All forecasts in this publication are as of 18 July 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".
Financial Market Outlook – short term

Global Tactical Asset Allocation

• **Asset allocation**
  Lower trade tariff uncertainty following the G20 meeting and expectations for further easing from global central banks are supporting risky assets. The G20 meeting between President Xi and Trump has led to a truce, with tariffs on hold for now. While this sets the scene for a restart to US-China dialogue, neither side appears to be in any hurry to find a trade deal, and we expect a prolonged ceasefire period. Amid signs of continued weakness in global manufacturing and trade, and muted inflation expectations, global central banks have turned increasingly more dovish. We expect the Fed to cut rates later this month, which is likely to lead the ECB to cut rates too. A continued low interest rate environment should be favorable for carry positions. We hold a neutral allocation to equities. While earnings growth has weakened this year, the equity risk premium remains attractive, as bond yields have fallen to historically low levels.

• **Equities**
  Pre-emptive Fed rate cuts create a supportive backdrop for stocks, and, given low interest rates, equity valuations look attractive relative to bonds. While we still expect global economic growth to stabilize in the second half of the year, risks around China-US trade remain elevated. Assuming our risk scenarios do not materialize, we believe equities can advance moderately. We are closely monitoring the current earnings season for further downside risks to the earnings outlook. We have an overweight in Japanese and US equities vs Eurozone equities. While both the Eurozone and Japan are heavily geared to the global cycle, the former has priced in a macro recovery while the latter has not. Eurozone stocks look expensive compared to the Japanese market. In addition we prefer US versus Eurozone stocks as the former should deliver superior profits growth in 2019 and 2020. We also believe that the Fed has more ammunition than the ECB to combat slowing growth should trade tensions escalate.

• **Bonds**
  We increase our overweight in EUR IG against higher-rated bonds. We expect the former to be supported by stabilizing Eurozone growth and accommodative ECB policy. We consider the carry attractive against healthy corporate fundamentals and our base case of no recession over the coming 12 months. We also add an overweight in EM sovereign bonds in USD against HG bonds, as the search for yield should provide continued support and valuations are fair. We hold a tactical short on the 2-year US Treasury note. While the Fed seems increasingly likely to cut rates as economic data globally disappoints, we think that market pricing of around four rate cuts by the end of 2020 is too pessimistic.

• **Foreign exchange**
  Easier monetary policy globally should support safe-haven currencies, where central banks have limited room to ease policy further. We close our underweight positions in the CHF against the EUR and the NOK. We keep our NOK overweight against the CAD, while shifting the other position from CHF/NOK to EUR/NOK. Both positions aim to benefit from central bank divergences. As the US and China agreed on a truce and the RBA has cut rates twice, downside risks to the AUD diminished. We thus close our underweight position in the AUD against the USD and shift our long GBP versus short AUD into a long GBP versus USD position. We increase our allocation to a basket of select EM currencies vs pro-cyclical developed market currencies to profit from the attractive interest rate advantage.

• **Longer-term asset allocation (1-4 years)**
  We are underweight UK equities. While the UK was formerly seen as a conservative, lower risk market, prolonged Brexit uncertainties could change this view and lead to a rising risk premium. Emerging market US dollar-denominated sovereign bonds have a more favorable longer-term risk-return outlook, in our view. We also recommend investors in Japanese equities not to hedge the currency exposure as the JPY is significantly undervalued and offers long-term appreciation potential against the USD, the EUR and the CHF.

For further information please contact Head CIO Global Asset Allocation Andreas J Koester, andreas.koester@ubs.com or CIO asset class specialists Philipp Schöttler, philipp.schoettler@ubs.com or Carolina Corvalan, carolina.corvalan@ubs.com.
Cross-asset preferences

We like...
- Global equities
- 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 USD (↗)
- Euro investment grade corporate bonds (↗)
- Global green bonds
- Mind the gap – Corporate "rising star" candidates
- Time to be more selective in EM credit (↗)
- Norwegian krone versus...
- Norwegian krone versus...
- British pound versus...
- EM FX (ZAR, INR, IDR) versus... (↗)
- Japanese yen (1–4 year horizon) versus...

