No-deal Brexit looks less likely

UBS House View - Weekly Global

David Lefkowitz, CFA, Sr. Equity Strategist Americas, UBS Financial Services Inc. (UBS FS)
Mark Haefele, Global Chief Investment Officer GWM, UBS AG

The UK Parliament didn't pass Boris Johnson's negotiated Brexit deal with the EU on Saturday, instead voting through an amendment requiring all legislation to enact the agreement to be passed before it can be voted on. While the ultimate outcome remains uncertain, the risk of a disorderly exit at the end of October or over the next six months is lower than it has been for many months. Against this backdrop we believe sterling could rally further if the no-deal threat declines further or if lawmakers approve Johnson's deal.

Week Ahead

1. **Can the pound hold on to its gains?** After a failed attempt at pushing the Brexit deal through parliament, GBPUSD briefly dropped on 21 October by as much as 0.6% to trade below 1.29, ending its four-day rally. With another vote on the cards this week, we expect sterling volatility to continue, though the downside risks have diminished in recent weeks due to a no-deal scenario becoming increasingly unlikely.
2. **Will sentiment pick up?** Recent hard data prints have shown signs of a slowdown in the US, with both retail sales and factory output slipping. Meanwhile, 3Q GDP in China also dropped to an annualized 6.0%, a 27-year low. This week we will see PMI data from Japan, the Eurozone, and the US, and investors would likely welcome a positive surprise amid recent weakness. We maintain our underweight to equities.
3. **Will the interim trade deal hold?** Last week we received conflicting signals on what China and the US had agreed to as part of their 11 October announcement. China reportedly wanted USD 50bn worth of existing tariffs and the proposed December tariff increase taken off the table before reaching a deal, while US Commerce Secretary Wilbur Ross said those tariffs are the only reason they are at the negotiating table. We will be looking for further details about what makes it into the final deal.

Key Messages

1. Brexit: The stalemate continues.

At an unusual Saturday sitting, the UK's Parliament didn't vote on the recently negotiated Brexit deal after a majority of 322 against 306 instead pushed through an amendment that effectively postponed the final decision on Johnson's deal. Following the large moves in sterling over the last week, we will likely see further volatility in the days ahead as the next phase of Brexit unfolds. Three scenarios remain possible, in our view. The first is a general election, followed by a deal. Here we expect the EU to accept the requested extension, although their decision may not be immediate. Johnson will press ahead with efforts to pass Brexit legislation to ensure a 31 October departure. Whether he succeeds or fails, we expect to see a general election before the end of the year. As investors assess those prospects, we expect GBPUSD to settle in a 1.26 to 1.32 range. The second scenario is this deal eventually passing. Here we would expect GBPUSD to rally to 1.35. Beyond those levels, we think, sterling would struggle to rise as concerns about the long-term trade relationship will come into focus. And the final scenario would be a no-deal Brexit. The risks of a no-deal at the end of October, or in the next six months, are lower than they have been for many months. The no-deal outcome would have hurt GBPUSD, pulling it down toward 1.12, in our view.

Takeaway: We maintain our preference for sterling over the US dollar.

2. Earnings: Slowing, but not plummeting.

The US 3Q earnings season kicked off recently, with 20% of the S&P 500 by market cap having reported results. Consensus estimates suggest earnings will contract by 4% y/y. While earnings growth has undoubtedly slowed given the softer macro environment, we think that consensus may be overly pessimistic. Our estimate is for a 2% contraction for the quarter. Though this would be the first quarterly drop in profits since 2016, 3Q will likely mark the low point for quarterly year-on-year earnings growth. Flattish earnings at the index level also mask more resilient profitability for the "typical" US company. Weakness is concentrated in the energy, materials, and technology sectors, as well as in select mega-cap stocks. However, the median S&P 500 company should grow earnings 4%–5%. Further, the consumer staples and consumer discretionary sectors remain well supported by healthy consumer fundamentals (a strong labor market and healthy wage growth), and should continue to enjoy solid organic growth.

Takeaway: 3Q results are likely to be a mixed bag for markets, though investor hopes for a trade deal between the US and China should limit the downside. We like the US consumer discretionary, communication services, and consumer staples sectors.

