Macro Monthly

Economic insights and asset class views

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For global professional / qualified / institutional clients and investors

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The key to this cycle's resilience

- Low private sector leverage in the US and other advanced economies has been central to this cycle's resilience amid several shocks.
- While there are pockets of excess, the vulnerability to a significant economy-wide retrenchment is lower than usual, which we believe supports higher valuations for equities and credit.
- The flipside of private sector health is high government debt, which remains a long-term risk but not an immediate threat to the cycle.
- We remain overweight global equities led by the US and EM and have taken some profits on precious metals.

We believe the most important – and underappreciated – feature of this cycle is the strength of private sector balance sheets. While there is plenty of handwringing over growing public debt, which is a justified concern over the long term, the flipside has been a sharp reduction in private sector leverage – which matters most *right now*. This backdrop has made the economy and financial markets far more resilient to shocks, reducing the probability of worst-case outcomes. While downside risks remain, structural private sector balance sheet strength keeps us viewing the cycle and markets with a glass-half-full outlook.

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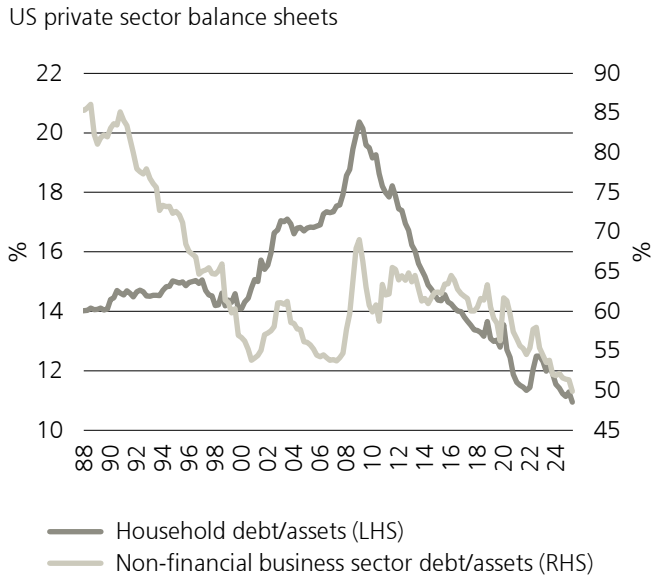
How we got here
Before COVID, both US household and non-financial corporate leverage declined significantly. Post-GFC, households rebuilt balance sheets, reducing debt relative to income substantially, bringing overall leverage to multi-decade lows. Corporates, supported by strong earnings and low rates, refinanced and improved debt sustainability even as they invested and grew.

Post-COVID, deleveraging continued for different reasons. Households benefited from fiscal support and surging asset prices, which boosted net worth and lowered debt-to-asset ratios. Corporates initially borrowed to weather the crisis but later deleveraged on the back of strong earnings and equity financing, particularly in tech. Regulatory changes and tighter credit conditions reinforced this trend.

Exhibit 1: US private sector balance sheets are very healthy

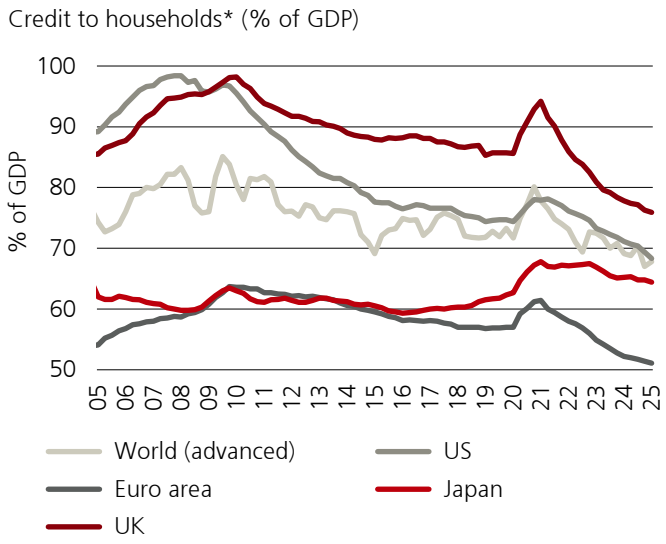


Source: Macrobond, UBS Asset Management. Data as of Q2 2025.