We don’t like...
- UK equities (1–4 year horizon)
- Eurozone equities
- Developed market high grade bonds (↘)
- 2-year US Treasuries vs. USD cash
- *Well-worn* bonds
- Mind the gap - Corporate "fallen angel" candidates
- ...Euro (↘)
- ...Canadian dollar
- ...US dollar (↘)
- ...DM FX (AUD, NZD, TWD) (↘)
- ...base currency

Recent upgrades
- Time to be more selective in EM credit
- Global green bonds
- Euro investment grade corporate bonds
- "Well-worn" bonds
- 2-year US Treasuries vs. USD cash

Recent downgrades
- Mind the gap – Corporate "falling star"
- Global green bonds
- Euro investment grade corporate bonds
- "Well-worn" bonds
- 2-year US Treasuries bonds (via overlay) and a put option on the S&P 500 index

Model portfolios (EUR & USD)*

Source: UBS, as of 18 July 2019. * Additionally, the portfolios include an overweight 2-year US Treasuries bonds (via overlay) and 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>underweight</th>
<th>neutral</th>
<th>overweight</th>
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<tbody>
<tr>
<td>Liquidity</td>
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<td>Equities total*</td>
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<td>Global</td>
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<td>Eurozone</td>
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<td>Switzerland</td>
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<td>Canada</td>
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<td>Japan**</td>
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<tr>
<td>Emerging markets (EM)</td>
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<tr>
<td>Australia</td>
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</table>

| Bonds total |         |            |
| High grade bonds |       |            |
| Corporate bonds (IG) | | |
| High yield bonds |       |            |
| EM sovereign bonds (USD) | | |
| EM corporate bonds (USD) | | |
| EM local currency bonds | | |
| US TIPS |       |            |
| Duration overlay (USD) | | |
| Duration overlay (JPY) | | |

Hedge Funds

- new (1-4 years horizon)
- new (up to 12m horizon)
- old

Source: UBS, as of 18 July 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 equities is not hedged.

Currency allocation

<table>
<thead>
<tr>
<th>underweight</th>
<th>neutral</th>
<th>overweight</th>
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<tbody>
<tr>
<td>USD</td>
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<td>EUR</td>
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<td>GBP</td>
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<td>JPY</td>
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<td>SEK</td>
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<td>NOK</td>
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<td>CAD</td>
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<td>NZD</td>
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<tr>
<td>AUD</td>
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</tbody>
</table>

- new (1-4 years horizon)
- new (up to 12m horizon)
- old

Source: UBS, as of 18 July 2019

*** EM FX basket contains South African rand, Indian rupee, Indonesian rupiah. DM FX basket contains Australian dollar, New Zealand dollar, 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 700bn and are growing by more than 30% a year.

• **Generate yield: "Buy-write" on US equities**
  An equity buy-write strategy involves the purchase of equities (the "buy" part) while systematically 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 decreases and, historically, perform strongly during periods of rising rates.

• **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 stage 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.

• **Replacing well-worn bonds**
  Risk-free yields in some major developed markets are near or below zero. Even if rates stay unchanged, many short- to medium-term bonds would deliver negative total returns. We think investors can preserve wealth by taking profits on assets that will deliver negative returns (exceeding switching-out costs) in most likely scenarios. More attractive alternatives can be found on CIO’s bond recommendation lists.

• **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 into 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 down) global growth, sound credit fundamentals, as well as the relative attractiveness of the asset class against other credit market segments. While emerging economies are on aggregate at an earlier stage in the business cycle than developed markets, there are big differences between countries and market sectors. Exposure to global risks vary 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.

UBS Chief Investment Office GWM considers the highlighted themes as fitting the sustainability framework.
### CIO longer-term investment themes in focus

<table>
<thead>
<tr>
<th>Equities</th>
</tr>
</thead>
</table>
| **Enabling technologies**
We have identified five mainstream enabling technologies – artificial intelligence (AI), augmented reality/virtual reality (AR/VR), big data, cloud computing and 5G – that are set to transform many industries over the next decade. We expect them to grow in aggregate by an average 12.8% annually, from USD 420bn in 2017 to USD 1.1trn in 2025. Hence, we believe enabling technologies offer solid long-term growth as technological disruption is an irreversible trend. Investors can take part in this by investing in a diversified way in our theme of enabling technologies, with leading software and semiconductor companies emerging as winners. |
| **Obesity**
Urbanization and rising per capita GDP in emerging markets will contribute to a greater 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. On current trends, the combined global prevalence of obesity and overweight could exceed 40% by 2030. |
| **Fintech**
Driven by rapid urbanization, strong demand from millennials, and favorable regulations, the global fintech industry is at an inflection point and set to drive a major digital transformation in the financial services industry. We expect global fintech revenues to grow from USD 120 billion in 2017 to USD 265 billion in 2025, implying an average annual growth rate that’s about three times faster than the broader financial sector’s. |
| **Space**
The sharp decline in launch costs is lowering entry barriers to space. We forecast the space economy will likely 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. |
| **Emerging market infrastructure**
Growing urbanization and the expansion of megacities in emerging markets, as well as high economic growth rates, 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. |

