5%, respectively, which has attracted capital flows and supported performance. Furthermore, the growth in private credit has provided an alternative avenue of funding for more distressed borrowers when traditional markets remain volatile.

Emerging market (EM) bonds

We maintain a Neutral view. Spreads have tightened in line with the moves across all risk assets. Current yields are around 7% for sovereign and corporate bonds. The weakness in the US dollar has been a welcome development for a number of issuers with large hard currency borrowing requirements. Additionally, we believe the Fed will continue to lower the policy rate throughout the course of this year, providing further easing. Lastly, despite all the unknowns associated with US policy, the IMF continues to work with a number of countries, providing a stability anchor.

FX

The USD has remained weak, with the DXY Index nearing its July lows. We believe the Fed's guidance for further rate cuts—potentially bringing rates down to 3% by 2026—and a move to lower real rates amid elevated near-term inflation will continue to weigh on the USD in the coming months. While many rate cuts by the Fed are already priced in and US growth forecasts for 2025-26 have been revised lower, we expect any additional USD weakness to be more moderate. Attention will remain focused on the labor market and its impact on private consumption. We anticipate a mid-single-digit decline in the USD over the course of our forecast horizon, with EURUSD projected to reach 1.23, GBPUSD to 1.40, and USDCHF to gravitate toward 0.76 by mid-2026.

Within Europe, we favor Scandinavian currencies given their attractive current valuations and positive exposure to an accelerating European economy in 2026. The GBP is likely to strengthen as well, although this will be largely driven by USD weakness in the short term as we now expect the Bank of England to hold rates at 4% for the remainder of the year. That said, we see cuts resuming in February 2026 as confidence lifts that forward-looking inflation pressures are again easing. Moreover, we maintain our view that the GBP will likely underperform the EUR on a 12-month basis (to 0.88 or above). Of course, some of this relative weakness could be partly offset by the GBP's carry. For the CHF, we expect it to lag over the next 12 months, with EURCHF hovering around 0.94, as zero rates in Switzerland offer limited total return potential and counterbalance CHF's solid fundamentals.

In APAC, we expect the JPY to appreciate as the Bank of Japan raises rates beyond market expectations, potentially reaching 1%.

by the end of 1H26. Current rate differentials already support a lower USDJPY, and our target for USDJPY is 136 for 3Q26. However, part of the spot performance may be offset by negative carry. We also favor being long the AUD, supported by the prospect of fewer rate cuts from the RBA, government policy support, robust growth, and a positive yield carry versus the USD. This environment should encourage greater hedging by Australian asset managers, allowing the AUD to catch up with European currencies—i.e., AUDUSD trading at 0.70 or higher. In contrast, the NZD is likely to lag the AUD, with greater scope for rate cuts and a sizable current account deficit.

As for emerging market currencies, where the appreciation versus the USD has slowed in the second half compared to the first, we expect spot gains to remain moderate. Nevertheless, US dollar softness, anticipated Fed rate cuts, and the continued appeal of many emerging market currencies—both in nominal and real terms—provide a supportive backdrop for spot performance. When combining carry and spot returns, ex-ante total returns remain attractive, particularly on a volatility-adjusted basis, given the persistently low volatility in currency markets recently.

Our strategy for harvesting yield in emerging markets focuses on diversified exposure to currencies such as the Brazilian real, Mexican peso, Indian rupee, and South African rand. In frontier markets, we also see merit in considering the Egyptian pound. We continue to look for opportunities to sell USD upside against emerging market currencies to enhance yield, with recent trades including USDZAR and USDILS. Over shorter tenors, we also see opportunities to sell upside in EURMXN for additional yield.

Geopolitical risks remain, though markets—including currency markets—have largely neglected them. The Russia-Ukraine war continues, but unless secondary sanctions significantly restrict the availability of Russian crude oil and gas, the conflict is unlikely to have a material impact on markets. Nonetheless, in an environment of a true energy supply shock, we believe a sharp rise in oil prices would be a catalyst for market volatility. In a risk-off scenario, perceived “safe-haven” currencies such as the CHF, USD, CNY, and, to some extent, the JPY would likely benefit. While initially pressured, commodity-exporting currencies such as the CAD, NOK, AUD, and BRL could present buying opportunities on such dips.

Beyond military conflicts, US tariff negotiations remain ongoing with key economies. Our primary focus is on the China-US talks. Adverse trade negotiations, especially against the backdrop of soft domestic demand in China, could challenge our constructive view on the CNY and may have knock-on effects on other regional currencies such as the SGD, TWD, and AUD. For now, US-China trade talks appear “too big to fail” and should remain a risk factor rather than a base case.

Finally, our currency outlook is closely tied to the cyclical environment. US growth is slowing, while activity outside the US remains resilient. An unexpected acceleration in US activity—which would limit rate cuts—combined with weaker growth abroad, could trigger a sharp rebound in USD strength, despite ongoing structural deficits. Such a move could be pronounced, as speculative accounts would likely unwind elevated USD short positions.

Commodities

We maintain a Neutral view on commodities and crude oil and still see gold as Attractive.

Cautious near-term energy outlook. Oil prices have moved sideways in the third quarter, with natural gas prices remaining under downward pressure due to strong supply growth and less strong power demand. While oil inventories have increased in 2Q and 3Q of this year, the majority has ended up in China, keeping OECD oil inventories low in recent months. And with oil demand set to decline moderately over the coming months after peaking in August, record high oil production in South America (Brazil, Guyana), strong production growth in Canada and Norway, and OPEC+ still unwinding their production cuts, we expect the oil market to be better supplied in the months ahead. Hence, we expect Brent prices to move into the lower part of the USD 60-70/bbl trading range. While we believe it's premature to take a strong directional view on crude oil and oil product prices now, we maintain a more constructive outlook for mid-2026 onwards, amid stalling non-OPEC+ supply growth.

Industrial metals are supported by structural factors. Like energy, industrial metals are facing cyclical headwinds. However, structural drivers, such as the global energy transition, have contributed steadily to consumption. Moreover, the mining sector, unlike energy, also lacks readily available spare capacity, with the industry struggling to meet nameplate production targets due to capital discipline, environmental considerations, and geopolitical factors. In addition, US tariff concerns—particularly relating to copper—have caused market distortions, which have reduced availability outside the US by several hundred thousand tons. Looking ahead, we expect the sector to respond more quickly to stronger economic activity in 2026, which makes it attractive for buying on dips (e.g., after a 5% pullback) into year-end. China's anti-involution measures are another positive dynamic for the sector.

In gold we trust. Precious metal performance has outstripped everything else in 2025, with political decisions in the US, elevated fiscal deficits in key economies, ongoing geopolitical tensions, and a recent decline in real interest rates creating a favorable environment for strong investment demand. We expect these price-supportive dynamics to persist next year, and silver and gold to outperform platinum and palladium given a less supportive industrial demand backdrop, particularly into year-end. We remain long gold in our global asset allocation and continue to recommend a mid-single-digit allocation for diversification purposes within a portfolio context (for those with an infinity for the metal).

Agriculture and livestock upside have limits. Livestock price performance, particularly live cattle, has been a standout year-to-date, with our expectations of acute market tightness, due to a multi-year decline of US breeding cow numbers, coming to fruition. We believe prices will begin to impact beef demand in 2H, which limits the upside from here, in our view. Grains, meanwhile, have been in the doldrums as planted areas expanded globally and weather risks moderated. That said, we see limited downside at current levels, although elevated roll costs keep us sidelined in the short term. Soft commodities also corrected, although we believe coffee and cocoa prices will remain structurally elevated as supply-side issues persist.

Section 3.2

Details per asset class

Eurozone equities

Central scenario

DJ Euro Stoxx 50 June 2026 target: 5,600

MSCI Europe has now given up all its relative gains versus the US market since the start of the year. The enthusiasm around German infrastructure stimulus and EU defense spending has faded as the region navigates headwinds from slowing global growth, strong local currencies, and now political uncertainty, most notably in France, as we enter Europe's budget season.

Eurozone equities have delivered close to no earnings growth in 2024 and 2025, which has capped market performance. But we see a cyclical earnings recovery ahead. The headwinds to growth from high inflation, an energy crisis, and sharply higher interest rates are now behind us, and increased clarity around trade could spur an improvement in consumer and business confidence. This should also be supported by German infrastructure and defense spending, which should start to boost growth from later this year.

Indeed, Euro area manufacturing PMIs are improving and have exited contraction territory for the first time in over three years. Looking back at the eight prior occasions since 1998 when PMIs have initially broken through the 50 threshold (which separates expansion from contraction) after a period of at least three months below 50, Eurozone equities (MSCI EMU) on average delivered 19% total returns over the next 12 months and 42% earnings growth over the next two years. We see a more gradual profit recovery on this occasion, forecasting Eurozone earnings to grow 5% in 2026 (consensus 14%) and 15-20% in 2027 (consensus 12%).