Healthy private sector leverage is not just a US story. Since the Global Financial Crisis, household debt ratios have steadily declined, with a second wave of deleveraging following COVID. In both the euro area and the UK, household debt relative to GDP has fallen, driven by stronger nominal growth and reduced borrowing amid higher interest rates. Corporate debt has followed a similar path, as firms have responded to tighter financial conditions by paying down debt rather than taking on new leverage. Delinquency rates remain low, and the financial system appears well equipped to manage current credit risks.

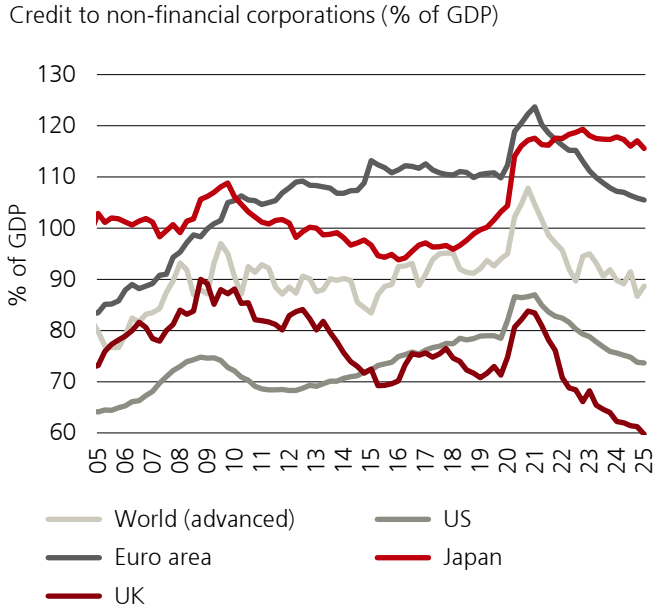
There are pockets of concern in both the US and globally – such as the significant growth of non-bank financial intermediaries (NBFIs), consumer subprime credit and lending in commercial real estate. Japan's private sector has gone against the global trend, with leverage rising since COVID as interest rates have remained arguably too low for the country's reflationary dynamics. Nevertheless, on the whole, recent years have seen a decline in economy-wide debt -relative-to-GDP across most G7 households and companies, even as (and in part, because) the era of ultra-low rates has passed.

Exhibit 2: Households have been deleveraging since COVID



*BIS credit to households and non-profit institutions serving households.
Source: Bank for International Settlements, UBS Asset Management. Data as of Q1 2025.

Exhibit 3: Companies have also been reducing leverage since COVID

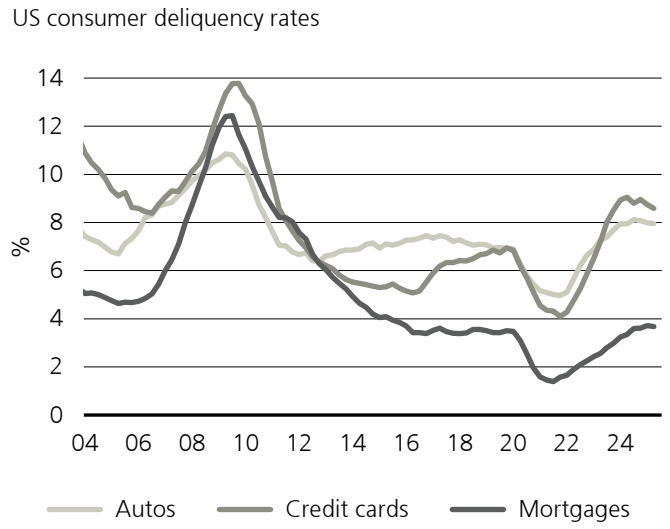


Source: Bank for International Settlements, UBS Asset Management. Data as of Q1 2025.