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 Investment (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>
<tr>
<td>Positive outlook</td>
<td>Global economic growth slows but the expansion remains intact. Corporate earnings</td>
<td>US equities +5 to 10% upside as forward estimates rise towards USD 180 and the</td>
</tr>
<tr>
<td><strong>with increased</strong></td>
<td>growth slows. However, ongoing trade tensions and uncertainty about Eurozone growth</td>
<td>forward P/E expands to 17x</td>
</tr>
<tr>
<td>volatility</td>
<td>keep volatility high.</td>
<td>Chinese equities +10% to 15% due to a recovery on valuation as growth beats</td>
</tr>
<tr>
<td>Tariff escalation</td>
<td>Further sanctions are implemented, with the US administration imposing tariffs on the</td>
<td>USD depreciates to EURUSD 1.20–1.25 and USDCNY 6.4–6.7</td>
</tr>
<tr>
<td>Key downside scenarios</td>
<td>remaining Chinese imports after the conclusion of the hearing process.</td>
<td></td>
</tr>
<tr>
<td>US credit crunch</td>
<td>US corporate leverage has increased to record high levels by certain standards. A</td>
<td>US equities +5 to 10% upside as forward estimates rise towards USD 180 and the</td>
</tr>
<tr>
<td>triggering a bear market</td>
<td>combination of risk factors could lead to rising default risk and a sharp rise in</td>
<td>forward P/E expands to 17x</td>
</tr>
<tr>
<td>Key upside scenarios</td>
<td></td>
<td>Chinese equities +10% to 15% due to a recovery on valuation as growth beats</td>
</tr>
<tr>
<td>De-escalation</td>
<td>Both countries strike a new deal that partially repeals current duties with a further</td>
<td>USD depreciates to EURUSD 1.20–1.25 and USDCNY 6.4–6.7</td>
</tr>
<tr>
<td>China: GDP growth</td>
<td>phase out conditional on Beijing fulfilling the trade deal’s terms.</td>
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<tr>
<td>accelerates</td>
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</table>

Expected total returns over a 6-month horizon
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 EFFENBERGER, dirk.effenberger@ubs.com

Source: UBS, as of July 2019
Key financial market driver 1 - *Central bank policy*

**Key points**
- It appears likely that the US Federal Reserve (Fed) will cut the policy rate at its next meeting on 31 July.
- The European Central Bank (ECB) is set to lower its deposit rate in 2H in response to expected lower policy rates in the US.
- In reaction to the ECB’s easing, a rate cut by the Swiss National Bank has become a possibility. The Bank of England’s policy remains contingent on the nature of the UK-EU separation, although without that uncertainty rates would probably rise.

**CIO view (Probability: 60%*)**
- The US Federal Reserve has signaled that it is likely to cut rates at its next policy meeting on 31 July. Although economic and financial conditions are strong, inflation remains stuck below the Fed’s 2% target and inflation expectations have moved lower. The Fed views risks as skewed to the downside. Further, the yield curve has been inverted, which in the past has often foreshadowed that a recession is coming. 50 basis points of cuts should be enough to ensure that the yield curve moves out of inversion. That cut could come all at the next meeting or be spread out over two meetings.
- The ECB is set to lower its deposit rate by 0.1% each in September and December in response to lower US policy rates. We think that the hurdle for a new QE program remains significant and would require further shocks.
- In many countries, inflation remains below the central bank’s target despite very loose monetary policy and low unemployment rates.
- The tone has shifted as political risks have created economic disruption. Central banks appear keen not to amplify those risks by adding to the uncertainty. Even with the Fed and ECB ready to cut, most other central banks should remain on hold in the near term.

*Positive scenario (Probability: 30%*)
- Political policy errors threaten economic growth either through more aggressive trade disruption or weaker US or European growth. Central banks respond to the changing economic outlook with easing that goes beyond our base case forecasts.