We believe the brightening earnings outlook justifies the current above-average P/E multiples in Europe. MSCI Europe trades at 14.7x forward P/E, a 10% premium to its 15-year average. However, that is on earnings that should grow if sales volumes start to recover with profit margins able to expand. And relative to US peers, Eurozone valuations are relatively attractive. Although it may be too early to look through the near-term growth uncertainty, especially in light of the recent weakness in US payrolls, the potential for earnings to rebound should provide support to European equities, in our view. We recommend using pullbacks to add exposure to the region and target the EuroStoxx 50 at 5,600 in June 2026, with a 3.3% dividend yield on top.

We continue to recommend selective exposure to the region. We favor high-quality European stocks, beneficiaries of positive policy developments in Europe via our "Six ways to invest in Europe" theme, and European industrials and IT firms that are benefiting from transformational innovation. We also like real estate as we expect it to benefit from an improving domestic backdrop and the lagged effects of lower interest rates.

CIO themes

European quality

We favor exposure to high-quality businesses in Europe.

Six ways to invest in Europe

We see single-stock opportunities across six drivers likely to influence European equity markets in the near term.

Greentech goes global

This theme recommends companies that will likely play a key role in the global energy transition.

Sector Preferences:

Attractive: Industrials, IT and real estate

Eurozone equities

Upside scenario

DJ Euro Stoxx 50 June 2026 target: 6,200

Further progress on US trade deals with other major economies could drive a recovery in business confidence and manufacturing activity, lifting our earnings expectations and reducing the equity risk premium as uncertainty dissipates.

Russia/Ukraine peace deal can help improve sentiment in the region and possibly lower gas prices.

European growth improves more rapidly supported by German fiscal policy, EU defense spending, or European consumers spending their high level of savings.

Structural reforms, including defense spending, a more pragmatic approach to competition by the EU Competition Commission, and the savings and investments union, can drive better access to funding and more innovation in the long run, supporting higher valuations in the near term.

US investors diversify into European assets, helping to close Europe's valuation gap with US equities.

Policy response, for example quicker interest rate cuts or large fiscal measures by Europe, the US, or China, lifts future growth prospects and supports higher valuations.

Downside scenario

DJ Euro Stoxx 50 June 2026 target: 4,200

Global economic weakness materializes, potentially due to higher trade tariffs.

EU employment weakness could further delay a consumption rebound and lead to weaker-than-expected growth.

Structural challenges from rising Chinese competition, still-elevated energy prices in Europe, or weak Chinese growth continue to weigh on valuations.

Valuations derate reflecting potentially rising growth uncertainty, higher-for-longer interest rates, or concerns of excessive valuations in some parts of the market.

Gas inventories require restocking through the summer and are a risk to gas prices, which can have knock-on effects to business competitiveness and consumer confidence.

Political uncertainty could remain in Europe through challenging budget discussions in the autumn.

US equities

Central scenario

S&P 500 June 2026 target: 6,800

Stocks continued to hit new record highs in recent weeks as it became clear the Fed was on track to cut rates. The July and August job reports disappointed relative to expectations, and at Jackson Hole, Fed Chair Powell indicated that conditions may warrant an interest rate cut soon. At the September FOMC meeting, the Fed followed through and resumed its rate-cutting cycle.

Historically, the S&P 500 has performed well when the Fed is cutting rates during non-recessionary periods. We think this makes sense, as lower rates tend to stimulate the economy and bolster the outlook for earnings growth. This is especially true if recession risks are low. Our base case remains that the US economy will remain resilient and that it is unlikely to spiral into a recession. Part of our conviction in the non-recessionary outcome stems from our view that there are not many imbalances in the economy to unwind. We therefore believe stocks are poised for further gains.

One topic that has received increased focus this month is the seasonal weakness of stock returns in September. On average, the S&P 500 declines 1% in September based on nearly 100 years of data. In our view, given the month is nearing its conclusion, we would advise investors to lean into some of the seasonal strength that we typically experience in the last three months of the year. S&P 500 returns tend to improve between October and December, and we believe this year will be no different. The Fed will likely cut rates at its next three meetings, and as we head into the third quarter earnings season in a few weeks, we expect corporate profits to remain resilient despite the uncertainties in the current environment.

Additionally, elevated valuations have created some angst for investors. Let us put some perspective around this. As we have previously highlighted, valuations have little relationship with short-term returns. Instead, what matters more is the outlook for profit growth, which, in our view, remains solid.

Another way to think about this is by looking back in history at times when the S&P 500's forward P/E started the year above 21x. Including this year, valuations at the start of the year have only been this high five times since 1950. The returns in these years have been mixed, but this wide performance spread starts to make more sense if we account for earnings momentum and monetary policy. When earnings growth has been strong and the Fed is supportive—an environment that we believe holds today—stocks have performed well.

The bottom line is that high valuations are not a clear signal for returns over the next 12 months. Instead, investors should focus on the Fed and earnings, both of which are usually more important. While valuations can appear elevated for extended periods, a negative catalyst is ultimately needed to drive a material derating, which we don't believe is currently on the horizon.

Finally, we remain optimistic on the outlook for AI. During the second-quarter earnings season, big tech companies indicated that AI investment spending will continue into next year. This has helped provide another boost to the AI trade, pushing the Magnificent 7 back to the upper end of its valuation range over the past three years.

So although this may mean there is less scope for above-average returns, we aren't negative and reiterate that our constructive view on AI bolsters the outlook for US equities.

US equities

Upside scenario: Positive surprise

S&P 500 June 2026 target: 7,500

More benign tariff policy: Effective US tariff rate falls below 10% following trade agreements, carve-outs, and legal challenges. Reduced noise and healthy consumption allow the US economy to surprise positively. Residual negative tariff effects are offset by deregulation and lower taxes.

Geopolitical de-escalation: A ceasefire between Russia and Ukraine is reached, with strong security guarantees for Ukraine. Middle East tensions ease.

Artificial intelligence is a game-changer: The impact of artificial intelligence on productivity and earnings growth is larger and comes sooner than investors expect.

Downside scenario: Hard landing

S&P 500 June 2026 target: 4,500

US recession: Lagged effects of US tariff and migration policies and concerns about AI monetization weigh on consumption, investment, and the labor market. The US economy enters a cyclical recession by mid-2026 as unemployment rises by around 2%.

Geopolitical turmoil: Tensions in the Middle East escalate, with potential for a significant and sustained disruption to oil supply. The Russia-Ukraine conflict re-intensifies. All this leads to a risk-off environment and a flight to quality.

Sector preferences

Attractive

- **Communication services:** Consumer internet companies that dominate the sector are leaders in digital advertising, which continues to gain share. While AI poses some risks for incumbent search engines, it also offers opportunities to reduce costs and drive new business opportunities.
- **Financials:** Deregulation is a key driver for the banks. We also expect continued gains in capital market activity and an improvement in net interest margins / income that should drive valuation upside. We expect continued solid growth in payment networks.
- **Health care:** A combination of policy clarity (over time), attractive valuations, and potential upside to earnings estimates for select companies should lead to good performance, in our view.
- **Information technology:** We believe AI investment spending is intact, with key components likely supply constrained this year. We expect investors to continue to favor sectors that have high-quality companies with good secular growth.
- **Utilities:** The sector's defensive characteristics should offer ballast in a portfolio if economic growth slows further. We maintain our favorable view on AI trends, and roughly 20-25% of the sector has material exposure to AI power demand.

UK equities

Central scenario

FTSE 100 June 2026 target: 9,300

We remain Neutral on UK equities and recommend selective exposure. We see the UK benefiting from a more positive outlook for the entire region on the back of European policy developments (including higher spending on defense and German infrastructure) and a possible reallocation to the region from global investors increasingly seeking to diversify. But the near-term outlook for earnings remains challenging: The UK has limited exposure to structural growth opportunities that could offset the negative impact of trade tariffs on growth, and companies are facing currency headwinds from the GBP's recent strength. Challenging UK budget discussions in the coming months could also weigh on market sentiment.

We expect UK earnings to contract again this year. Having already fallen around 15% over the past two years, we expect -3% earnings growth in 2025 due to 1) weak global economic growth as US trade tariffs weigh on US end-demand and delays investment decisions, 2) currency headwinds due to the strong GBP, and 3) low commodity prices, especially in GBP terms. However, we see earnings starting to improve in 2026 as US policy clarity, lower rates, and the drop in energy prices begin to support end-demand. This should help profits grow, in our view, 5% in 2026 and potentially quicker in 2027. While this could drive upside to UK equities in 2026, we think it is too early to look that far ahead given the near-term growth uncertainty. We therefore see only muted returns from UK equities for now, with most of the returns driven by the 3.6% dividend yield.