3. Soft data leaves room for the Fed to act.

Last week, US retail sales unexpectedly slipped for the first time in seven months, sparking concern that the US consumer is starting to feel the effects of a potential slowdown. While we don't advocate reading too much into one data point, this development does reinforce our view that the Federal Reserve will cut rates on 30 October, given the potential risks to the economy. Manufacturing sentiment remains weak, with the US ISM print at 47.8 for September, and last week's Federal Reserve Beige Book pointed to a worsening outlook. Global growth looks set to drop to roughly 3% next year, the slowest pace since 2009. And trade tensions still have not been resolved, which means capital expenditure is unlikely to rebound sharply. While central bank action should curb the downside for stocks, the upside looks limited until greater clarity over trade emerges. We maintain a preference for carry strategies in this environment.

Takeaway: We overweight US-dollar denominated emerging market sovereign bonds, select high-yielding EM currencies, and US Treasury Inflation-Protected Securities (TIPS).

Deeper Dive

No-deal Brexit looks less likely

by Global Chief Investment Officer Mark Haefele

While the final outcome to Brexit has not yet been decided, one key issue has shifted over the last week in our view: the risks of a no-deal Brexit at the end of October, or in the next six months, are lower than they have been for many months.

At an unusual Saturday sitting of parliament, Boris Johnson's government failed to bring the recently negotiated Brexit deal to a vote in the UK parliament, after a majority of 322 against 306 passed an amendment that effectively postponed the final decision on his deal. Despite suggesting on many occasions that he would not comply with the law (Benn Act) requiring him to ask for an extension of the Brexit deadline to 31 January 2020, the prime minister sent a letter (unsigned) to the EU making the request.

Short term focus will now be passing Johnson's deal. On balance, we think that the legislation will not be passed in time for an end of October departure, forcing an extension. We expect the EU will accept this extension rather than face a no-deal, although their decision may not be immediate.

Following the large moves in sterling over the last two weeks, we will likely see further volatility in the days ahead as the next phase of Brexit unfolds. We see three scenarios for sterling:

- Although the chances of a deal being agreed by the current parliament have risen, we still think that a general election will be needed for the PM to secure a stable majority to ratify it, and we expect one to be held before the end of the year. As investors assess the prospect of a general election, we expect GBPUSD to trade in a 1.26 to 1.32 range.
- Contrary to previous market concerns, it now seems more likely that Boris Johnson will be campaigning on a platform of having secured an agreement. The opposition Labour Party would be likely to campaign on the basis of putting the new agreement to a second referendum. The no-deal scenario, which would have pulled GBPUSD down toward 1.12 in our view, now appears the least likely outcome.
- If the deal eventually passes, we would expect GBPUSD to rally to 1.35. Beyond those levels, we think, sterling would struggle to rise, as concerns about the long-term trade relationship will come into focus. Moreover, the UK economy does not look to be performing particularly better than its peers at present.

For the time being we retain our overweight position in sterling versus the US dollar in our FX strategy. The size of the market reaction in the last week indicates that positioning was, and probably still is, relatively short in sterling, which corroborates the latest International Money Market data. Hence, strong upward moves could easily still be triggered.

Regional View

Seasons change (a little)

by Sr. Equity Strategist Americas David Lefkowitz, CFA

Here in New York, autumn is making its debut. Shades of yellow and orange are just starting to mix in with the green, apple picking is on the weekend calendar (especially those looking for activities for the kids!), and warmer jackets have been roused from their hibernations. Summer seems like a distant memory.

As the season is changing outside, financial market participants are turning their attention to another season—third quarter earnings season. This is the time of year when publicly traded companies will reveal the quarterly answer to the question "how's business?" by disclosing results for the third quarter and offering some thoughts about the outlook.

Even though it's a new earnings season, we don't expect the "weather" to be very different from the first half of the year. Earnings growth has been fairly tepid all year, a stark contrast from the corporate tax cut-fueled 23% surge in 2018. Growth has slowed this year due to a variety of factors: global economic growth has downshifted, tariffs have increased, business confidence has declined, and the positive effect of US fiscal stimulus (tax cuts and higher government spending) has rolled off. As a result, S&P 500 earnings growth was just less than 2% in the first half of the year.