*Negative scenario (Probability: 10%*)
- Tighter labor markets move from squeezing profit margins to causing firms to raise prices more significantly. Trade taxes are passed on more comprehensively than has been the case so far.

*Scenario probabilities are based on qualitative assessment.

**Fed and ECB ready to cut rates**
- Further policy easing as macro backdrop worsens
- Inflation rises on tight labor markets and tariffs

**Key dates**
- Jul 25: European Central Bank policy decision
- Jul 31: US Federal Reserve policy decision
- Aug 1: Bank of England policy decision

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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
We expect S&P 500 EPS growth of 1% in 2019 and 7% in 2020.

Key financial market driver 2 - Growth is bottoming out

Key points
• Corporate profit growth has decelerated
• But growth should pick up later this year
• We expect S&P 500 growth of 1% in 2019 and 7% in 2020.

CIO view (Probability: 60%*)
• US earnings growth has decelerated as the one-time boost from a lower tax rate fades and economic growth slows in the US and overseas. While a material decline in profits looks unlikely—as leading indicators such as access to capital and new claims for unemployment insurance remain supportive—profit drivers have weakened over the last few months. Business sentiment has fallen (top chart), tariffs have risen, and overseas growth has slowed.
• As such, we trim our full year S&P 500 EPS estimates (bottom chart). 2019 falls from USD 168 to USD 165 (1% growth) while 2020 falls from USD 179 to USD 176 (7% growth). By sector, the reductions are concentrated in energy, industrials, and tech. Our expectations for average oil prices in 2019 have fallen by about 10% since the start of the year, driving a reduction in our expectations for energy sector earnings. Our reduced expectations for industrials and tech reflect a couple of factors: weaker than expected global manufacturing activity and higher tariffs on US imports of Chinese goods.
• Second quarter S&P 500 earnings growth will likely be similar to the first quarter with aggregate S&P 500 growth up 1-2%. Encouragingly, growth for the average company will be faster, around 5%. Earnings weakness in some of the largest companies (in tech and energy) is masking the healthier trend.
• However, earnings growth should modestly re-accelerate later this year and beyond as the economic expansion continues, comparisons in the energy sector get easier, and tech markets stabilize, especially for semiconductors.
• We expect profit margins to fall by 0.5% in 2019. Still, we don’t expect margins to decline on a sustained basis. The weakness this year is a result of slow revenue growth and idiosyncratic factors in various sectors 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 re-acceleration 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
Jul 15 2Q earnings season begins

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 very stable around trend for an unusually long time. Risks to that stability are growing as a result of trade uncertainty.
- Domestic demand remains relatively good in most economies. Consumer goods production is generally strong. Weakness in investment spending slowed growth in 2018 and disproportionately hurt trade. That has started to stabilize.
- The risk of a global recession in 2019 remains relatively low, but a period of below-trend growth seems increasingly likely.

CIO view (Probability: 50%*)

- Labor market strength continues in most major economies, giving consumers better income (via increased employment, increased wages, or both). Global unemployment is at or near a 40-year low. Stimulus measures in China are prioritizing growth. Consumers have to-date been largely unaffected by political uncertainty.
- Manufacturing data support the idea of relatively strong consumption. Any weakness in manufacturing has been focused geographically or by sector (investment goods rather than consumer goods).
- As trade risks started to fade during the first quarter, investment and manufacturing data started to stabilize (consistent with trend growth). The escalation of trade tensions in the second quarter raises risks to that. The longer the uncertainty around trade lasts, the greater the drag on economic performance. This means that trade could still weaken growth, even if ultimately deals are done.
- Underlying inflation trends remain relatively benign although the stronger labor markets should be monitored. Core producer price inflation is an important signal of corporate pricing power. So far, profit margins rather than inflation seem to be bearing the brunt of higher costs.

Positive scenario (Probability: 20%*)

- Trade uncertainty declines, allowing a significant increase in investment. Labor markets continue to support consumer demand.
- Fiscal stimulus in China has positive spillover effects into Asia.

Negative scenario (Probability: 30%*)

- Trade taxes rise significantly and act as a fiscal drag on growth. Increased taxes lead to the cancellation (rather than just the postponement) of investment.
- The growth slowdown from these factors leads to a reassessment of employment. Job losses undermine consumer spending.

Scenario probabilities are based on qualitative assessment.