We favor higher-quality, more resilient businesses to navigate the current uncertain backdrop. We like high-quality stocks and beneficiaries of positive policy developments in Europe via our “Six ways to invest in Europe” theme. Our sector preferences tilt to structural growth opportunities in IT and industrials, and real estate for its rate sensitivity and defensive domestic characteristics.

CIO themes

European quality

We recommend investing in high-quality stocks in Europe that offer resilience in challenging macro conditions.

Six ways to invest in Europe

We see single-stock opportunities across six drivers likely to influence European equity markets in the near term.

European Sector preferences

Attractive: Industrials, IT, and real estate

UK equities

Upside scenario

FTSE 100 June 2026 target: 10,300

Continued progress on US trade deals with other countries, could drive a recovery in business confidence and manufacturing activity, lifting our earnings expectations and reducing the equity risk premium as uncertainty dissipates.

US investors diversify into UK assets, helping to close the UK's valuation gap with US equities.

Policy response, either quicker interest-rate cuts or large fiscal measures by Europe, the US, or China, provides support to valuations and future growth prospects.

Higher commodity prices would lift UK equities in particular, given their high commodity exposure.

Weaker sterling. With 75-80% of FTSE 100 revenues generated outside the UK, a reversal of the recent GBP strength could support higher local currency returns, all else being equal.

Downside scenario

FTSE 100 June 2026 target: 7,000

Global economic downturn materializes as the impact of US trade tariffs start to bite.

Employment weakness could delay a recovery in consumption, leading to weaker-than-expected growth.

Higher inflation could keep Bank of England or Federal Reserve rates higher for longer and put downward pressure on valuations and future growth prospects.

Lower commodity prices: If commodity prices fall, earnings growth could be hurt as the commodity sectors contribute around 25% of FTSE 100 earnings.

Stronger sterling: Further sterling strength would be a drag on the FTSE 100 as foreign earnings are less valuable when translated back into GBP.

Swiss equities

Central scenario

SMI June 2026 target: 12,600

Overall, second-quarter corporate results were solid, despite (geo)political uncertainty and signs of a global economic slowdown. Most companies managed to deliver modest organic sales growth and robust margins. Currency translation losses increased significantly in the second quarter, as widely expected.

Comments on the outlook were cautious to constructive. The new 39% tariffs on Swiss exports to the US, in force since 7 August, are negative but less of a concern for the Swiss stock market than for the Swiss economy. This is because the Swiss stock exchange consists mainly of global companies with production sites all over the world, which allows for some flexibility that the Swiss economy does not have. As a result, we estimate that only 1-2% of group sales of the companies in the Swiss Market Index (SMI) are now subject to the US tariffs. We expect a US-Swiss trade deal with lower tariffs to be reached in the weeks ahead.

The biggest uncertainty currently lies with the health care sector, where we expect the introduction of new US tariffs in the coming weeks as the US administration strives for lower drug pricing in the US market.

Overall, we continue to expect low- to mid-single-digit profit growth in Swiss francs for the SMI this year as well as the next, despite currency headwinds, new US tariffs, and pricing risks in the pharma industry. This is supported by a relatively low base effect. The Swiss purchasing managers index (PMI), a leading indicator for the manufacturing industry, has been below the 50-point level that marks contraction since January 2023, signaling a flat or negative growth outlook in the months ahead. We expect the PMI to cross the 50 threshold in the quarters ahead, signaling brighter economic prospects over the course of 2026.

The forward P/E valuation for the SMI based on consensus estimates is modestly above the historical average. In view of consensus earnings expectations that we judge to be a bit too high, particularly for 2026, the Swiss market valuation is about fair in our view. Stock selection is thus important.

We encourage investors to focus on quality and service companies, including those in the telecommunications, health care, and consumer staples sectors, as well as select mid-caps and cyclicals. Our favored investment theme in the Swiss equity market is “Swiss high-quality dividends.” As Swiss franc bond yields are currently low, high-quality dividends with growth are particularly attractive, in our view.

Swiss equities

Upside scenario

SMI June 2026 target: 13,600

Robust Swiss profits: If the global economy avoids a significant downturn and Europe picks up modestly in 2026, corporate profits could expand by a high-single-digit percentage in 2026.

Sustainable dividends: Swiss dividends have generally grown every year since 2009. In 2021, however, total SMI dividends fell 5%. From 2022 to 2025, they recovered by 4-8% each year. In our upside scenario, we expect a mid-single-digit percentage rise in spring 2026 (i.e., for FY25) and in 2027.

Manageable currency impact: Currency effects were modestly negative in 2022 but significantly negative in 2023. In 2024, they were moderate again. This year, currency losses intensified significantly in 2Q25 and will stay a headwind in 2H25, led by a weaker US dollar.

Downside scenario

SMI June 2026 target: 10,200

Economic and political risks: The global economy could slow significantly with the Swiss franc appreciating further over the rest of the year, while international political disputes are headwinds for a small country with above-average international exposure.

Valuations: While dividend yields may remain attractive, corporate profit growth may shrink by a low- to mid-single-digit percentage in 2025, suggesting modest downside risks to SMI dividends for business year 2025 and leaving the SMI trading at an unjustified premium to its 25-year forward P/E average.

Sector composition: The SMI has a high exposure to defensive industries and quality companies that tend to underperform when bond yields increase sharply or economic growth expands, and vice versa.

Emerging market equities

Central scenario

MSCI EM June 2026 target: 1,310

Emerging market (EM) equities (MSCI EM Index) have shown resilience, supported by momentum in China tech, robust liquidity in A-shares, strength in Brazil, and policy measures in India. Strong EM FX trends and the prospect of Fed easing should help sustain valuations and attract flows, giving EM central banks flexibility to ease further. We remain Neutral on EM overall, favoring markets and sectors with solid domestic demand or structural themes—especially China tech, India, Brazil, Indonesia, and the Philippines. We recommend investors consider adding exposure to these preferred markets on pullbacks.

We remain Neutral on Mainland China. The broader China A-share market remains supported by liquidity inflows as investors shift from deposits and bonds into equities. Within China, we maintain an Attractive view on the tech sector, where rapid advances in artificial intelligence, robust cloud investment, and progress in domestic chip development are driving growth, as highlighted in 2Q25 results. Leading firms are expanding their AI and cloud capabilities, while DeepSeek's latest model demonstrates growing compatibility with domestic semiconductors—a significant step in China's strategic push for technology self-sufficiency. These factors, combined with attractive valuations and strong policy support, underpin robust earnings growth estimates and reinforce our positive outlook on the sector.

Elsewhere in Asia, India's earlier-than-expected GST rate cuts are set to boost near-term consumption and strengthen domestic demand, supporting our Attractive view and preference for adding exposure on market pullbacks. Expectations for an earnings recovery further reinforce our positive stance on the region. We remain Neutral on South Korea and Taiwan. Both are well positioned to benefit from the global AI capex cycle, but cyclical headwinds and elevated valuations temper our view on the broader indices. In Southeast Asia, we

downgraded Malaysia to Neutral after its rally and upgraded Indonesia to Attractive on improved valuations and easing political risks. Earnings recovery and US dollar weakness add to the positive outlook.

In Eastern Europe, the Middle East, and Africa, South African equities have outperformed, led by materials, though we believe broader gains in domestic stocks will depend on fiscal progress, economic growth, and lower rates to support a more sustained rotation. Saudi Arabian equities continue to face headwinds from moderate earnings growth, subdued oil prices, and elevated valuations relative to EM peers. However, strong structural drivers remain in place, and a recovery in oil prices or further reform progress could provide renewed support for the market.

We maintain our Attractive preference for Brazilian equities, supported by strong domestic exposure, attractive valuations, solid currency dynamics, the prospect of further policy easing, and the potential for macroeconomic regime change in 2026. We remain Neutral on Mexican equities, with the outlook closely tied to progress on USMCA trade negotiations and a return to trend growth in the US economy.

After a solid late-summer performance, high valuations and softer data may lead to consolidation, creating attractive entry points in preferred EM markets. Looking ahead, we see a constructive medium-term outlook for EM equities, underpinned by supportive monetary policy, strong EM FX trends, global trade shifts, technology and AI leadership, and reform momentum in China and South Korea. EMs also offer valuable diversification through distinct macro cycles and structural growth drivers, which is increasingly important amid geopolitical fragmentation.

Emerging market equities

Upside scenario

MSCI EM June 2026 target: 1,420

Supportive global monetary policy and EM FX dynamics:

Faster monetary easing by major central banks, especially if US growth holds up and inflation moderates, would boost global liquidity, risk appetite, and EM capital flows. Solid EM FX dynamics, lower US yields and looser financial conditions provide a favorable backdrop for valuations and earnings growth.

Meaningful tariff and geopolitical de-escalation: Quick resolution of trade disputes, especially for China, India, and Brazil, would reduce uncertainty, lift sentiment, and support a faster earnings recovery. Clarity on semiconductor export restrictions would further benefit EM tech.