We expect a similar, if not even weaker result for the third quarter. The headwinds facing corporate America have become even more challenging and profits look poised to contract, albeit barely, for the first time since 2016 when plunging oil prices resulted in a manufacturing recession. We forecast a 2% decline in S&P 500 profits for the quarter.

However, our analysis shows that the sluggish numbers for the market in aggregate mask more resilient results for the typical company. The earnings pressures are fairly concentrated and particularly acute in sectors that are the most impacted by slowing global economic growth. Profits should be down 30% and 15% respectively for the energy and materials sectors. The technology sector is contending with an oversupply of semiconductors and a mature smartphone market which is driving a 10% decline. These three sectors comprise roughly 30% of S&P 500 profits. More broadly, the typical (median) S&P 500 company should see earnings rise by about 5%.

Based on the limited number (70) of S&P 500 companies that have reported so far, 80% are beating consensus profit estimates and nearly 60% are beating revenue expectations —results that are fairly normal. Similar to prior quarters, consumer spending remains a bright spot. This is good news considering that more than two-thirds of economic activity is driven by consumer spending. We expect consumer trends to remain healthy due to a strong labor market, low mortgage rates, and prudent consumer debt levels.

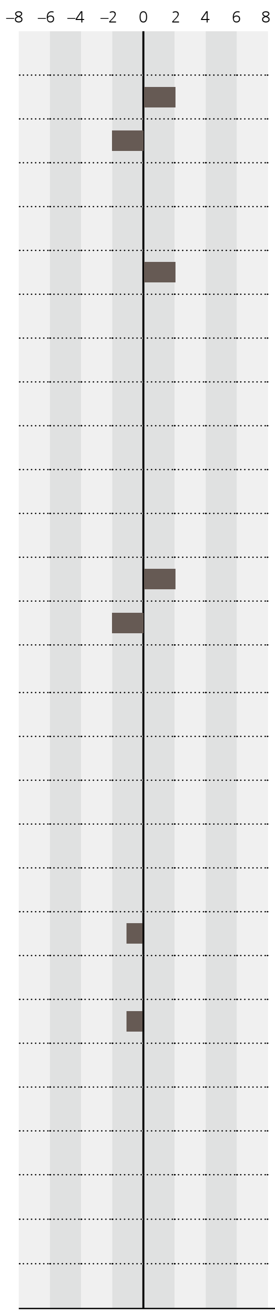
Results have been more mixed for companies that rely on business spending. Ongoing weakness in the industrial sector seems to be spreading and deepening a bit. But results from the largest US banks have underscored that credit quality is very good across the economy and there are no indications that clients—neither businesses nor consumers—are having difficulty servicing their debt. This backdrop, in conjunction with recent Fed interest rate cuts, means that access to capital should remain fairly easy, supporting the economic expansion.

Still, the tone from corporate management teams does seem incrementally more cautious. But stock markets have remained resilient in these early stages of earnings season, perhaps because the outlook does not appear to be as weak as feared. In fact, guidance for the fourth quarter from the small set of companies that have reported suggests no meaningful deterioration in the outlook.

So far, results are consistent with our view that, while S&P 500 profit growth remains tepid for now, it should modestly improve (to 5%) next year. However, the trade conflict between the US and China remains fluid and could be a source of earnings downgrades if progress does not occur in November. In other words, this earnings season looks like it will be pretty similar to the last two, despite the changing seasons outside.

