This report was prepared by UBS AG.
All forecasts in this publication are as of 24 October 2019 at 09:00am CET and might change after that. This publication will only be updated intra-monthly to reflect changes in our TAA positions or thematic views. To get our most recent forecasts, please refer to our publication called “Global forecasts.”
Please see the important disclaimer at the end of the document.
This document is a snapshot view. We update the tactical asset allocation as changes occur and resend it to subscribers. For all other forecasts and information, we advise you to check the Investment Views section in your E-Banking or in Quotes.
Financial Market Outlook – short term

**Global Tactical Asset Allocation**

- **Asset allocation**
  Improved prospects of a partial agreement in the US-China trade conflict, as well as significant progress in the Brexit process, have lifted investor sentiment and reduced risk to some degree. On the other hand, existing trade tariffs have already damaged global growth prospects for the quarters ahead, and corporate earnings growth is likely to decelerate further in the near term. We think the longer-term outlook for UK assets, in particular equities and the currency, has improved. We are closing our underweight in UK equities and adding exposure to the British pound. Meanwhile, we hold onto our moderate emerging market (EM) equity underweight, preferring carry assets such as EM sovereign bonds and select EM currencies. Clearer signs of a bottoming in global economic growth or more clarity on a significant trade deal are important signposts to become more constructive, while the lack of such improvements would further weigh on the outlook.

- **Equities**
  Recent political events have been constructive but we are not convinced global growth has bottomed. Risks of manufacturing weakness weighing on consumer sentiment and dragging down the service sector persist. While equity valuations look attractive relative to bonds in the long run, their near-term outlook remains cloudy. EM companies are exposed to market volatility, a slowing global economy, and geopolitical risks. In this light, we hold onto our underweight in EM equities but shift our overweight from high grade to EM sovereign bonds, which benefit from attractive carry and can offset part of the EM equity performance, in case things turn out better. We keep an overweight in Japanese and US equities versus Eurozone stocks. Both the Eurozone and Japan are geared toward the global cycle, but the former has priced in a macro recovery while the latter has not. Eurozone stocks are expensive compared to Japanese ones. We prefer US stocks as they should deliver superior profit growth.

- **Bonds**
  We keep our overweight in euro investment grade (IG) against higher-rated bonds. The European Central Bank (ECB) starting to buy a substantial portion of net corporate bond supply as of November is a powerful tailwind for these bonds, while carry remains attractive given negative yields on many EUR sovereign bonds. We also keep an overweight in EM sovereign bonds in USD, now against both high grade bonds and EM equities. Well-diversified carry remains king in a world of accommodative global central banks, and EM bonds offer an attractive yield around 5% while being less sensitive to sub-trend global growth.

- **Foreign exchange**
  Following persistent underperformance, we are closing our overweight positions on the Norwegian krone, both against the euro and the Canadian dollar. Despite Norway’s strong economy and central bank tightening against the global trend, the NOK succumbed to global volatility and investors’ preference for more liquid alternatives. We maintain our overweight in the USD against the Australian dollar as deteriorating economic conditions in Australia are likely to keep the country’s central bank on an easing path, while the AUD remains exposed to US-China trade tensions. Our EM currency basket (overweight Indian rupee and Indonesian rupiah versus the AUD and Taiwan dollar) aims to earn the interest rate advantage without being too strongly exposed to US-China trade tensions.

- **Longer-term asset allocation (1–4 years)**
  As the long-term outlook for UK assets has improved throughout the year—a process that has accelerated with the recent progress in Brexit negotiations—we are closing our underweight in UK equities while adding further exposure to the British pound. Accordingly, we recommend adding exposure to UK equities while not hedging the currency risk. UK stocks have underperformed global markets this year. The pound offers further upside as it is cheaply valued and the chances of a no-deal Brexit have diminished. We also recommend investors in Japanese equities not to hedge the currency exposure as the yen is undervalued and offers long-term appreciation potential.
Cross-asset preferences

**We like...**
- Japanese equities
- US equities
- Global quality stocks
- “Buy-write” strategy on US equities
- US smart beta
- Some protection via US equity put options
- Emerging market sovereign bonds in USD
- Euro investment grade corporate bonds
- Global green bonds
- Mind the gap: Corporate “rising star” candidates
- Time to be more selective in EM credit
- US dollar
- EM FX (INR, IDR) versus...
- Japanese yen (1–4-year horizon) versus...
- British pound (1–4-year horizon) versus...