Large-scale targeted policy support in China: If Beijing announces large fiscal stimulus, especially for property and consumption, it would signal a strong commitment to stabilizing the economy. Targeted measures with clear implementation could reduce deflationary pressures and reinforce confidence in China's growth outlook. Improved sentiment would likely benefit regional and commodity-linked EMs.

Renewed foreign investor inflows and a broadening rally:

Stronger foreign inflows and a rally extending beyond tech would further amplify the upside.

Downside scenario

MSCI EM June 2026 target: 980

Higher-for-longer US rates and US growth risks: Central banks remain cautious due to persistent inflation, keeping rates higher for longer. A slowdown in US growth or disappointing data, especially with lower tech capex, could dampen risk appetite and hit EM tech supply chains. A stronger dollar and tighter financial conditions would pressure flows, EM FX, and asset prices.

Further trade, tariff, and geopolitical escalations: Escalating trade tensions, especially for China or India, could disrupt supply chains and weaken EM growth. More tariffs, sector restrictions, or non-trade escalations (like ADR de-listings) would further dampen sentiment and compress valuation multiples. Delays in peace talks or new geopolitical shocks could increase volatility.

Limited policy support in China: If China's stimulus remains subdued or lacks targeted support for property and consumption, sentiment could soften and investors may reduce risk exposure. The absence of new, comprehensive fiscal initiatives may prolong weakness in consumption and property, raising the risk of equity derating and negatively affecting other trade- and export-oriented EMs.

Earnings and macro do not underpin valuations, leading to multiple compression: If earnings growth disappoints and macro conditions remain weak, current elevated valuations may not be justified, resulting in valuation multiples compressing across EM equities.

Sector Preferences:

Attractive: China tech, India, Brazil, Indonesia, Philippines

Neutral: Mainland China, South Korea, Taiwan, Thailand, Malaysia, Mexico, South Africa

Japanese equities

Central scenario

TOPIX June 2026 target: 3,350

We have turned more positive on Japanese equities and upgrade the market to Attractive. A better-than-expected trade deal with the US removes a key risk that has been keeping us cautious for some time, and structural reforms are increasingly being recognized as a source of alpha by international investors. More accommodative policies could emerge following the upcoming Liberal Democratic Party (LDP) leadership election and a possible House of Representatives election. And forthcoming Federal Reserve rate cuts and growing confidence in the resilience of the US economy and stock market should support Japanese equities. We therefore see a more positive risk-reward in the near term, despite the recent rally.

Potential short-term catalysts for Japanese equities include: (i) more accommodative policies under the next government compared to the current administration; (ii) an earlier-than-expected bottoming out of corporate earnings forecasts; and (iii) an expected acceleration in share buybacks at the 2QFY25 (fiscal year ending March 2026) results during the December quarter. While actual 2QFY25 earnings will likely decline year-over-year due to the tariff impact, this is unlikely to surprise the market. Instead, we believe investors will likely begin to price in a profit recovery for the next fiscal year as tariff impacts fade.

Looking further ahead into 2026, we think the next set of medium-term catalysts will include: (i) corporate governance reforms finally driving higher returns on equity (ROE); and (ii) an anticipated earnings expansion supported by a recovery in the global manufacturing cycle. While share prices may consolidate after recent rally over the next few weeks, any pullback could offer an entry point for long-term investors, in our view.

Japan's P/E ratio stands at 16.0x, the upper end of its historical 12-16x range, so it does not appear particularly cheap. However, with global valuations trending higher, Japanese equities do not look expensive on a relative basis. For example, the P/E ratios of major equity markets, including the US, Europe, Japan, and China, are all trading at approximately a 10% premium to their post-2020 averages.

Upside scenario

TOPIX June 2026 target: 3,550

Pro-growth strategy: The new administration implements unprecedented pro-growth strategies, enhancing the earnings growth rates of Japanese companies.

Higher ROE: Greater increases in the unwinding of cross-shareholdings and share buybacks, business portfolio restructuring, or increased investments to raise firms' ROE (one of the Tokyo Stock Exchange's aims) and profit margins prompt Japanese equities to rerate in the longer term.

More benign tariff policy: The Trump administration significantly reverses its proposed very high tariffs. Business and consumer confidence rebounds sharply, driving better-than-expected economic and corporate profit growth in both the US and Japan.

Global manufacturing recovery: This leads to stronger top-line growth for Japanese corporate earnings.

Downside scenario

TOPIX June 2026 target: 2,300

Slowdown in the US economy and market: Economic growth falls sharply over the next 12 months due to persistent, highly aggressive tariffs, which drive a fall in consumer spending and business investment.

Sharp yen strengthening: Valuations could fall ahead of further EPS downgrades, especially for exporters such as tech, auto and industrial sectors, if the yen strengthens sharply.

Higher US yields: Higher US yields could lead to lower valuations.

Asian ex-Japan equities

Central scenario

MSCI Asia ex-Japan June 2026 target: 910

Asian equities have rebounded in recent months, with technology innovation, policy shifts, and evolving trade dynamics driving rotation across the region. Renewed momentum in China tech, robust liquidity in A-shares, and proactive support measures in India have stood out, while shifting macro conditions continue to shape investor sentiment. We maintain our Neutral preference on the region as valuations remain elevated and seasonality presents headwinds, while global tech developments add to near-term uncertainty. Although select opportunities are emerging in China tech, India, and Indonesia, we believe selectivity remains key given ongoing valuation and policy challenges.

China tech results in 1H25 have further bolstered optimism, reinforcing our Attractive stance on the tech sector (HSTECH Index). AI-driven growth is evident, with major tech companies ramping up AI monetization and cloud capital expenditures. Food delivery subsidies are peaking, and the State Administration for Market Regulation (SAMR) has urged food delivery platforms to resist excessive subsidies, paving the way for margin normalization in eCommerce by 4Q25/1H26. Meanwhile, gaming and advertising have benefited from tangible AI gains. Although e-commerce and EV sectors face margin pressures, domestic large language models (LLMs) and chip innovation have made progress in reducing reliance on foreign technology. We continue to favor select AI and alpha-growth stocks for their strong execution and global expansion potential. Meanwhile, we maintain our Neutral preference for broader Chinese equities (MSCI China index). The market continues to be supported by robust liquidity inflows, but soft macroeconomic data and seasonal headwinds persist.

India has doubled up on economic support through broader consumer tax cuts, following a 50% nominal tariff rate on US exports. Recent steps to simplify the GST structure and reduce rates for most items, alongside earlier income tax cuts and RBI easing, have had a direct positive impact on consumption. Consumer stocks remain a preferred theme in this favorable backdrop, and we also like financials as indirect beneficiaries of rising consumption and credit demand. Coupled with expectations for an earnings recovery, this underpins our Attractive stance on the market.

For Korea and Taiwan, we continue to maintain our Neutral view for both markets. AI compute demand continues to surprise to the upside, driven by recent disclosures from a leading US custom chip designer and a major hyperscaler. Most notably, the hyperscaler reported a remarkable 230% quarter-on-quarter increase in AI-related backlog, a sharp acceleration from the modest 6% and 1% growth in the prior two quarters, respectively. This momentum underscores the durability of AI infrastructure investment and signals a broadening capex build-out beyond the traditional Big 4 US tech platforms. We expect this incremental capex to flow meaningfully through the global AI supply chain, with Taiwan and Korea positioned to capture a significant share over the next three years. While we remain Neutral on broader Taiwan and Korean equities due to the risk of cyclical headwinds in legacy segments, we believe this AI-driven capex cycle strengthens the investment case for our preferred exposures such as fabless chip designers, AI data center infrastructure providers (power and cooling), and attractively valued memory names that should benefit from resilient AI compute demand.

Within Southeast Asia, we downgraded Malaysia after its recent rally brought valuations to our 2025 target, limiting further upside, in our view. The rally was supported by US tariff adjustments, aligning Malaysia with regional peers and improving sentiment, but earnings have softened and valuations are no longer as attractive. Meanwhile, we upgraded Indonesian equities to Attractive following a market correction, with government measures helping to ease political risks and valuations still below the 10-year average. Prospects for earnings recovery in 2026 and tailwinds from US dollar weakness add to the positive outlook, and we favor quality high-dividend stocks in banking, telecom, utilities, and logistics.

Asian ex-Japan equities

Upside scenario

MSCI Asia ex-Japan June 2026 target: 975

The Fed cuts rates faster than expected

Asian equities are likely to rebound strongly if the Fed cuts rates deeper and faster than expected, especially if the US economic slowdown is also less pronounced than feared and inflation drops faster than expected.

Successful trade negotiations for China and India

Swift trade deals and meaningful de-escalation, especially for China and India, would boost investor confidence and prompt a sustained recovery in Asian equity markets as economic growth concerns subside.