Strategy and performance

TAA and market returns



Asset class	Tactical Deviation in %*	Total return in % 1–week	1–month	YTD	Annualized total return in % 1–Year	5–Year	10–Year**	Benchmark
Cash	**0.0**	**0.04**	**0.24**	**2.06**	**2.57**	**1.09**	**0.61**	Barclays Capital US Treasury – Bills [1–3 M]
Fixed Income	**+2.0**							
US Gov't FI	–2.0	0.00	0.44	7.29	10.61	2.51	3.00	BarCap US Agg Government
US 10 year Treasury	0.0	0.05	0.44	10.19	15.43	2.69	4.00	Bloomberg Barclays US Treasury Bellwethers 10 Year
US Treasuries (long)	0.0	–0.57	–0.10	17.57	25.68	5.54	7.00	ICE U.S. Treasury 20+ Years Bond Index
US TIPS	+2.0	0.25	0.29	7.65	8.41	2.10	3.46	Barclays US Treasury Inflation Notes Index
US Municipal FI	0.0	–0.17	0.55	6.85	9.43	3.42	4.16	BarCap Municipal Bond
US IG Corp FI	0.0	0.30	0.78	12.49	13.57	4.15	5.31	BarCap US Agg Credit
US HY Corp FI	0.0	0.39	–0.07	11.65	7.55	5.38	7.94	BarCap US Agg Corp HY
Int'l Developed FI	0.0	0.47	0.16	4.93	6.64	0.67	1.27	BarCap Global Agg xUS
EM FI***	0.0	0.19	0.55	8.85	10.56	3.09	4.99	50% BarCap EM Gov and 50% BarCap Global EM (USD)
EM FI - Local Currency	0.0	0.20	0.71	6.66	9.41	1.20	3.33	BarCap EM Gov
EM FI - Hard Currency	+2.0	0.18	0.38	11.04	11.70	4.99	6.65	BarCap Global EM (USD)
Equity	**–2.0**							
Global Equity	0.0	0.80	–0.03	17.30	8.44	7.88	8.34	MSCI ACWI
US All cap	0.0	0.56	–0.76	20.57	9.13	11.44	13.07	Russell 3000
US Large cap Growth	0.0	0.26	–0.39	24.44	12.06	14.60	14.93	Russell 1000 Growth
US Large cap Value	0.0	0.73	–0.96	17.55	7.64	8.65	11.46	Russell 1000 Value
US Mid cap	0.0	0.56	–1.18	21.85	9.96	9.95	13.06	Russell Mid Cap
US Small cap	0.0	1.57	–1.97	15.13	–0.17	8.73	11.19	Russell 2000
Int'l Developed Markets	–1.0	1.24	1.08	14.70	6.83	4.87	4.90	MSCI EAFE
Japan	0.0	1.82	1.36	13.09	2.20	7.91	5.50	MSCI Japan
EM Equity	–1.0	1.27	0.45	8.43	8.23	3.39	3.37	MSCI EMF
Commodities	**0.0**	**–0.17**	**–0.91**	**4.40**	**–6.14**	**–6.75**	**N/A**	Blooomberg Commodity Index
Yield Assets	**0.0**							
Senior Loans	0.0	0.20	–0.48	6.27	2.34	3.98	5.21	S&P/LSTA U.S. Leveraged Loan 100 Index
Preferreds	0.0	0.43	1.38	16.16	13.04	6.64	N/A	BofA Merrill Lynch Fixed Rate Preferred Securities Index
MLPs	0.0	–0.66	–7.88	5.86	–11.16	–8.33	6.25	Alerian MLP Total Return
US Real Estate	0.0	1.31	2.48	28.31	24.76	9.62	13.03	FTSE NAREIT Equity REIT Index

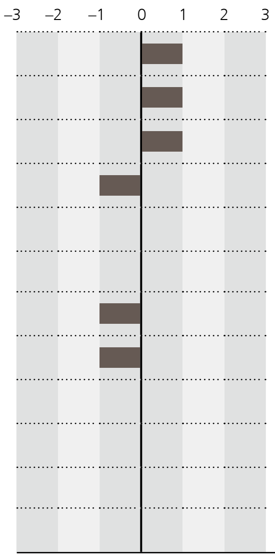
*The tactical deviation is for a moderate, non-taxable investor without alternative investments. See the latest *UBS House View: Investment Strategy Guide* for an interpretation of the tactical deviations and an explanation of the corresponding benchmark allocation.
**As of last month end
***EM FI is a blend of 50% local currency, 50% hard currency
Source: UBS, as of 18 October 2019

S&P 500 forecast	**CIO GWM**
June 2020 price target	USD 2950
2018 earnings per share actual	USD 163.0
2019E earnings per share estimate	USD 164.0
2020E earnings per share estimate	USD 173.0