**We don’t like...**
- Emerging market equities
- Eurozone equities
- Developed market high grade bonds
- Mind the gap: Corporate “fallen angel” candidates
- ...Australian dollar
- ...DM FX (AUD, TWD)
- ...base currency
- ...base currency (△)

**Model portfolios (EUR & USD)**

**EUR**
- Equities US 14%
- Equities Europe 20%
- EM bonds 5%
- High yield bonds 5%
- High grade bonds 6%
- US TIPS 4%
- Inv. grade corporate bonds 12.5%
- Equities other 7.5%
- Equities EM 4%
- Risk Parity 2%
- Liquidity 5%
- High grade bonds 8%
- US TIPS 2%
- Inv. grade corporate bonds 12.5%

**USD**
- Equities US 23%
- Equities Europe 9%
- Equities other 5%
- Equities EM 3%
- Risk Parity 2%
- Liquidity 5%
- High grade bonds 6%
- US TIPS 4%
- Inv. grade corporate bonds 12.5%
- EM bonds 7.5%
- High yield bonds 5%

Source: UBS, as of 24 October 2019. * Additionally, the portfolios include a put option on the S&P 500 index.

Note: Portfolio weightings are for a EUR model portfolio and a USD model portfolio, with a balanced risk profile (including TAA). We expect the EUR balanced portfolio (excluding TAA) to have an average total return of 2.8% p.a. and a volatility of 7.9% p.a. over the next seven years. We expect the USD balanced portfolio (excluding TAA) to have an average total return of 5.1% p.a. and a volatility of 7.9% p.a. over the next seven years.
Global tactical asset allocation

Tactical asset allocation deviations from benchmark

<table>
<thead>
<tr>
<th>Asset</th>
<th>underweight</th>
<th>neutral</th>
<th>overweight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equities total*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eurozone</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emerging markets (EM)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High grade bonds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate bonds (IG)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High yield bonds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EM sovereign bonds (USD)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EM corporate bonds (USD)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EM local currency bonds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US TIPS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duration overlay (USD)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duration overlay (JPY)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: UBS, as of 24 October 2019

Please note that the bar charts show total portfolio preferences, which can be interpreted as the recommended deviation from the relevant portfolio benchmark for any given asset class and sub-asset class.

* We are holding a put option on the S&P 500 to partly protect the tactical asset allocation.

** Currency exposure of Japanese and UK equities is not hedged.

Currency allocation

<table>
<thead>
<tr>
<th>Currency</th>
<th>underweight</th>
<th>neutral</th>
<th>overweight</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EUR</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GBP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JPY</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CHF</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SEK</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NOK</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NZD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EM FX basket***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DM FX basket***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base currency</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: UBS, as of 24 October 2019

*** EM FX basket contains Indian rupee and Indonesian rupiah. DM FX basket contains Australian dollar and Taiwanese dollar (all equally weighted).
CIO themes in focus

Equities

• **US smart beta**
  
  Certain stock characteristics (momentum, quality, small capitalization, risk-weighting, value, and yield) have been shown to deliver long-term investment outperformance relative to a market-capitalization-weighted index. Combining these characteristics, known in the industry as smart beta, makes the investment less cyclical and creates a “passive-plus” solution. Smart beta’s compelling value proposition has resulted in considerable growth in assets. Smart beta ETF assets have risen to over USD 750bn and are growing by more than 30% a year.

• **Generate yield: “Buy-write” on US equities**
  
  An equity buy-write strategy involves buying equities (the “buy” part) while selling (or “writing”) call options that cover the position, typically on a monthly schedule. In exchange for giving a counterparty the right, but not the obligation, to buy the underlying asset at a predetermined price, the buy-writer receives a premium. Over an economic cycle, equity buy-write strategies generate attractive risk-adjusted returns as they capture both the equity and volatility risk premium. They are most appealing when equity returns moderate and market momentum eases.

• **Global quality matters**
  
  The quality factor aims to reflect the performance of companies with durable business models and sustainable competitive advantages. It therefore targets companies with a high return on equity, stable earnings, and low financial leverage. In the late stages of the business cycle, when economic growth slows down and volatility rises, quality matters. As trade uncertainties remain, a global sector-neutral quality strategy can also offer added downside protection in a relative context.

Bonds

• **Green bonds: Sustainability meets late-cycle stability**
  
  We view green bonds as a sound, sustainable alternative to global investment grade (IG) bonds. While an individual green bond usually performs in line with an otherwise identical non-green one, the green bond market has a more conservative sector and risk profile and benefits from demand for sustainable investments outgrowing supply. This should lead to outperformance during times when credit risk premiums rise, making green bonds an appealing late-cycle investment, following the recent recovery in credit risk premiums globally. To benefit from green bonds’ less cyclical profile, investors should diversify broadly and in particular avoid issuer concentration risk.