Strong China stimulus and demand recovery

A meaningful recovery in property investment in China would likely push Asian equity markets higher, given currently subdued expectations. The exemption from, or reduction of, US tech export restrictions in the region would also be supportive.

Downside scenario

MSCI Asia ex-Japan June 2026 target: 645

US rates stay higher for longer

If US rate cuts are delayed or if rates rise, Asian equities could come under pressure. A hard landing for the US economy would also negatively impact Asian stocks.

Aggressive escalation of geopolitical and trade tensions

A key risk, not only for China but also many smaller open economies, is severe trade tensions with the US or heavy tariffs that could lead to a global and regional economic growth slowdown. Additional risks include ADR de-listings, sector restrictions (such as on semiconductors), audit controls, and anti-trust challenges. Renewed hostilities in the Middle East, resulting in significant disruptions to energy supplies, could also be inflationary and weigh on global economic growth.

Weaker-than-expected economic growth in China and stimulus details disappoint

A sharper slowdown in China's economy, driven by tariffs and insufficient policy support, would likely trigger further earnings downgrades across the region, posing downside risk to equity market returns. Given China's significant index weighting and the close business ties many regional firms have with China, both China and other trade-oriented markets could remain subdued if stimulus measures disappoint.

Market preferences

Attractive: China tech, India, Philippines, Singapore, Indonesia

Neutral: Mainland China, South Korea, Thailand, Hong Kong, Taiwan, Malaysia

High grade

Attractive

Central scenario

10-year US Treasury yield June 2026 target: 3.75%

We are maintaining our Attractive view on high grade bonds as major central banks remain committed to lowering policy rates, generating an ongoing tailwind for returns and putting downward pressure on term rates. Specifically, we see value in long-duration positioning relative to strategic benchmarks in the US, UK, and Germany, particularly in the belly of the curves. The ultra-long end has cheapened significantly and presents value; however, it will likely remain more sensitive to fiscal developments. Our positioning is guided by the stated policy priority from the US administration to bring long-end rates down and prevent instability, as this would alleviate pressure on the deficit, and mortgage rates/housing demand are priced off the long end. The high grade asset class also continues to offer an appealing risk-return profile, particularly in a scenario where economic growth could weaken further and major central banks are forced to ease faster and more aggressively. High grade bonds are rated AA- or better and therefore have lower default risk. The asset class can be viewed as an alternative to cash for investors looking to lock in attractive yields of above 4% (in USD) and close to 3% (in EUR), with awareness of mark-to-market sensitivities.

USD

Investors in the last month continued to shift their focus a bit away from fiscal and supply concerns and back towards fundamental macro data. It is now becoming apparent that labor market conditions continue to loosen. Companies have been reducing wage growth, working hours, and new hiring for some time. Now, given the recent backward revisions to official labor market statistics, it would appear that companies in the second quarter were also laying off workers in some sectors. Given sampling issues,

seasonality, and statistical adjustments, it remains a challenge to gauge whether the labor market is in the process of a more serious downward adjustment. Consumption remains strong, which would counter this concern. Additionally, in the last few months, we have seen inflation trending back toward an annualized rate of 3%, which is above the official target.

For the Fed, striking the balance on their mandate of maximum employment and price stability has become increasingly challenging given the upside risks to inflation and downside risks to growth presently. Having said that, the recent weakness in the labor market appears to be tilting the balance. The Fed committee appears to be divided in their views, however the consensus has tilted more dovish, particularly with recent Board member changes. The Fed is signaling that ongoing rate cuts are warranted, even if opinions on the speed and magnitude may differ.

Outside monetary policy considerations, the long end of bond curves continues to demonstrate sensitivity to fiscal and political challenges across the developed world. Elevated yields are already weighing heavily on government debt-servicing costs and feeding back into the fiscal fragility. Governments are attuned to this fragility and the importance of lower rates for the budget and stimulating demand, particularly when it comes to hot button political issues such as housing affordability. Our base case is that fiscal concerns will not cause a breakdown at the long end of the market. It remains well within the power of governments and central banks to manage interest rates across the curve and maintain stability, ensuring public and private sector debt remains serviceable. Governments are skewing issuance toward the short

end of the curve, where there is more demand, to address supply-demand imbalances at the long end. The recent weakness in the labor market appears to be tilting the balance. The Fed committee has tilted more dovish, particularly with recent Board member changes. The Fed consensus continues to signal that ongoing rate cuts are warranted, even if opinions on the speed and magnitude may differ.

From a more strategic level, international investors are questioning whether the US is a reliable trade and investment partner, fueling reports that foreign investors were selling their holdings of USD securities. Important to note is that with the passing of the OBBBA through Congress, section 899, which proposed granting the US administration powers to change tax treatment on foreign capital, was removed. This has alleviated some concerns, and ultimately the US markets remain the deepest, most liquid, and diverse globally. Monitoring global fund flows it would appear that rather than divest from the US fixed income market, foreign investors have increased their allocations more recently. This is most likely due to the potential for higher capital gains, given that there remains ample yield on the table relative to other markets, compensating investors for the risks outlined.

EUR and CHF

In Europe over the last month, the European Central Bank (ECB) held policy rates steady at 2%. President Lagarde communicated that the central bank considers policy to be in balance and expressed a variety of possible scenarios in terms of the direction of the policy rate going forward. We believe risks are, on balance

High grade

more skewed to lower policy rates than higher. Inflation in the Eurozone has been at or below the ECB's target for the past three months now, while a relatively strong currency as well as the risk of cheap Chinese imports being diverted from the US to Europe could put further downside pressure on prices. The preliminary EU trade agreement with the US as well as prospects of a ceasefire or even peace deal in Ukraine have added to growth optimism in the Eurozone. That comes on top of the German fiscal push on defense and infrastructure. We would caution that fiscal implementation will take time. In the short term, given Europe's reliance on global trade, the tariff impact is more critical to the near term outlook and market direction. The agreed 15% tariff rate on exports to the US might be lower than worst-case scenarios, but it has already been criticized by business leaders for still taking a serious toll on their growth and margin outlook. In addition, the recent fall of the French government due to the inability to pass spending cuts has created a situation of political paralysis and little likelihood of reform or meaningful budgetary change. This will continue to weigh on the existing stagnant growth backdrop.

In Switzerland, the policy rate is already back at the zero lower bound, as deflation amid a very strong currency remains the key risk. The 39% US tariff is making things even trickier for the Swiss National Bank (SNB). While the central bank is aware of the downsides of negative rates and communicated that the bar to go there is high, current market pricing suggests that a step into negative territory over the next six months remains more likely than not. Current headwinds to Swiss growth and inflation should keep already very low Swiss bond yields (0.2% for the 10-year) well anchored.

GBP

In the UK, the Bank of England (BoE) cut its policy rate to 4% in early August as expected. But the decision was surprisingly close as four out of nine committee members voted against the move. As a result, markets significantly reduced the odds of another rate cut before year-end. The outlook for longer-dated gilts largely hinges on fiscal policy. The U-turn on welfare spending cuts added to supply concerns with UK yields recently decoupling from US rates and moving higher over the month at the long end. Chancellor Reeves is set to release her Autumn Budget in late October. We expect the government to be as prudent as it can be in its fiscal policy with tax hikes looking more likely, from which gilts should benefit. Also, the BoE is looking to slow the pace of quantitative tightening, which has been running at USD 100 billion per annum. This would marginally reduce some of the supply-demand imbalances and ease financial conditions.

Upside scenario

In the upside scenario for high grade bonds, global growth slows sharply over the next 12 months owing to further weakness in consumer spending and labor markets. GDP contracts for at least two consecutive quarters in both the US and the Eurozone. The Fed eases policy more aggressively, lowering its policy rate by at least 250bps over the next 12 months, causing bond yields to fall.

Downside scenario

In the downside scenario for high grade bonds, downside risks to economic growth fade as trade agreements reduce tariff uncertainty and clear the way for a rebound in capex and consumer spending. The need to cut policy rates further is called into question and major central banks ease less than currently priced.

Investment grade

Attractive

Central scenario

June 2026 spread targets: 80bps (USD IG) / 90bps (EUR IG)

We continue to hold an Attractive view on investment grade bonds given the current appealing risk-reward profile. While credit spreads are at the low end of their historical range, we believe the total return outlook for US and EUR IG is supported by carry, with potential upside from falling government bond yields in the event of a more adverse growth backdrop. All-in yields are around 4-5% for US IG and 3% for EUR IG, which are still elevated versus historical levels (based on data since 2010) and provide a decent amount of cushion against the risk of rising rates or spreads. We find the outright level of yields appealing and believe investors with excess cash holdings should look to lock in current yields in medium-duration investment grade bonds for durable income prospects. In particular, we note that investors do not need to give up yield to deploy excess cash holdings to medium-duration investment grade bonds, given IG bond yields are higher than prevailing cash rates. At the same time, rates volatility has fallen alongside yield levels so far this year, keeping the risk-adjusted return outlook favorable.