Why it matters
We'd argue that low leverage has been the key factor in keeping this cycle resilient to some severe shocks. In our view, it was central to keeping the economy afloat despite sharp central bank tightening cycles in 2022-23. Likewise, it enabled the US and global economies to survive the Liberation Day shock, and push forward even as effective tariff rates have risen not very far from Liberation Day levels. More recently, we think it is core to understanding ongoing resilience in consumption despite a

slowing labor market. And while there have been areas of concern in credit of late, the overall low private sector leverage suggests to us that recent developments are unlikely to be systemic. Consistent with this thesis, delinquencies actually look to be peaking.

Exhibit 4: US consumer delinquency rates appear to be peaking



Source: Federal Reserve Bank of NY, Macrobond, UBS Asset Management. Data as of Q2 2025.

We certainly do not mean to suggest that just because private sector actors have de-levered, the environment is riskless. The labor market is clearly soft, and whenever the unemployment rate is rising, there is always danger of a non-linear break. We also recognize too that much of the strength in household (and corporate) balance sheets is skewed towards the wealthy – a sharp fall in asset prices, for whatever reason, could have negative confidence effects. Moreover, we are cognizant that while AI capex, which has been a meaningful driver of both economic activity and the market, has been largely cash-financed, it is set to become increasingly debt financed.

Nevertheless, we do think starting points matter, and as much as balance sheets could weaken on the margin, we believe they would still remain exceptionally strong. In the face of a shock, the median household or business should not have to retrench the way it has ahead of most prior recessions. If there ever was a structural economic backdrop that justified higher multiples and tighter credit spreads, this is one of them.

A word on government debt

The flipside to the private market deleveraging observed since the GFC has been a marked leveraging of the public, or government, balance sheets. The two trends are linked as some of the policies that facilitated private market balance sheet health – lower taxes, strong COVID stimulus – actively worsened the budgetary outlook for many of the world's economies. Although we'd argue that public debt does not present the same near-term risk to end the expansion, many advanced economy debt trajectories are ultimately unsustainable and have the potential to put upward pressure on interest rates over the medium to long term, potentially 'crowding out' private investment. Term premia on government bonds has risen, especially on ultra-long-term debt, as investors demand more yield to compensate for debt risk.

Still, it's important to remember that US (and other reserve-currency) issuers borrow in their own currency from a deep buyer base and stagger maturities, so only part of the debt reprices each year. If nominal growth stays in the same ballpark as borrowing costs and budgets tilt toward higher-return investments, we believe the burden will be manageable and there will be time to adjust. We think it's important to watch three dials for sovereign stress – interest expense/GDP, auction demand and the longer-term inflation outlook. We are also keeping an eye on cross-asset correlations – persistent rises in US yields accompanied by a decline in the USD, as occurred periodically earlier this year, would be a warning sign. While we watch these developments, we still would argue that if the economy is operating at high debt loads, we'd rather it be governments shouldering the burden as opposed to private sector actors.

Asset Allocation

We remain overweight global equities amid healthy private sector balance sheets, strong earnings and Fed easing. We continue to prefer the US, Japan and EM – where we see the most positive earnings stories – relative to Europe. We see government bond yields at fair value, and think that high quality fixed income remains an important hedge should the economy weaken more than expected. After a strong run, we have reduced exposure to precious metals amid the spike in volatility, although we think gold plays a strategic role in portfolios as a real asset amid still sticky high inflation and growing government debts.

Asset class views

The chart below shows the views of our Asset Allocation team on overall asset class attractiveness as of 28 October 2025. The colored circles provide our overall signal for global equities, rates, and credit. The rest of the ratings pertain to the relative attractiveness of certain regions within the asset classes of equities, bonds, credit and currencies. Because the Asset Class Views table does not include all asset classes, the net overall signal may be somewhat negative or positive.