• **Mind the gap: Investing in the crossover zone**
  
  Investors able and willing to stomach the potential volatility of “crossover credit” investments can earn potentially significant alpha if key rating agency action is anticipated correctly. While we emphasize that investments in BBB or lower quality bonds are not suitable for risk-averse investors, we provide credit views on the issuers trading in the crossover area. We also offer long and short bond baskets to help investors navigate the crossover zone.

• **Time to be more selective in EM credit**
  
  With this theme, we provide advice on how to build diversified exposure to emerging market (EM) credit, drawing from our top-down view on the asset class, as well as the bottom-up insights of our credit analysts. Emerging market credit should benefit from accommodative global liquidity conditions, resilient (though slowing) global economic growth, and sound credit fundamentals, as well as the relative attractiveness of the asset class versus other credit market segments. While emerging economies are on aggregate at earlier stages in the business cycle than developed markets, there are big differences between countries and market sectors. Exposure to global risks varies from country to country as well. We think it is becoming increasingly important to invest in the right credits, and to actively adjust exposure toward the most promising opportunities.

This selection of themes is a subset of a larger theme universe. It represents the highest conviction themes of the UBS Chief Investment Office GWM, taking into account the current market environment and risk-return characteristics.
CIO longer-term investment themes in focus

**Equities**

- **Obesity**
  Urbanization and rising per capita GDP in emerging markets will contribute to the prevalence of obesity globally in the coming decades. Western economies are most associated with the obesity epidemic, but it is no longer just a rich-world problem. Based on current trends, the combined population of obese and overweight adults globally could exceed 40% by 2030.

- **Space**
  The sharp decline in launch costs is lowering entry barriers to space. We forecast the space economy will grow from USD 340 billion currently to almost USD 1 trillion in the next couple of decades, catalyzed by sustained capital investment by new-economy billionaires. Investment exposure at this early stage is best gained via existing listed companies in the aerospace, satellite, and communications segments. New space startups may offer investment opportunities in private markets.

- **Medical devices**
  The world’s aging population and the growth of the over-65 age group will create more opportunities for companies selling medical products and devices. Other drivers of the medical device industry include better penetration in emerging markets due to improved infrastructure, new innovative treatments, increased affordability due to rising per-capita GDP, and a growing prevalence of “lifestyle diseases” like obesity due to urbanization. We expect sustainable mid-single-digit revenue growth.

- **Emerging market infrastructure**
  Growing urbanization and the expansion of megacities in emerging markets are driving demand for infrastructure investment. Spending on EM infrastructure is expected to grow to USD 5.5 trillion from the current USD 3 trillion, bringing its share of global spending to two-thirds by 2025 from the current half. Inadequate urban and nationwide infrastructure acts as a bottleneck to economic growth, making infrastructure investment a national priority.

- **Water scarcity**
  Water is essential to life and represents a key driver of economic growth. Unfortunately, fresh water is distributed unequally worldwide. As the world’s population grows, the planet’s limited natural resources are subject to increasing strain, which in turn can detract from social and economic prosperity. Population growth alone is a problem, but how and where it takes place can make resource management that much more of a challenge. While urbanization provides a major boost to GDP growth, it also requires vast amounts of scarce water. Many countries confront the increasing challenge of water scarcity while some face overabundance. We see attractive long-term investment opportunities in water that are likely to remain valid for decades.

This selection of themes is a subset of a larger theme universe. It represents the highest conviction themes of the UBS Chief Investment Office GWM, taking into account the current market environment and risk-return characteristics. The Longer Term Investments (LTI) theme series focuses on inevitable global trends, such as population growth, aging, and urbanization, that create a variety of opportunities, with certain companies and subsectors experiencing a higher-than-GDP rate of revenue growth. Here, we include a subset of a larger universe of LTI themes expected to offer good entry points for theme-oriented investors in the coming months, and highlight our preference for a diversified approach to themes.
### Key Investment Risks

