



UBS House View

Monthly Extended **February 2026**

Chief Investment Office GWM
Investment Research

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

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

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

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

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

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Section 1	Investment views	2
	Section 1.1 Asset class outlook	3
	Section 1.2 Risk scenarios	5
	Section 1.3 Asset class preferences	8
Section 2	Macro economic outlook	18
Section 3	Asset class views	24
	Section 3.1 Summary of major asset classes	25
	Section 3.2 Details per asset class	34
Section 4	Appendix	62

Section 1

Investment views

Section 1.1

Asset class outlook

Asset class outlook

Summary of views

We maintain our Attractive view on global, US, European, Chinese, emerging market, and Asia ex-Japan equities.

In bonds, we favor investment grade and high grade, have upgraded emerging markets to Attractive, and maintain a Neutral view on high yield.

We continue to view commodities as Attractive, with a particular preference for gold.

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



Equities

Global equities continue to grind higher, albeit at a slower pace. However, performance continued to broaden, with cyclical regions and sectors sharply outperforming recently.

Structural trends, which we seek to capture through our TRIOs, should continue to provide strong support. As focus gradually shifts to monetization, we advocate for a diversified exposure across the AI value chain, including the intelligence and application layers.

In addition, our confidence in a cyclical recovery is intact driven by easing tariff headwinds, anticipated Fed rate cuts, and increasingly supportive fiscal policies. Against this backdrop, we recommend a diversified allocation across regions and sectors.

The combination of structural and macro tailwinds bodes well for earnings. We anticipate close to 12% EPS growth for MSCI AC World next year. While tech sectors should lead, we expect a broadening of earnings growth and performance through 2026.



Bonds

We maintain our Attractive asset class recommendations on high grade and investment grade bonds and upgrade emerging market bonds to Attractive. High yield credit remains as Neutral.

Highlights over the last month were the Fed rate cut in December, the introduction of the Reserve Management Purchase (RMP) program, US intervention in Venezuela, tensions between the US and Europe over Greenland, and finally the announcement of elections in Japan as new PM Takaichi looked to consolidate her approval ratings. In terms of rates, we have seen some backup and steepening in both US and Japanese markets, whereas in European market yields have generally drifted lower. Credit spreads have largely moved sideways, as the year began with the traditional heavy supply that appears to be getting met with robust demand.

Tactically we continue to see value in long-duration positioning relative to strategic benchmarks in the US, UK, and Germany, particularly in the mid-part of curves. Moving further out the curve we continue to see periodic episodes of volatility given the sensitivity to fiscal and political challenges, with the Japanese bond market the latest high-profile example.



Foreign exchange

Several diverging factors kept EURUSD in a stable range over recent months. We continue to expect another round of USD weakness to push the pair to 1.20 in 1H26.

Carry strategies remain appealing to us, supported by global fiscal stimulus triggering stronger growth in the latter part of 2026 and still declining US yields in 1H26. The Swiss franc remains one of the best funding currencies in a pro-risk world, in our view, given its low yield.

Our view on the USD remains at Unattractive. Meanwhile, we maintain an Attractive view on the EUR, AUD, and NOK, and favor selective long positions in high-yielding currencies over low yielders across both G10 and emerging markets. In Asia, we raise the CNY to Attractive from Neutral.



Commodities

Commodity prices are projected to rise in the high-single digits during 2026, driven by all sectors. Energy and agriculture lead the forward-looking return outlook.

Our optimism about the asset class is primarily influenced by structural factors, while risks tied to cyclical growth appear more evenly distributed.

Gold, copper, sugar, soybean oil, and live cattle stand out among individual commodities. Rising prices benefit yield-focused strategies and help to diversify portfolios.