	Underweight			Overweight		
Global Equities				●		We are overweight global equities, supported by strong earnings, Fed easing, and healthy private sector balance sheets. We continue to prefer the US, Japan, and EM vs. Europe, the UK, and Australia. While a faster deterioration in the US labor market is a risk, the absence of a spike in layoffs and ongoing resilient consumer spending suggest this risk is contained.
US				●		We remain overweight US equities. The Fed has resumed its cutting cycle, while growth remains resilient – a supportive mix for equities. Furthermore, earnings growth is strong among high-quality stocks, and AI capital expenditure plans are robust.
Europe		●				We are underweight European equities, as earnings growth remains weaker than in other regions. In addition, while the EUR has been range-bound in recent months, its year-to-date strength continues to challenge future earnings. We like European banks, which should benefit from strong earnings.
Japan				●		We are overweight Japanese equities, which we believe should benefit from resilient global growth, high domestic nominal GDP growth, and improving earnings. Japanese automakers may also be supported by lower US tariffs rates, and a weak JPY may also boost earnings.
Emerging Markets				●		We are overweight EM equities as earnings are strong across most regions. The MSCI EM index is heavily weighted toward North Asian tech giants, which we expect to perform well as the AI capex cycle continues. We are most constructive on Chinese equities.
Global Government Bonds			●			We are neutral on duration, as a significant portion of global monetary stimulus is already priced in, and increased bond supply could limit gains. We believe short-tenor bonds continue to offer protection against risk assets should growth weaken materially.
US Treasuries			●			We are neutral on US Treasuries, as markets continue to price the Fed terminal rate near 3%, which we view as a reasonable base case. We think the US 10-year is near fair value, while the front end of the curve offers protection against a weaker labor market.
Bunds		●				We are underweight bunds as we believe Germany's growth outlook is improving and increased fiscal spending is likely to arrive in Q4, supporting growth into 2026. Additionally, the ECB has signalled a prolonged pause in its easing cycle.
Gilts				●		We remain overweight gilts as we find valuations are attractive, with fiscal premium already imbedded into the curve. While the BoE continues to deliver a gradual easing cycle, downside risks to employment may accelerate the pace of rate cuts.
JGBs			●			We are neutral on Japanese government bonds. Although the BoJ is likely to raise interest rates further, we expect it will act slowly, while carry costs of shorting JGBs are elevated due to the low BoJ policy rate.
Swiss			●			We are neutral on Swiss bonds. While the domestic economy remains lackluster, valuations are expensive, as the market is pricing in some chance that the SNB will cut rates into negative territory.
Global Credit			●			We are neutral on IG and HY credit excess returns, given tight valuations. We still expect spreads to remain tight amid low default rates, a shift to higher ratings, solid earnings, and robust inflows. Regionally, we see Asia HY as offering the best risk-reward.
Investment Grade Credit			●			US investment grade credit spreads remain exceptionally tight, leaving limited scope for further compression. However, corporate earnings are robust and the economy resilient, limiting downside risk from a fundamental perspective.
High Yield Credit			●			We expect spreads to remain tight amid sub-2% default rates, the shift to higher ratings and continued yield-seeking by investors. Unlike equities which offer convex upside, HY's asymmetry makes it harder to justify meaningful further upside.
EMD Hard Currency			●			We are neutral on EMD in hard currency but are overweight local currency EM debt, as we expect EM currencies to appreciate further against the USD.
FX						
USD		●				We remain bearish on the USD, as we believe US rates have room to compress relative to the rest of the world, with the Fed still progressing in its easing cycle. Lower US rates will make it cheaper for ex-US investors to hedge their US asset exposures.
EUR				●		The EUR remains range-bound; however, we think risks are tilted toward a move higher as the ECB remains on hold and further Fed cuts are expected. We also favor long EUR against GBP, with UK rates likely to decline amid weakening employment data.

	Underweight			Overweight		
JPY		←				We like to use the JPY as a funding currency for high-carry currencies, as Japanese interest rates are too low relative to inflation and wages. If the new government pursues more expansive fiscal policy, the low level of real rates will become a larger risk for the JPY.
CHF						We are neutral on the CHF, as an expensive valuation and low yield, are counteracted by strong balance of payment inflows.
EM FX						We favor high carry EM currencies, including BRL, INR and HUF, all of which offer high real interest rates and attractive valuations.
Commodities						After a strong run, we have tactically reduced our gold exposure due to increased volatility and crowded positioning. That said, we do think gold plays a strategic role in portfolios as a real asset amid still elevated inflation and rising government debts.

Source: UBS Asset Management Investment Solutions Macro Asset Allocation Strategy team as of 28 October 2025. Views are provided on the basis of a 3-12 month investment horizon, are not necessarily reflective of actual portfolio positioning and are subject to change.

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