<table>
<thead>
<tr>
<th>Selected Scenarios</th>
<th>Scenario Description</th>
<th>Expected market performance for select asset classes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base case</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Managed slowdown    | Global growth stabilizes around 3%. Fed further cuts rates to mitigate downside risks. The global economy remains in “late-cycle” territory for at least another six to 12 months. | **Global equities** - 5% to 0% as we expect global earnings to decline this year and next  
**US rates** to remain low as the Fed continues to ease  
**EURUSD** rises toward 1.12 due to lower US rates |
| with “insurance”     |                       |                                                     |
| easing              |                       |                                                     |
| **Key downside**    |                       |                                                     |
| scenarios           |                       |                                                     |
| Trade escalation     | Further trade actions are implemented and increase chances of ending the US business cycle, such as a step-up to 25% or more of the tariff rate on consumer electronics, auto tariffs or technology escalation. | **Global equities** - 15% to - 20% as earnings deteriorate and pressure on profit margins rises  
**US rates** fall to historical lows with the long end potentially moving into negative territory  
**EURUSD** at 1.15-1.20, as the exchange rate reverses toward PPP |
| leading to a US      |                       |                                                     |
| recession           |                       |                                                     |
| Oil supply shock    | Iran attacks oil facilities in Saudi Arabia or blocks the Strait of Hormuz so that oil shipments are disrupted for a prolonged period of time. Brent crude prices spike to USD 90/bbl. | **Crude oil** spikes to USD 90/bbl  
**EMU equities** down - 10% as the supply shock reduces both European GDP and corporate margins  
**US equities** - 5% to 0%, as the hit to non-gasoline consumer spending is likely to be offset by a ramp-up in US shale investment spending |
| European economic    | The Eurozone economy tips into recession, driven by a further deterioration in the Sino-US trade dispute beyond announced tariffs or a tit-for-tat tariff escalation between the US and the EU. | **EMU equities** -10% to - 15% as weakness in manufacturing spill over to services  
**EUR HY** spread reaches 800bps amid higher default risk  
**EURUSD** below 1.05 driven by further ECB stimulus |
| slowdown            |                       |                                                     |
| **Key upside**      |                       |                                                     |
| scenarios           |                       |                                                     |
| Trade de-escalation  | The US and China strike a new deal that partially repeals current duties, with a further phase-out conditional on Beijing fulfilling the trade deal’s terms. | **Global equities** 0% to +10% with countries exposed to the global cycle leading up |
| before the US        |                       |                                                     |
| election             |                       |                                                     |
| European growth      | External headwinds fade and European growth recovers faster than expected, given the Eurozone economy’s high reliance on global trade. Growth is supported by improving domestic demand, improved outlook in the manufacturing sector, and continued ECB stimulus. | **EMU equities** +5% to +10% with positive earnings growth in 2020  
**EUR HY** spread tighten to 300bps but rising government yields weigh on total returns  
**EURUSD** at 1.20 as investors start pricing ECB policy tightening |
| re-accelerates       |                       |                                                     |

Expected total returns over a 6-month horizon. FX and spread levels as of end of Q2 2020.  
Note: Upside and downside scenarios are possible events outside of CIO’s base case expectations.  
Please refer to the last published Global Risk Radar edition for further details on the risk scenarios and investment implications.  
For further information please contact CIO strategist Dirk Effenerger, dirk.effenerger@ubs.com

Source: UBS, as of October 2019
### Key points
- Slower global growth and muted inflation should lead most of the major central banks to cut rates within the next 12 months.
- The US Federal Reserve appears ready to cut rates at its next meeting on 30 October.
- The European Central Bank delivered a package of easing measures on 12 September, including a 10bps rate cut and additional asset purchases. We expect one further 10bps cut in March 2020.

#### CIO view (Probability: 60%*)
- The US Federal Reserve cut rates by 25 basis points (bps) at each of their last two policy meetings in July and September. With their policy rate still above 10-year Treasury yields and recent economic data turning softer, it appears that they are prepared to cut again at their next meeting on 30 October. If economic conditions deteriorate further then they would have room to cut more aggressively.

- The ECB delivered a package of easing measures on 12 September, including a 10bps rate cut. It will also make asset purchases (quantitative easing) of EUR 20bn per month, but the lack of eligible bonds limits what it can do as long as issue/issuer limits and capital key rules aren’t changed. We believe these changes are unlikely unless there is a severe recession. We expect one further 10bps cut in March 2020.

- With the Federal Reserve and ECB both cutting rates, many other central banks, especially in emerging markets, have also cut rates. Subdued global inflation should allow central banks to support growth with additional cuts.

#### Positive scenario (Probability: 30%*)
- Policy breakthroughs such as a US-China deal on trade removes some of the clouds over the economic outlook. Central banks respond to the changing economic outlook with easing that goes beyond our base case forecasts.

#### Negative scenario (Probability: 10%*)
- Policy breakthroughs reduce uncertainty

*Scenario probabilities are based on qualitative assessment.