While the growth backdrop in the US has slowed in 2025, current data are not pointing toward a recession anytime soon. A weakening labor market clears the way for the Fed to lower its policy rate further, making credit even more appealing relative to cash rates. We also note that high-quality bonds tend to be resilient in historical periods of growth slowdowns from a total return perspective, with credit spread widening usually offset to a good extent by falling interest rates.

While year-to-date returns in USD credit have been supported by a significant shift lower in government bond yields coupled with decent carry (as of 15 September), the overall risk-reward dynamic remains favorable, in our view. This is underpinned by continued resilient fundamentals and strong demand. Although credit spreads are near the lower end of their historical range, we believe the total return potential for US and EUR IG bonds is well-supported by carry.

IG bond issuers returned strongly to the primary market after the summer break, pushing year-to-date net issuance toward USD 350 billion (based on BofA data, 12 September). But strong bond supply has been picked up smoothly by persistently solid investor demand. The technical backdrop for the asset class remains strongly supportive, especially as the prospects of falling cash rates should fuel further inflows into high-quality credit.

Meanwhile, credit fundamentals are in decent shape, with minimal expected credit quality deterioration. The median net leverage of US IG issuers (excluding financials and utilities) has been largely stable in recent quarters, with the latest 2Q estimate around 2.0x (according to BofA data, 15 Aug). EBITDA growth for the median issuer accelerated to 4.8% year over year (y/y), outpacing debt growth, which also picked up to 3.4% y/y. Rating migrations turned negative in US IG in August for the first time since December 2023, but that was driven by the downgrades of two very large issuers and thus largely idiosyncratic. The rating outlook remains favorable in our base case.

Key risks to our view include a meaningful slowdown or an outright recession, though we believe spread widening would be offset sufficiently by falling interest rates in this scenario. Should interest rate volatility rise again—particularly if driven by concerns of re-accelerating inflation, increasing the risk of the Federal Reserve paring back expectations of near-term rate cuts—this could also place renewed upward pressure on spreads. With respect to the credit cycle, a material rise in creditor-unfriendly actions, such as debt-funded M&As and share buybacks would likely lead to credit quality deteriorating over time.

Investment grade

Upside scenario

**Bloomberg Barclays US Int. Corp. June 2026 target: 60bps/
Bloomberg Barclays Euro-Agg. Corp. June 2026 target: 70bps**

Positive surprise

Various trade agreements alleviate uncertainty for corporates and consumers and reduce growth risks. Lower tariff risks and healthy consumption allow the US economy to surprise positively into 2026, with residual negative tariff effects offset by fiscal policy support and deregulation. China's policy stimulus proves effective, while European growth is lifted by fiscal stimulus.

Downside scenario

**Bloomberg Barclays US Int. Corp. June 2026 target: 180bps/
Bloomberg Barclays Euro-Agg. Corp June 2026 target: 190bps**

Hard landing

Global growth slows sharply over the next 12 months owing to further weakness in consumer spending and labor markets. The US economy enters a recession. Major central banks cut rates swiftly, bringing monetary policy back into accommodative territory. A severe escalation of sovereign debt concerns (e.g., driven by France or the UK) are another risk scenario.

High yield

Central scenario

June 2026 spread targets: 350bps (USD HY) / 330bps (EUR HY)

We are Neutral on high yield (HY) bonds. While the risk of a recession has declined since April as uncertainty related to US tariffs faded some, our base case remains for a growth slowdown this year. Credit spreads are at historically compressed levels and well below the average non-recession level. This suggests the segment is vulnerable to spread widening on negative growth surprises in particular. Since early-July global HY spreads moved by and large sideways in a relatively tight range. But recent political turmoil in France brought about some divergence, with US spreads tighter over the month, while EUR HY spreads widened somewhat.

HY issuers' balance sheets are generally in decent shape, and there has not been a build-up of financial leverage and excess since the pandemic. According to Bank of America, credit metrics have remained stable in recent quarters. Aggregate US HY leverage (gross debt/LTM EBITDA) at 4.4x is still slightly below the long-term average, while interest coverage (LTM EBITDA/interest expense) of 4.1x is still above the long-term average (based on data since January 2000). Credit quality has generally improved in recent years: The share of BB-rated bonds in the US HY index remains historically elevated at 53% and the portion of secured bonds stands at a historic high of 35%. Distress ratios remain below average and have trended lower in recent months.

Par-weighted default rates were at a still very low level of 1.3% in US HY and ticked down to 3.1% in European HY at the end of August. Our estimate for defaults remains around 2-3% over the next 12 months in both the US and EUR HY markets. Many high yield issuers have been able to tap markets to refinance upcoming maturities in recent quarters, reducing risks related to a near-term refinancing wall. Year-to-date, refinancing remains the predominant use of proceeds at 65% of total US HY issuance, which is slightly above the long-term average. CCC issuance has remained low this year. Part of this decline may be due to the growth in private credit funds, which have been active lenders to more distressed borrowers in recent years. While the fallout from higher tariffs still has the potential to weigh on business models, we take comfort in the limited direct operational exposure of HY issuers to tariffs at the aggregate index level as well as our view that the effective tariff rate in the US will likely end up at 15%, which in itself should not cause a recession for the US economy.

On technicals, strong issuance has been well absorbed by the market. At USD 210 billion of gross issuance year-to-date, the primary market is running slightly behind last year's pace. Importantly, roughly two-thirds of the volume has been used to refinance existing debt. Investors are still eager to lock in current all-in yields, and flows into HY funds remain solid. According to data by Lipper/JP Morgan HY funds recorded inflows of USD 1.2bn in August.

High yield

Upside scenario

ICE BofA US high yield spread June 2026 target: 280bps / ICE BofA Euro high yield spread June 2026 target: 260bps

Positive surprise

Various trade agreements alleviate corporate and consumer uncertainty and downside risks to economic growth fade. Lower tariff risks and healthy consumption allow the US economy to surprise positively into 2026, with residual negative tariff effects offset by policy support from deregulation and lower taxes. China's policy stimulus proves effective, while European growth is lifted by fiscal stimulus.

Downside scenario

ICE BofA US high yield spread June 2026 target: 650bps / ICE BofA Euro high yield spread June 2026 target: 630bps

Hard landing

Global growth slows sharply over the next 12 months owing to further weakness in consumer spending and labor markets. The US economy enters a recession. Major central banks cut rates swiftly, bringing monetary policy back into accommodative territory. An escalation of sovereign debt concerns (e.g., in France or the UK) is another downside risk that could weigh on credit, especially in Europe.

Emerging market bonds

Central scenario

**June 2026 spread targets: 350bps (EM sovereign bonds)
/275bps (EM corporate bonds)**

Spreads on EM sovereign and corporate bonds have moved largely sideways over the past month, but the asset class gained strongly on the back of falling US Treasury yields. As the Fed is restarting its cutting cycle, global investors stay eager to lock-in appealing all-in credit yields, keeping EM credit spreads around their cycle tights.

Meanwhile, the macroeconomic backdrop for EM issuers remains mixed. Regional leading indicators, such as PMIs, have recovered solidly from their "Liberation Day" plunge, indicating decent growth ahead. But tariff uncertainty is still elevated and trade headlines are likely to remain in focus, as the US administration continues to announce bilateral deals, extends the trade truce with China, imposes higher levies on countries failing to reach agreements, and implements sectoral tariffs on goods such as semiconductors and copper products. Our base case remains for US tariffs to cause a deceleration in global growth but not a recession. In the near term, domestically oriented EM issuers appear less exposed to trade-related disruptions.

The share of "distressed" sovereign issuers (with spreads above 1,000bps) has fallen to 11% of the index—which is below its long-term average and substantially lower than 12 months ago (at 17%). With spreads around their usual cyclical tights we see very limited room for further tightening and think the risks are for spreads to move somewhat wider as growth decelerates.

Interest rate carry of around 7% for emerging-market US dollar-denominated bonds remains appealing in a historical context and demand for the asset class has improved, as evidenced by a pickup in fund flows.

Regarding downside growth risks, we note that a significant decline in oil prices below USD 60/bbl could weigh on the fundamentals of lower-rated oil exporters, while leading to upside supply risks for the higher-rated oil exporters (oil exporters comprise roughly 40% of the benchmark EM sovereign bond index, the JPM EMBI Global Diversified index).

Emerging market bonds

Upside scenario

EMBIG Diversified / CEMBI Diversified spread June 2026 targets: 290bps / 210bps

Growth surprise: China's economy recovers faster than expected as it opts for large-scale fiscal stimulus measures. Lower tariff risks and healthy consumption allow the US economy to surprise positively into 2026, with residual negative tariff effects offset by policy support from deregulation and lower taxes.