Source: UBS, as of 18 October 2019

Strategy and performance

TAA and market returns: US equity sectors



Sector	Tactical Deviation	Total return in % 1–week	1–month	YTD	Annualized total return in % 1–Year	5–Year	10–Year**	Benchmark
Communication Services	+1.0	1.32	–0.22	24.44	13.07	6.20	9.49	S5TELS Index
Consumer Discretionary	+1.0	1.30	–0.26	23.96	13.53	15.25	17.67	S5COND Index
Consumer Staples	+1.0	–0.06	0.77	22.28	16.84	9.29	12.28	S5CONS Index
Energy	–1.0	–1.66	–7.21	2.07	–18.38	–4.16	3.32	S5ENRS Index
Financials	0.0	1.57	–0.97	20.00	8.20	11.36	10.74	S5FINL Index
Health Care	0.0	2.03	0.77	7.58	1.10	10.29	14.21	S5HLTH Index
Industrials	–1.0	0.13	–2.27	21.44	7.11	10.20	13.40	S5INDU Index
Information Technology	–1.0	–0.85	–0.16	32.05	17.39	19.77	17.10	S5INFT Index
Materials	0.0	0.32	–1.44	15.82	10.01	6.43	9.22	S5MATR Index
Real Estate	0.0	1.80	2.00	31.59	31.04	9.75	12.17	S5RLST Index
Utilities	0.0	–0.15	0.77	23.66	22.85	12.08	12.50	S5UTIL Index
S&P 500		0.55	–0.55	21.05	10.07	11.87	13.22	SPX Index

Note: Tactical deviations are intended to be applicable to the US equity portion of a portfolio across investor risk profiles.
**As of last month end
Source: UBS, as of 18 October 2019

Market moves

	Level	*1–w chg*	*YTD chg*
S&P 500	2,986	0.55%	21.05%
DJIA	26,770	–0.13%	16.99%
Nasdaq	8,090	0.40%	22.96%
Nikkei 225	22,493	3.18%	14.51%
Eurostoxx 50	3,579	0.27%	23.32%
MSCI EM	1,024	1.27%	8.69%
MSCI World	2,195	0.74%	19.09%
MSCI EAFE	1,920	1.24%	15.31%
DXY	97	–1.04%	1.15%
Gold	$ 1490/oz	0.07%	16.18%
Brent crude oil	$ 59.4/bbl	–1.80%	10.45%
US 10-year yield	1.75%	+2 bps	–93 bps
VIX	14.3	–1.3 pts	–11.2 pts

Source: Bloomberg, as of 18 October 2019
Note: All returns are in local currency
* As of intraday 17 October 2019

Tactical time horizon is approximately six months.
Total return market performance is from Bloomberg as of close of business on source date, using representative indices, and is provided for information only. Past performance is no indication of future performance.

\+ – Indicates +/– change

Terms and abbreviations
YTD = year-to-date.
TAA = tactical asset allocation.

Earnings calendar

The Earnings Calendar provides publicly announced reporting dates and times of companies covered by Chief Investment Office GWM. Reporting dates and times are subject to change by the reporting companies.

Date	Company	Ticker	Company	Ticker		
21-Oct-2019	Halliburton Co.	HAL	Lennox International, Inc.	LII	TD Ameritrade Holding Corp.	AMTD
22-Oct-2019	The Travelers Cos., Inc.	TRV	PulteGroup, Inc.	PHM	The Sherwin-Williams Co.	SHW
22-Oct-2019	United Technologies Corp.	UTX	United Parcel Service, Inc.	UPS	Lockheed Martin Corp.	LMT
22-Oct-2019	NextEra Energy, Inc.	NEE	McDonald's Corp.	MCD	Discover Financial Services	DFS
22-Oct-2019	Equity Residential	EQR	Texas Instruments Incorporated	TXN	Healthcare Services Group, Inc.	HCSG
23-Oct-2019	The Boeing Co.	BA	General Dynamics Corp.	GD	Hilton Worldwide Holdings, Inc.	HLT
23-Oct-2019	Northern Trust Corp.	NTRS	Caterpillar, Inc.	CAT	Invesco Ltd.	IVZ
23-Oct-2019	Norfolk Southern Corp.	NSC	Ameriprise Financial, Inc.	AMP	Essex Property Trust, Inc.	ESS
23-Oct-2019	Lam Research Corp.	LRCX	Microsoft Corp.	MSFT		
24-Oct-2019	Comcast Corp.	CMCSA	Dow, Inc.	DOW	Southwest Airlines Co.	LUV
24-Oct-2019	3M Co.	MMM	American Electric Power Co., Inc.	AEP	Raytheon Co.	RTN
24-Oct-2019	T. Rowe Price Group, Inc.	TROW	Intel Corp.	INTC	Juniper Networks, Inc.	JNPR
24-Oct-2019	Visa, Inc.	V	Amazon.com, Inc.	AMZN	Capital One Financial Corp.	COF
24-Oct-2019	Eastman Chemical Co.	EMN				
25-Oct-2019	Ventas, Inc.	VTR	VF Corp.	VFC	Phillips 66	PSX
25-Oct-2019	Verizon Communications, Inc.	VZ				