### Key dates
- **Oct 24**: European Central Bank policy decision
- **Oct 30**: Federal Reserve policy decision
- **Nov 7**: Bank of England policy decision

### Recent US inflation data has been stronger

<table>
<thead>
<tr>
<th>Core PCE inflation 3m/3m annualized</th>
<th>Core PCE inflation y/y</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.0%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

Source: Bloomberg, UBS, as of 17 October 2019

**Note:** PCE = Personal Consumption Expenditures

### Policy direction

Central banks are shifting toward easier policy (UBS forecasts)

<table>
<thead>
<tr>
<th>Current policy rate</th>
<th>12-month policy rate outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Federal Reserve (Fed Funds top of range)</td>
<td>2.00%</td>
</tr>
<tr>
<td>European Central Bank (Deposit facility rate)</td>
<td>-0.50%</td>
</tr>
<tr>
<td>Bank of Japan (Balance rate)</td>
<td>-0.10%</td>
</tr>
<tr>
<td>Bank of England (Base rate)</td>
<td>0.75%</td>
</tr>
</tbody>
</table>

Source: Bloomberg, UBS, as of 17 October 2019

---

For further information please contact US economist Brian Rose, brian.rose@ubs.com, European economist Ricardo Garcia, ricardo-za.garcia@ubs.com or UK economist Dean Turner, dean-a.turner@ubs.com
But growth should improve in 2020

...and tariff uncertainty presents downside risks.

Corporate profit growth remains sluggish...

Key points

- Corporate profit growth remains sluggish...
- ...and tariff uncertainty presents downside risks.
- But growth should improve in 2020

CIO view (Probability: 60%*)

- US earnings growth has been pressured this year due to fading fiscal stimulus, slower global growth, rising tariffs, lower commodity prices, and a stronger US dollar. While a material decline in profits looks unlikely—leading indicators such as access to capital remain supportive—profit drivers have continued to weaken over the last few months.
- Third quarter results will see a continuation and modest intensification of most of the recent headwinds. We look for S&P 500 EPS to contract by 2% in 3Q, marking the first quarter of declining earnings since the 2014-16 plunge in oil prices sent the US manufacturing sector into recession. At a sector level, we expect net income growth to be fairly tepid across the board with the greatest weakness in energy, materials, and technology (bottom chart). Encouragingly, the result for the typical company will be bit better. We expect 4%-5% EPS growth for the median company in the S&P 500.
- However, some of the factors weighing on profit growth should begin to improve and the third quarter will likely mark the low point for year-over-year earnings growth in the current soft patch.
- While promising, the outline of a “skinny deal” may not be enough to remove the uncertainty that is weighing on capital investment. We continue to expect 2019 and 2020 S&P 500 EPS of USD 164 (+1% y/y) and USD 173 (+5% y/y), respectively, and await greater clarity on US-China trade policy and its impact on the global economy.
- We expect profit margins to fall by 0.5% in 2019. Still, we don’t expect a sustained margin decline. The weakness is due to slow revenue growth and idiosyncratic factors such as investment spending in communications services and currency headwinds in consumer staples and tech. Most of the pressure is not due to rising wages. Labor-intensive consumer discretionary companies are the most exposed to higher wage costs but, outside of this sector, the average company should be able to offset higher wages through greater productivity and targeted price increases. Also, bear in mind that higher wages typically translate into faster consumer spending.

Positive scenario (Probability: 20%*)

- Aggressive global central bank stimulus and a resolution to the trade dispute between the US and China drives a reacceleration in growth.

Negative scenario (Probability: 20%*)

- Trade and geopolitical tensions flare up, depressing business and consumer sentiment. Wage pressures, without improving consumer and business demand, crimp profit margins and earnings growth rates. Declines in long-term interest rates pressure financial sector earnings.

Key dates

Oct 28  Peak of third quarter earnings season

For further information please contact CIO strategists Jeremy Zirin, jeremy.zirin@ubs.com, David Lefkowitz, david.lefkowitz@ubs.com or Edmund Tran, edmund.tran@ubs.com.
Global economic outlook - Summary

Key points
• Global growth has been stable around trend for an unusually long time. Risks to that stability are rising as a result of growing trade uncertainty.
• Domestic demand remains robust in most economies on the back of strong labor markets. Trade uncertainties are weighing on the business sentiment of manufacturing companies, which in turn is hurting exports and investments.
• The risk of a global recession in 2020 has clearly risen on the back of trade tensions, but nonetheless remains unlikely. We expect a protracted period of below-trend growth.