Commodity price recovery: Price appreciation in commodities improves the terms of trade for commodity-exposed issuers and strengthens fiscal positions.

Downside scenario

EMBIG Diversified / CEMBI Diversified spread June 2026 targets: 550bps / 500bps

Economic slump: A sharp global economic slowdown leads to weaker EM currencies, deteriorating credit quality due to fiscal vulnerabilities, and wider spreads.

Geopolitical / trade tensions escalate: Heightened friction, emanating from either the war in Ukraine, the conflict in the Middle East, or US-China relations hurts risk sentiment, strengthening the US dollar and curbing the appetite for EM assets.

Rising populism: Increased conflicts within and between countries could arise as populist policies become more widespread globally.

Asian bonds

Attractive

Central scenario

JACI composite spread June 2026 target: 190bps

Asia credit bonds – Attractive

We maintain an Attractive view on Asia credit. Year-to-date, the JP Morgan Asia Credit Index (JACI) has delivered a solid 6.8% total return, and is on track for a mid- to high single-digit performance for the full year. Spreads have been largely unchanged over the past month and remain close to historical tights, while the broader risk backdrop has been steady with no renewed escalation in tariff measures and a largely neutral macroeconomic pulse across the region. Recent data showing weaker US jobs revisions paves the way for a series of Federal Reserve cuts in the coming months. This provides an opportunity to move out of cash and secure all-in yields of around 5.5% in Asia credit. Looking ahead, we anticipate some modest widening of around 20-30bps in spreads as global economic growth moderates, but we expect this to be offset by declining base yields as policy rates fall. Overall, we expect mid-single-digit total returns over the next 12 months.

Asia investment grade (IG) – Attractive

We maintain an Attractive stance on Asia investment grade (IG) bonds. Index spreads are around 110bps, which is roughly 15bps away from historical tights, implying that forward returns will likely be led by rates rather than spreads. There has been no fresh escalation lately in trade tariff issues, which has supported sentiment and reduced tail risks for risk assets. Fundamentals for IG issuers remain resilient. S&P recently upgraded India's sovereign rating from BBB- to BBB, which also translated into a series of Indian corporate upgrades, reinforcing the solid fundamentals of Asia's IG issuers. But given how tight valuations are, we do not expect these upgrades to compress index spread levels. As global and regional growth slows, a mild but contained widening in spreads is possible—but falling rates should be able to cushion this.

Asia high yield (HY) – Neutral

We maintain a Neutral view on Asia high yield (HY) bonds and retain a preference for the higher-quality cohort. The year-to-date performance of Asia HY has been solid at 8.4%, which has been driven by both carry and spread compression. Importantly, fundamentals continue to improve across several markets. Select Indian and Indonesian corporations have seen positive rating migration and better credit metrics, extending the rehabilitation trend we highlighted previously and supporting confidence in the higher-quality segment. At the same time, recent developments in the Hong Kong property space has also been positive, with stabilizing property price and sales trends. We still think this sub-segment may be quite volatile going forward given potential restructuring headlines of distressed developers. But in the absence of a sharper slowdown in Hong Kong, we expect the impact on the overall Asia HY complex to be contained. Looking forward, we expect HY returns to continue to be led by carry, with an expected total return of around 7% over the next 12 months. We prefer to express exposure through the BB rated segment for a better balance between income and quality.

Asia local currency bonds – Attractive

We reiterate an Attractive view on Asia local currency bonds. In US dollar terms, the year-to-date return (measured by the iBoxx ALBI) is 8%, thanks to both FX and duration gains. We continue to believe this segment provides currency diversification away from the US dollar and lower volatility than a single-currency approach. While recent tariff noise with India and the political situation in Indonesia have affected INR and IDR sentiment, we do not think this will result in a further material selloff in their domestic bonds given the light foreign positioning. Inflation across Asia is muted at

an average of 1.4%, leaving room for Asian central banks to cut policy rates 2-3 more times. We also see scope for Asian currencies to appreciate by 3-4% versus the US dollar over the next year, driven by hedging flows of existing US asset positions back into home currencies as the rate differential narrows. When combined with an index level carry of about 3.6% and an average duration near seven years, these factors will likely result in high single-digit total returns over the next 12 months, in our view. We therefore continue to view Asia local currency bonds as a compelling vehicle for de-dollarization, diversification, and income.

Asian bonds

Upside scenario

JACI composite spread June 2026 target: 150bps

Much lower tariffs and China recovery: Asia credit would benefit if the US's tariffs are rolled back and China's recovery is faster and stronger than expected in the coming months..

Sharp rebound in mainland China and Hong Kong property: Beijing's policy moves have focused on demand-side measures, but China's housing sales recovery remains uneven and mixed. A rebound in housing sales or more details on supporting developers' liquidity would offer fundamental support to this sector's credit metrics.

More dovish-than-expected central bank action: Spreads will likely compress if the Fed becomes more dovish than expected or if US inflation comes off faster than expected.

Downside scenario

JACI composite spread June 2026 target: 260bps

Much higher tariffs and default rates: Asia credit could sell off if the US's high "reciprocal" tariffs are reinstated, causing a sharp slowdown and default rates to exceed current market pricing.

Prolonged downturn in Hong Kong and mainland China property: A further slump in real estate prices in Hong Kong and mainland China would affect the bonds of developers and banks given the potential impact of non-performing loans.

Deep US/Europe recession: If the US or Europe fell into a deep recession, growth in Asia and sentiment toward Asian credit would be impacted.

Attractive: Asian credit, Asian investment grade, Asian local currency bonds

Neutral: Asian high yield, Chinese government bonds

Gold

Central scenario

Gold June 2026 target: USD 3,900/oz

Gold broke out from the relatively tight trading range it has held since mid-April in recent weeks, amid downside surprises to US payrolls data, which triggered a swift repricing of Federal Reserve rate cut expectations by market participants. The US terminal rate now stands at 2.93%, while the US real interest rate—the opportunity cost of holding non-yield bearing assets like gold—has dropped by more than 20 basis points (bps) in less than a month. The five-year Treasury Inflation-Protected Securities (TIPS) yield is now at its lowest level since mid-2022. As inflation is expected to remain sticky, we anticipate real rates to fall further into year-end, which should support demand for gold. These dynamics should also undermine the US dollar; we see further weakness over the next 12 months. Meanwhile, as gold's negative correlation with the USD remains elevated, the greenback's ongoing depreciation should boost investment demand, with participants using the metal as a hedge.

Outside macro-related drivers, geopolitics and differences between the US administration and the Fed continue to raise concerns by market participants. US President Donald Trump's desire for lower policy rates also lifts gold's appeal. Given these tailwinds and following the recent step higher in exchange-traded fund flows (ETFs), we are now raising our forecast for all annual gold ETF inflows to just below 700 metric tons in 2025, taking us close to the previous record of 3,915 metric tons (set in October 2020). Moreover, given current correlations to prices, we are raising our gold forecast by USD 200/oz by mid-2026 (from USD 3,700/oz to 3,900/oz). Central bank purchases should stay strong at around 900-950 metric tons this year, or slightly below last year's near-record purchases of just above 1,000 metric tons. The key risk for gold is if the Fed is forced to raise rates due to inflation-related upside surprises.

Crude oil

Central scenario

Brent crude oil June 2026 target: USD 65/bbl

On Sunday, the eight OPEC+ member states with additional voluntary production cuts (V8) decided to increase their production quota by 137,000 barrels per day (bpd) for October. According to the OPEC press release, the decision was driven by the "steady global economic outlook and current healthy market fundamentals, as reflected in the low oil inventories," as in the past occasions. The meeting lasted just 10 minutes, suggesting there was no pushback and broad support for the decision.

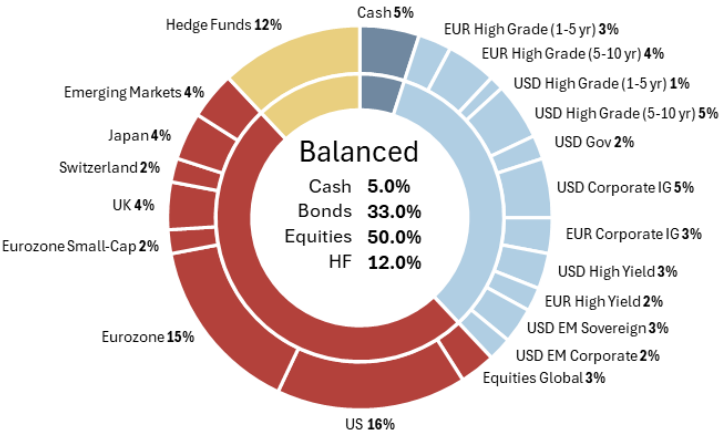
As we wrote in our [previous report](#), commercial oil inventories in the OECD mostly moved sideways in 1H25. Also, the Brent futures curve remains downward sloped (in backwardation), indicating some form of market tightness. So far, the oil market has been able to absorb the additional barrels coming from OPEC+ very well, as effective production increases have lagged the production increases, a trend we expect to continue in October. And while the production increase is for 137,000 bpd, we estimate the volume additions for October could be only 60,000-70,000 bpd given that some group members have been producing above the quota and must adjust, those that previously overproduced now must cut compensation, and others are likely maxed out in terms of capacity. With every monthly addition, market participants will likely start to realize that some group member are maxed out. So the market focus at some point will quickly shift to declining spare capacity in the oil market, in our view.