Can trend growth continue?
UBS estimates and forecasts

The great Great Moderation
Global growth has been very stable in the recent past, around trend

Key dates

- Jul 25: ECB press conference
- Jul 31: Eurozone GDP estimate for 2Q
- Jul 31: FOMC rate decision

Source: UBS, as of 15 July 2019
Forecasts and estimates are current only as of the date of this publication, and may change without notice.

Source: Oxford Economics, via Mavi
US economy - **US growth heading back toward trend**

**Key points**
- Economic growth should slow toward trend as fiscal stimulus fades
- Core inflation should remain near the Fed’s 2% target
- Policy uncertainty creates downside risks.

**CIO view (Probability: 60%*)**
- GDP expanded at a 3.2% pace in 1Q19. As fiscal stimulus fades, growth should slow toward a more sustainable pace, in line with the 2% potential growth rate.
- While demand for workers remains strong, job growth is likely to slow as most people who want a job already have one.
- Rising wage income and strong consumer sentiment should support robust growth in consumer spending.
- Strong profits and labor shortages will encourage businesses to invest. However, political uncertainty, especially on trade, will act as a constraint.
- Manufacturing output has surprised to the downside year-to-date. Excess inventories, softening auto sales, and weaker external demand are negatives.
- Residential investment has declined in recent quarters. Mortgage rates are down from their highs, and demand for housing should be supported by the strong labor market, limiting further downside risk.
- Core inflation, which excludes food and energy prices, has slowed recently but should not fall too far below the Fed’s 2% target.
- The Fed shifted to a more dovish stance at its policy meeting on 19 June. We expect a rate cut in July.
- With support from fiscal policy fading, further escalation of trade disputes or another government shutdown could pose a more serious threat to the recovery.

*Positive scenario (Probability: 15%*)
- US real GDP grows above 3%, propelled by an accommodative monetary policy, loose fiscal policy, strong household spending, and breakthroughs in trade negotiations. Inflation overshoots the Fed’s 2% target, potentially leading the central bank to raise rates beyond neutral.

*Negative scenario (Probability: 25%*)

*Scenario probabilities are based on qualitative assessment.

**Key dates**
- Jul 26: GDP for 2Q19
- Jul 31: Employment Cost Index for 2Q19
- Jul 31: FOMC rate decision
- Aug 1: ISM manufacturing PMI for July

**Growth is slowing**
ISM Manufacturing PMI and Non-manufacturing Index

**More job openings than people to fill them**
Unemployed workers and job openings, in millions

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

Key points
- We expect economic growth in the Eurozone to remain stable, subject to trade tensions.
- Inflation is set to move slightly higher in 2H driven by base effects.
- We expect the ECB to cut the deposit rate in response to expected lower US policy rates.

CIO view (Probability: 60%*)
- Activity is set to remain stable at moderate levels as long as trade uncertainties remain. In the event of a further significant escalation, growth is likely to turn out lower than expected. The ECB is expected to respond to anticipated lower policy rates in the US by lowering the deposit rate by 0.1% both in September and December (coupled with interest rate tiering).
- In Germany, the stiff global export environment has increased the risk of a recession. However, fiscal stimulus measures and a strong service sector should help avoid it. In France, the slowing of yellow-vest protests, reforms and fiscal stimulus should continue to help stabilize GDP growth.
- Growth in Italy should continue to stabilize following the budget agreement with the European Commission and stabilizing European growth. Spain is still growing strongly, but the momentum is likely to continue to normalize.

Positive scenario (Probability: 10%*)
- The global economy accelerates again and the euro weakens. Eurozone loan demand and the economy recover faster than envisaged. Political risks fade.

Negative scenario (Probability: 30%*)
- The Eurozone suffers a disinflationary setback as trade tensions escalate sharply, markets lose faith in Italy’s debt sustainability, Brexit talks fail, or the Chinese economy suffers a severe downturn.

*Scenario probabilities are based on qualitative assessment.

Key dates
- Jul 24: Flash PMI for July
- Jul 25: ECB press conference
- Jul 31: Unemployment for June
- Jul 31: GDP estimate for second quarter
- Jul 31: Inflation estimate for July

For further information please contact CIO Chief Economist Eurozone Ricardo Garcia, ricardo-za.garcia@ubs.com
Chinese economy - Pressure remains despite stabilization

Key points
- Recent economic developments signal continued downward pressure despite stabilization.
- Both monetary and fiscal policies stay supportive.
- Sino-US trade tensions remain a key risk.