CIO view (Probability: 50%*)
• Trade uncertainty grows, with markets focused on the possibility of a November meeting between Chinese President Xi and US President Trump. The damage of trade uncertainty continues to be felt via weaker investment spending. A partial trade deal would have a positive but limited impact on this. Avoidance of existing trade taxes through supply chain shifts has increased and should continue to blunt their negative impact.
• Manufacturing-sensitive, investment-focused economies like Germany are already feeling the consequences of trade tensions. Economies with a high exposure to global trade (small open economies in Asia and Europe) or the investment cycle are more at risk than domestic-centered economies.
• Labor market strength is continuing in most major economies, supporting consumers' income (via increased employment, increased wages, or both). Global unemployment is at or near a 40-year low. Domestic demand should limit the drag from the export and investment weakness.
• However, the longer the downturn in investment continues, the greater the risk it will spill into labor markets and weaken domestic demand.
• Underlying inflation trends remain relatively benign, with companies absorbing trade taxes rather than passing them on. The effect of strong labor markets should be monitored.

Positive scenario (Probability: 20%*)
• Trade uncertainty recedes after a breakthrough in US-China negotiations, triggering a recovery in investment spending. Labor markets continue to support consumer demand.
• The fiscal and monetary stimulus measures in China have positive spillover effects in Asia.

Negative scenario (Probability: 30%*)
• Trade tensions escalate, unsettling business confidence further, which may weigh on business investments and on export activity. Rising job losses undermine consumer spending.
• Limited monetary and fiscal policy measures are insufficient to counter a fast global downturn.

*Scenario probabilities are based on qualitative assessment.

Key dates
Nov 1 US employment report
Nov 16 APEC leaders’ summit in Chile (possible Xi-Trump meeting)
US economy - *Slower growth amid trade disputes*

**Key points**
- Economic growth likely to slow below trend
- Core inflation should hit the Fed’s 2% target in 2020
- Fed has room to cut rates further

**CIO view (Probability: 50%*)**
- GDP is likely to expand at or below the 2% potential growth rate in the quarters ahead.
- Job growth has slowed and the number of job openings has declined, suggesting that demand for labor has softened. However, the labor market remains very tight with the unemployment rate at a 50-year low.
- Rising wage income should continue to support consumer spending, which is the main driver of overall economic growth. However, the very strong retail sales growth seen in recent months is likely to fade.
- Strong profits and labor shortages provide an incentive for businesses to invest. However, political uncertainty is acting as a constraint. Further escalation of trade disputes would pose a serious threat to the recovery.
- The manufacturing sector is struggling amid the trade disputes, with the Purchasing Managers Index falling six months in a row through September, and manufacturing output is down year-to-date. Domestic demand should provide enough support to prevent a severe downturn.
- Residential investment has declined in recent quarters but should turn positive soon. Mortgage rates have declined and demand for housing should be supported by the strong labor market.
- Core PCE inflation, which excludes food and energy prices, has been showing stronger increases in recent months and should reach the Fed’s 2% target in 2020.
- The Fed cut rates by 25 basis points each in July and September, and has room to cut further. We expect the Fed to react to events rather than aggressively trying to get ahead of the curve.

**Positive scenario (Probability: 20%*)**
- A breakthrough in trade negotiations removes uncertainty, allowing business investment to strengthen and GDP growth to rebound. The Fed refrains from further rate cuts.

**Negative scenario (Probability: 30%*)**
- Trade disputes, political uncertainty, and tighter financial conditions weigh on business investment and consumer spending, pushing the economy into recession. The Fed cuts rates sharply.

*Scenario probabilities are based on qualitative assessment.

**Key dates**
- Oct 30 GDP for 3Q19
- Oct 30 FOMC rate decision
- Nov 1 Labor report for October
- Nov 1 ISM manufacturing PMI for October

---

For further information please contact US economist Brian Rose, brian.rose@ubs.com
Eurozone economy - Moderate growth with downside risks

**Key points**
- Strained US and China growth on the back of the trade spat to act as drag on the Eurozone.
- Inflation is set to move sideways for the time being.
- We expect the ECB to cut the deposit rate further in response to lower US policy rates.

**CIO view (Probability: 45%*)**

- We expect economic activity to remain at moderate levels as long as trade uncertainties linger. In the event of a further significant escalation, growth is likely to turn out lower than expected. We expect the ECB to respond to lower US policy rates by reducing the deposit rate by 0.1% in March (with a high risk of an earlier cut in December 2019).
- In Germany, the tight global export environment has increased the risk of a technical recession and we expect moderate fiscal measures in the next six months. In France, the waning yellow-vest protests, reforms, and fiscal stimulus should help to stabilize GDP growth.
- Growth in Italy should continue to stabilize following the compression in bond risk premia. Spain is still growing strongly, but the momentum is likely to continue to normalize as foreign growth moderates.