Important to note is that the V8 will keep holding monthly meetings to review "market conditions, conformity, and compensation," according to the press release. There is also no forward guidance on their next move, but the group noted future decisions will depend on market fundamentals. The next meeting is scheduled for 5 October. The group retains full flexibility by keeping all options on the table: it can reverse the previous production increases, keep production unchanged, and/or further unwind production cuts. The group said it will retain its "precautionary, proactive, preemptive, and preventive approach" when supporting the oil market stability.

OPEC+'s focus will likely remain on market fundamentals, such as demand trends, as well as on geopolitical developments that can impact supply. In that sense, all eyes in the market remain on US President Trump and whether he will target Russia with new sanctions. We expect Brent to stay in the upper part of the USD 60-70/bbl trading range for now and then move to the lower part of that range later in the year. Oil demand likely already peaked for the year and should move modestly lower over the coming months. With South American supply expected to increase a bit further, the oil market should become better supplied in the months ahead.

Strategic Asset Allocations (SAAs)

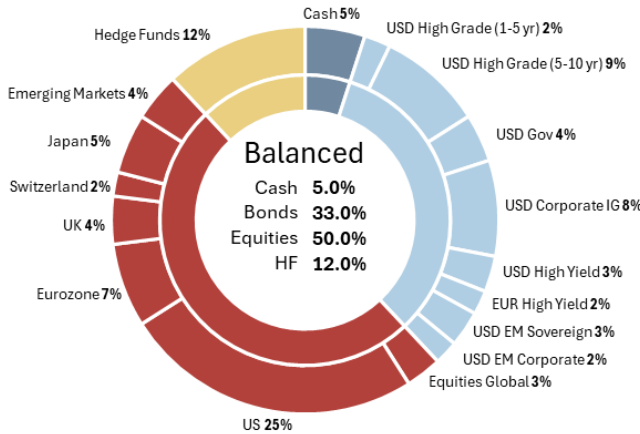
EUR (local portfolio)



Note: Portfolio weightings are for EUR SAA, with a home bias and a balanced risk profile. We expect a balanced EUR SAA to have an average total return of 5.7% p.a. and a volatility of 8.8% p.a. over the next 15 years.

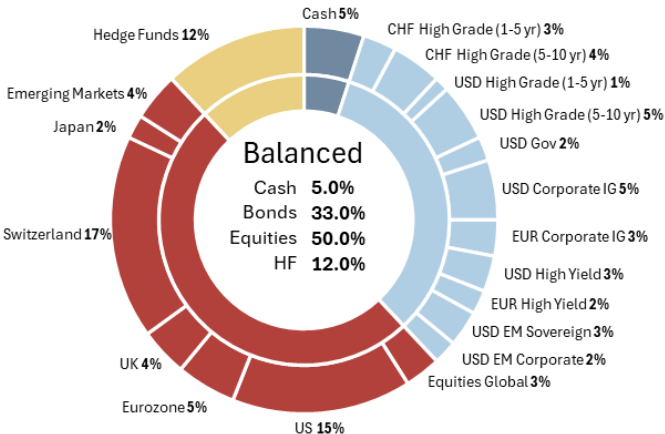
Source: SAA as of January 2025

USD



Note: Portfolio weightings are for a USD SAA with a balanced risk profile. We expect a balanced USD SAA to have an average total return of 6.7% p.a. and a volatility of 9.0% p.a. over the next 15 years.

CHF (local portfolio)



Note: Portfolio weightings are for CHF SAA with a home bias and a balanced risk profile. We expect a balanced CHF SAA to have an average total return of 4.6% p.a. and a volatility of 8.4% p.a. over the next 15 years.

For illustrative purposes only. The above asset classes and allocations are indicative only and can be changed at any time at UBS's discretion without informing the client. All expected returns are p.a. and reflect the arithmetic mean of the estimated return distribution. Risk is measured as annualized volatility of monthly log-returns. Annualized expected risk and return figures are forward-looking and not a reliable indicator of future performance. Forecasts are not a reliable indicator of future performance / results.

Contact list

Global Chief Investment Officer GWM

Mark Haefele

UBS CIO GWM Global Investment Office

Global Asset Allocation
Adrian Zuercher

Global Asset Allocation
Mark Andersen

Global Head CIO Equity
Ulrike Hoffmann-Burchardi

UBS CIO GWM Regional Chief Investment Offices

US
Ulrike Hoffmann-Burchardi

APAC
Min Lan Tan

EMEA
Themis Themistocleous

Switzerland
Daniel Kalt

Appendix

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.

Key risks of investing in private markets

Investors in private market funds must consider the following risks:

- **Blind pool risk.** Investors must make long-term commitments to private markets funds in advance, without knowing what the underlying investments will be. This is known as blind pool risk. This dynamic can be mitigated through familiarity with the general partner and its track record, as well as through proper due diligence.
- **Fees.** Private markets fund managers charge both management fees (typically 1.5-2.0%) and incentive fees (typically 15-20%). These levels are high compared to traditional asset funds, but the incentive fee helps to align objectives, as the manager only gets paid if the investor achieves attractive returns. Most funds specify a hurdle or preferred return below which the manager does not receive incentive pay.
- **Illiquidity.** When investing in a private markets fund, investors must be prepared to accept significant illiquidity. This illiquidity is what allows access to more inefficient markets. On the other hand, investors cannot expect to access their capital or receive distributions with any regularity. Their only potential option for liquidity is to try to sell their stakes in the secondary market, where there may be no bid at all, or they may have to sell at a significant discount to fair value, if the fund manager even permits.
- **Lack of control.** Investors in private market funds cede control over investment decisions, pace of investments and exits, strategic and operational matters, and other significant decisions to the third-party fund manager. While this eliminates investors' ability to "vote with their feet" to express displeasure with the manager, ceding control gives the manager the necessary tools to seek outperformance for investors.
- **Limited disclosure.** Disclosure on performance of underlying investments is periodic and can be more limited because managers need time and flexibility to work with underlying companies and are focused on long-term value creation. Also, valuation of private assets involves subjectivity and assumptions, and as such may not necessarily be indicative of long-term performance or potential.
- **Uncertain cash flows.** Amount and timing of the cash flow is at the manager's discretion. Limited partners (LPs) need to fund a "capital call" within a certain time frame. Unpredictable cash flows apply to early-stage capital calls and to distributions to investors at later stages.
- **Use of leverage.** This is not a blanket risk. Certain private markets strategies such as buyout use significant leverage, which poses potential default risk if the company encounters stress, but many PM strategies do not involve any leverage. Prudent leverage in the right situation has historically shown to help enhance returns without significant incremental risk.

Key risks of investing in hedge funds

Investors in hedge funds must consider the following risks:

- **Liquidity risk.** Hedge fund investors are exposed to illiquidity risk due to potential liquidity mismatch between the fund and its underlying investments. Strategies that focus on less liquid instruments typically require longer lockups. For bearing this additional risk however, investors may benefit in the form of an extra return also known as the "liquidity premium."
- **Leverage.** Hedge fund managers are generally free to borrow capital for individual assets or the entire fund. The use of borrowed capital can increase returns, but also affects the investment's risk profile. The use of leverage, however, varies greatly from one hedge fund strategy to another.
- **Operational risk.** Hedge fund managers may use highly complex strategies, instruments and structures. This complexity poses risks, including the risk of insufficiently monitoring people, processes and systems. Other operational risks relate to portfolio and investment management.
- **Limited disclosure.** Most managers only disclose details about their investments periodically. Limited disclosure requirements enable managers to implement their ideas without alerting other market participants. This lack of transparency can, however, be used to mask fraud, changes in investment style, actual risk exposures and atypical uses of leverage.
- **Systemic risks.** Hedge funds are susceptible to the aftershocks of a cash crunch or the collapse of the financial system, although active risk management and capital protection can soften the negative impact on performance. Other ways to lighten the impact include tracking risk exposures, diversifying investments across strategies and limiting allocations to illiquid investments.
- **Strategy-specific risk.** Just as hedge funds are heterogeneous and wide-ranging in approach and character, so are the factors that can negatively impact each strategy. These may include deal risk for merger arbitrage funds, correlation breakdown risk for relative value strategies or factor rotations for quant equity managers.

Risk information

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