Source: FactSet, UBS, as of 18 October 2019

Key economic indicators

Date	Indicator	Period	Time (ET)	Unit	Consensus	Previous
22-Oct-19	Existing Home Sales	Sep	10:00 AM	m/m	–0.7%	1.3%
24-Oct-19	Durable Goods Orders	Sep P	08:30 AM	m/m	–0.9%	0.2%
24-Oct-19	New Home Sales	Sep	10:00 AM	m/m	–1.2%	7.1%

Source: Bloomberg, UBS, as of 18 October 2019
UBS forecast estimates are published on Friday evenings in *Economic Perspectives* by economists employed by UBS Investment Research, a part of UBS Investment Bank.
m/m = month–over–month. q/q = quarter–over–quarter. y/y = year–over–year. k = thousand. mn = million. b = billion. P = preliminary. F = Final.

ESG/Sustainable Investing Considerations: Sustainable investing strategies aim to consider and in some instances integrate the analysis of environmental, social and governance (ESG) factors into the investment process and portfolio. Strategies across geographies and styles approach ESG analysis and incorporate the findings in a variety of ways. Incorporating ESG factors or Sustainable Investing considerations may inhibit the portfolio manager's ability to participate in certain investment opportunities that otherwise would be consistent with its investment objective and other principal investment strategies. The returns on a portfolio consisting primarily of ESG or sustainable investments may be lower or higher than a portfolio where such factors are not considered by the portfolio manager. Because sustainability criteria can exclude some investments, investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such criteria. Companies may not necessarily meet high performance standards on all aspects of ESG or sustainable investing issues; there is also no guarantee that any company will meet expectations in connection with corporate responsibility, sustainability, and/or impact performance.

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- Hedge Fund Risk: There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, “junk bonds,” derivatives, distressed securities, non-U.S. securities and illiquid investments.
- Managed Futures: There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- Real Estate: There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- Private Equity: There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- Foreign Exchange/Currency Risk: Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer’s “home” currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

Emerging Market Investments
Investors should be aware that Emerging Market assets are subject to, amongst others, potential risks linked to currency volatility, abrupt changes in the cost of capital and the economic growth outlook, as well as regulatory and socio-political risk, interest rate risk and higher credit risk. Assets can sometimes be very illiquid and liquidity conditions can abruptly worsen. CIO GWM generally recommends only those securities it believes have been registered under Federal U.S. registration rules (Section 12 of the Securities Exchange Act of 1934) and individual State registration rules (commonly known as "Blue Sky" laws). Prospective investors should be aware that to the extent permitted under US law, CIO GWM may from time to time recommend bonds that are not registered under US or State securities laws. These bonds may be issued in jurisdictions where the level of required disclosures to be made by issuers is not as frequent or complete as that required by US laws. For more background on emerging markets generally, see the CIO GWM Education Notes, Emerging Market Bonds: Understanding Emerging Market Bonds, 12 August 2009 and Emerging Markets Bonds: Understanding Sovereign Risk, 17 December 2009. Investors interested in holding bonds for a longer period are advised to select the bonds of those sovereigns with the highest credit ratings (in the investment grade band). Such an approach should decrease the risk that an investor could end up holding bonds on which the sovereign has defaulted. Sub-investment grade bonds are recommended only for clients with a higher risk tolerance and who seek to hold higher yielding bonds for shorter periods only.

Appendix

UBS Chief Investment Office's ("CIO") investment views are prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland) or its affiliates ("UBS").

The investment views have been prepared in accordance with legal requirements designed to promote the **independence of investment research.**
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