CIO view (Probability: 80%*)
- 2Q19 GDP growth moderated to 6.2% from 6.4% in 1Q19, in line with expectations. The contribution of consumption, investment, and net exports to GDP growth in 1H19 was 3.79%, 1.21%, and 1.3%, respectively. We expect 2019 GDP growth to meet the government target of 6–6.5%.
- 1H retail sales growth stabilized at 8.4%, with support from resilient consumer staples. Fixed-asset investment grew 5.8%, with weaker real estate and manufacturing investment vis-à-vis increased infrastructure investment backed by local government bonds. Both export and import growth decelerated significantly to 0.1% and –4.3% respectively in 1H due to rising tariffs.
- 1H CPI inflation averaged at 2.2%, with continued upside risk in 2H on surging pork prices. PPI inflation remained muted at 0.3% with deflation risk in 2H on weakening industrial demand.
- Monetary policy stays accommodative. The central bank cut the reserve requirement ratio (RRR) for small and medium-sized banks in May, June, and July, each time by 100bps. It also conducted another bill swap of CNY 2.5bn in June in exchange for bank perpetual bonds, following its first such operation in February. The central bank is likely to make another 100–200bps of RRR cuts, together with lending facilities, to keep liquidity sufficient. 1H credit growth growth stabilized at 10.9%.
- Fiscal policy remains active. More favorable rules were announced to support infrastructure investment, allowing the use of special local government bond proceeds as equity capital, and promoting the financing channels for large-scale projects.
- Sino-US trade tensions remain a key risk. The much-awaited Xi-Trump meeting at the G20 ended with an agreement to a truce.

Key dates
- Jul 31: July manufacturing and nonmanufacturing PMI
- Aug 9: July inflation
- Aug 14: July fixed-asset investment, retail sales, industrial production

* Scenario probabilities are based on qualitative assessments.

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 - Global uncertainty weighs on growth

Key points
• After a slowdown in the second half of 2018, Swiss GDP grew 0.6% q/q in 1Q19. We expect growth of 1.3% for the full year.
• Despite the robust growth, we remain cautious on Switzerland’s economic outlook given the escalation in US-China trade tensions and ongoing political uncertainties. These risks could delay the global economic recovery and weigh on Swiss exports.
• Given these risks, we don’t expect the Swiss National Bank (SNB) to start hiking rates anytime soon.

CIO view (Probability: 60%*)
• Swiss GDP grew in the first quarter by 1.4% y/y, slightly below the long-term average. All components contributed to this robust result. In addition, GDP growth for 2H18 was revised slightly higher.
• Despite the robust growth, we remain cautious on Switzerland’s economic outlook given the escalation in US-China trade tensions and ongoing political uncertainties. These risks could delay the global economic recovery and weigh on Swiss exports. We expect the Swiss economy to grow 1.3% this year. In the coming quarters, we expect stable Swiss growth slightly below the long-term trend. For 2020, we forecast growth of 1.6%.
• But the picture is mixed. In June, the manufacturing purchasing managers’ index decreased slightly to 47.7 points, the third month in a row below the 50 mark. This indicates weak growth in the manufacturing sector for the coming quarters.
• Alongside these are factors benefiting the Swiss economy. The labor market has recovered noticeably and can be a key driver of private consumption.
• The moderate growth in the Swiss economy, and a franc that today is stronger than in 2018, will have a dampening effect on inflation this year. We expect consumer prices to grow 0.6%, after last year’s 0.9%.
• In an environment of global uncertainty and a subdued economic picture, the SNB is unlikely to hike interest rates anytime soon. However, as the ECB makes its monetary policy more expansionary, even an SNB rate cut is a possibility.

CIO view (Probability: 60%*)  Recovery expected later in the year

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: 25%*)
• More protectionist measures by the Trump administration (especially against European car manufacturers) lead to a global downturn, which would hurt Swiss exports.
* Scenario probabilities are based on qualitative assessment.

Key dates
Aug 1  PMI manufacturing for July
Aug 2  CPI for July
Aug 5  Seco Consumer Confidence
Aug 9  Unemployment rate for July

Business sentiment clouds over
Swiss Purchasing Manager Index of the manufacturing sector and GDP growth year over year, in %

Swiss employment growth still holding up
Employment growth in the manufacturing and service sector, in %

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

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**UBS CIO GWM Global Investment Office**

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<tr>
<td>Andreas Koester</td>
<td>Mark Andersen</td>
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**UBS CIO GWM Regional Chief Investment Offices**

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