<table>
<thead>
<tr>
<th>Positive scenario (Probability: 20%*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The global economy accelerates again and the euro weakens. Eurozone loan demand and the economy recover faster than envisaged. Political risks fade.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Negative scenario (Probability: 35%*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Eurozone falls into recession as trade tensions escalate sharply, markets lose faith in Italy’s debt sustainability, Brexit talks fail, or the Chinese economy suffers a severe downturn.</td>
</tr>
</tbody>
</table>

**Key dates**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct 31</td>
<td>Unemployment for September</td>
</tr>
<tr>
<td>Oct 31</td>
<td>Inflation estimate for October</td>
</tr>
<tr>
<td>Oct 31</td>
<td>GDP estimate for Q3</td>
</tr>
<tr>
<td>Nov 22</td>
<td>PMI flash for November</td>
</tr>
</tbody>
</table>

*Scenario probabilities are based on qualitative assessment.

---

For further information please contact CIO Chief Economist Eurozone Ricardo Garcia, ricardo-za.garcia@ubs.com

Chinese economy - **Policy easing cushions slowdown**

**Key points**
- 3Q growth moderated with ongoing downward pressure.
- Both monetary and fiscal policy remain supportive to cushion economic slowdown.
- Sino-US trade tensions remain a key risk.

### CIO view (Probability: 70%*)
- 3Q GDP slipped to 6.0% y/y from 6.2% y/y in 2Q, slightly below market expectations. The contribution of consumption, investment and net exports to GDP growth in 3Q was 3.75%, 1.23% and 1.22% y/y respectively versus 3.79%, 1.21% and 1.30% y/y in 1Q19. Still, we expect 2019 GDP growth to meet the government’s target range of 6%–6.5%.
- 3Q retail sales growth softened to 7.6% y/y from 8.5% y/y in 2Q, dragged down by auto but cushioned by consumer staples. Jan-Sep fixed asset investment slowed to 5.4% y/y from 5.8% y/y in 1H with weakening manufacturing and improving infrastructure. Both export and import growth weakened on higher tariffs.
- September CPI inflation hit its 3% y/y target ceiling, with continued upside risk on surging pork prices. Core CPI inflation was as low as 1.5%. PPI deflation widened further to -1.2% y/y from -0.8% y/y in August due to base effects and weak manufacturing.
- Monetary policy remains accommodative. The central bank cut RRR by 50bps for all banks on 16 September and a further 100bps for city commercial banks in 50bps increments on 15 October and 15 November, releasing liquidity of CNY 3.1tn ran out by September.
- Fiscal policy remains active. Local government bond issuance will continue in 4Q using the leftover quota of the previous year and frontloading some 2020 quotas to support infrastructure spending, after this year’s quota of CNY 3.1tn ran out by September.
- Sino-US trade tensions remain a key risk. A phase-one agreement was reached at the latest round of China-US trade talks on 10-11 October, and there was talk a deal could be signed at the APEC Summit in mid November. The 5% US tariff hike on USD 250bn of Chinese exports planned for 15 October is on hold, while China is increasing its purchases of US agricultural products.

### Continued easing to cushion growth
- Annual GDP growth accelerates above 6.5% in 2019 on easing trade tensions and a global cyclical growth upswing. Aggregate debt-to-GDP ratio stabilizes. Annual current account surplus increases over USD 100bn.

### Escalating China-US trade tension
- The US makes good on its threats to impose investment restrictions and tariffs on most Chinese products, introducing a sweeping tariff of 25% on the remaining USD 300bn worth of annual Chinese imports before 2020.
- In 2019, China experiences a sharp slowdown in growth (<5.5% real GDP growth for two quarters) and a faster deterioration of its current account into annual deficit.
- CNY slides to 7.5 or weaker within a quarter, alongside a fall in FX reserves. Capital controls are tightened.

* Scenario probabilities are based on qualitative assessments.

### Positive scenario (Probability: 5%*)
- Annual GDP growth accelerates above 6.5% in 2019 on easing trade tensions and a global cyclical growth upswing. Aggregate debt-to-GDP ratio stabilizes. Annual current account surplus increases over USD 100bn.

### Negative scenario (Probability: 25%*)
- The US makes good on its threats to impose investment restrictions and tariffs on most Chinese products, introducing a sweeping tariff of 25% on the remaining USD 300bn worth of annual Chinese imports before 2020.
- In 2019, China experiences a sharp slowdown in growth (<5.5% real GDP growth for two quarters) and a faster deterioration of its current account into annual deficit.
- CNY slides to 7.5 or weaker within a quarter, alongside a fall in FX reserves. Capital controls are tightened.

### Key dates
- Oct 31: October manufacturing and nonmanufacturing PMI
- Nov 8: October trade data
- Nov 14: October fixed-asset investment, retail sales, industrial production

For further information please contact CIO China economist Yifan Hu, yifan.hu@ubs.com or CIO analyst Kathy Li, kathy.li@ubs.com
Swiss economy - *No recovery in sight*

**Key points**
- The Swiss economy has lost considerable momentum since mid-2018. We therefore expect GDP growth of only 0.7% for the full year.
- With the escalation of the US-China trade dispute, political uncertainties and weak economic growth will likely continue. The Swiss economy is unlikely to recover before mid-2020.
- Given these risks, we expect the Swiss National Bank to cut rates by an additional 25 basis points in March 2020.

**CIO view (Probability: 50%*)**
- The Swiss economy has lost considerable momentum since mid-2018. With the escalation of the US-China trade dispute, political uncertainties and weak economic growth will likely continue.
- Leading indicators point to a slowdown in the economy as well, especially in the manufacturing sector. The manufacturing purchasing managers’ index decreased from 47.2 to 44.2 points in September. This is the lowest value since July 2009. The index indicates a weak growth in the manufacturing sector in the coming months.
- Although Switzerland is strongly exposed to global trade, a robust domestic economy helps to stabilize Swiss activity. The labor market has recovered noticeably and can be a key driver of private consumption.
- Following the SECO’s significant downward revision of recent GDP data, we expect the Swiss economy to grow 0.7% this year (previously 1.3%). If the current weakness persists, GDP may grow only 0.9% next year (previously 1.6%).
- The strengthening Swiss franc and lower oil prices (compared to last year) will have a dampening effect on inflation this year. We expect consumer prices to grow 0.4%, after last year’s 0.9%. For next year, we expect an inflation rate of 0.5%.
- We foresee additional monetary easing of the ECB next year on the back of political uncertainty and the subdued economic picture in the Eurozone. This could put the Swiss franc under appreciation pressure and force the SNB to lower interest rates as well. We expect the SNB to cut rates from -0.75% to -1% next March if the global slowdown materializes.

**Recovery postponed but no recession**
- Leading indicators point to a slowdown in the economy as well, especially in the manufacturing sector. The manufacturing purchasing managers’ index decreased from 47.2 to 44.2 points in September. This is the lowest value since July 2009. The index indicates a weak growth in the manufacturing sector in the coming months.
- Although Switzerland is strongly exposed to global trade, a robust domestic economy helps to stabilize Swiss activity. The labor market has recovered noticeably and can be a key driver of private consumption.
- Following the SECO’s significant downward revision of recent GDP data, we expect the Swiss economy to grow 0.7% this year (previously 1.3%). If the current weakness persists, GDP may grow only 0.9% next year (previously 1.6%).
- The strengthening Swiss franc and lower oil prices (compared to last year) will have a dampening effect on inflation this year. We expect consumer prices to grow 0.4%, after last year’s 0.9%. For next year, we expect an inflation rate of 0.5%.
- We foresee additional monetary easing of the ECB next year on the back of political uncertainty and the subdued economic picture in the Eurozone. This could put the Swiss franc under appreciation pressure and force the SNB to lower interest rates as well. We expect the SNB to cut rates from -0.75% to -1% next March if the global slowdown materializes.

**Positive scenario (Probability: 15%*)**
- A further drop in Eurozone unemployment leads to a rebound in Europe and shores up domestic demand, which in turn supports Swiss exports.

**Negative scenario (Probability: 35%*)**
- More protectionist measures by the Trump administration (especially against European car makers) lead to a global downturn, which would hurt Swiss exports.

* Scenario probabilities are based on qualitative assessment.

**Key dates**
- Nov 1: Manufacturing PMI for October
- Nov 1: CPI for October
- Nov 4: Consumer Confidence Survey Q3
- Nov 8: Unemployment Rate for October

---

For further information please contact CIO Swiss economists Alessandro Bee, alessandro.bee@ubs.com or Sibille Duss, sibille.duss@ubs.com.
Contact List

Global Chief Investment Officer GWM
Mark Haefele
mark.haefele@ubs.com

UBS CIO GWM Global Investment Office

Global Asset Allocation
Andreas Koester
andreas.koester@ubs.com

Global Asset Allocation
Mark Andersen
mark.andersen@ubs.com

Investment Themes
Philippe G. Müller
philippe-g.mueller@ubs.com

UHNW
Simon Smiles
simon.smiles@ubs.com

UBS CIO GWM Regional Chief Investment Offices

US
Mike Ryan
mike.ryan@ubs.com

APAC
Min Lan Tan
min-lan.tan@ubs.com

EMEA
Themis Themistocleous
themis.themistocleous@ubs.com

Switzerland
Daniel Kalt
daniel.kalt@ubs.com

Emerging Markets
Jorge Mariscal
jorge.mariscal@ubs.com