Section 1.2

Risk scenarios


Key scenarios for December 2026

Bull case: Tech boom

Base case: Solid growth

Bear case: Major disruption

Probability		20%	60%	20%
Market path		Bonds mixed, equities much higher	Bonds slightly up, equities higher	Bonds up, equities down
Possible scenario catalysts	AI capex and monetization	AI investment spending and adoption exceed expectations. Perceptions grow about an increasing return on investment based on better-than-expected revenue growth or productivity gains from AI applications.	AI investment spending remains solid in 2026, with global AI capex expected to increase to around USD 500-600bn. Monetization continues to gather momentum.	AI-related investment spending declines, driven by growing evidence that AI monetization is poor and returns on investment are likely to be unattractive, or because major breakthroughs render the current technologies obsolete.
	Economic growth / Fiscal Policy	Healthy consumption, buoyant investment, and strong productivity growth allow the US economy to grow by 2.5-3.0% in 2026. Residual negative tariff effects are offset by business-friendly policies in the US, Europe, and China.	We expect the US economy to grow above 2% in 2026 after a soft patch to end 2025, as growth is likely to accelerate due to more stimulative fiscal policy. Other major economies also experience near-trend rates of growth owing in part to policy stimulus in Europe and China.	The lagged effects of US tariff and migration policies and concerns about AI monetization weigh on consumption, investment, the labor market, and household wealth, causing the US economy to slow down materially. Spillover effects may cause slowdowns in other open economies. More severe downside is limited by central bank interventions and policy flexibility. Sovereign debt concerns intensify.
	Inflation / monetary conditions	Inflation continues to fall in Europe, and disinflation resumes in the US once the tariff impact has been passed through. Major central banks hold rates steady, and some may consider hiking rates toward year-end.	Medium-term inflation expectations stabilize around central bank targets in most developed economies, although the US may experience temporarily higher inflation in early 2026 largely owing to tariffs. The Fed and the BoE cut rates by 25bps and 50bps, respectively, by mid-2026 and pause thereafter. The ECB remains on hold. The Bank of Japan hikes.	Inflation trends higher in the US owing to a prolonged impact of tariffs, until declining household wealth and weakening consumer demand cause inflation to fall globally. All major central banks cut policy rates toward the lower bound in response to weakening economic growth. The Fed cuts by 200-300bps.
	Trade policy	No tariff retaliation from other countries versus the US. The effective US tariff rate falls below 10% following additional trade agreements, carveouts, and legal challenges. China tariffs fall below 30%. Canada and Mexico tariffs removed in full.	Little to no tariff retaliation from other countries versus the US. The effective US tariff rate settles around 10-15%. Limited impact on Canada and Mexico owing to the USMCA. Targeted sectoral tariffs are likely but with exclusions and exceptions to avoid higher consumer inflation.	The US retains a high effective tariff rate, but countries increasingly retaliate against the US as existing and newly introduced tariffs weigh on domestic industries and force political leaders to react. Current trade deals or agreements are called into question, prompting an escalatory response.
	Geopolitics	Ceasefire between Russia and Ukraine with strong security guarantees.	Tensions in the Middle East linger but do not cause a sustained oil supply disruption. Russia-Ukraine conflict continues. Other hotspots don't escalate irreversibly.	US-China relations worsen. Tensions in the Middle East escalate, with potential for significant and sustained disruption to oil supply. The Russia-Ukraine conflict re-intensifies.

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

Analysts: Dirk Effenberger, Daniil Bargman

Asset class targets: December 2026

Probability		20%	60%	20%
Targets (December 2026)	spot*	Bull case: Tech boom	Base case: Solid growth	Bear case: Major disruption
MSCI AC World	1,232	1,480 (+20%)	1,370 (+11%)	830 (-33%)
S&P 500	6,876	8,400 (+22%)	7,700 (+12%)	4,500 (-35%)
EuroStoxx 50	5,883	7,100 (+21%)	6,600 (+12%)	4,400 (-25%)
SMI	13,157	15,000 (+14%)	14,000 (+6%)	10,500 (-20%)
MSCI EM	1,480	1,720 (+16%)	1,640 (+11%)	1,120 (-24%)
Fed funds rate (upper bound)	3.75	4.00	3.50	1.50
US 10y Treasury yield (%)	4.24	4.75	3.75	2.50
US high yield spread**	269bps	270bps	320bps	650bps
Euro high yield spread**	266bps	250bps	300bps	630bps
US IG spread**	64bps	60bps	80bps	180bps
Euro IG spread**	77bps	70bps	90bps	190bps
EURUSD	1.17	1.14 (-2%)	1.20 (+3%)	1.25 (+7%)
USDCHF	0.80	0.86 (+8%)	0.79 (-1%)	0.72 (-10%)
EURCHF	0.93	0.98 (+5%)	0.95 (+2%)	0.90 (-3%)
Gold***	USD 4,838/oz	USD 4,200/oz (-13%)	USD 4,800/oz (-1%)	USD 5,400/oz (+12%)

* Spot prices as of market close of 21 Jan 2026. Developed market constituents of the MSCI All Country (AC) World index display in the local currency. The MSCI EM index displays in US dollar. Values in brackets are expected percentage changes from the quoted spot levels. Dividends, share buybacks and other sources of carry are not included.

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

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

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

Section 1.3

Asset class preferences

Global asset class preferences (1/3)

	Unattractive	Neutral	Attractive
Equities			+
Regions			
United States			+
Europe			+
Eurozone			+
Switzerland		=	
United Kingdom		=	
Germany			+
Asia ex Japan			+
Emerging Markets			+
Mainland China			+
India			+
Taiwan		=	
Brazil			+
Japan			+
Transformational Innovation Opportunities (TRIOs)			
AI			+
Power and resources			+
Longevity			+
Tactical investment opportunities			
Global banks (global)			+
European leaders (Eur)			+
High-quality dividends (CH)			+

	Unattractive	Neutral	Attractive
Sectors			
Consumer Discr. (US)		⊖ →	+
Comm Services (US)			+
Tech (US)			+
Financials (US)			+
Utilities (US)			+
Health care (US)			+
Tech (Eur)			+
Banks (Eur)			+
Real Estate (Eur)			+
Industrials (Eur)			+
Utilities (Eur)			+
Tech (China)			+

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

Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.

Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.

Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities.

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

Global asset class preferences (2/3)

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

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* Our preferred EM carry currencies are MXN, BRL, ZAR and INR



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Analyst: Adrian Zuercher, Mark Andersen, Frederic Mellors, Dominic Schneider, Constantin Bolz

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

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

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

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

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US asset class preferences

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

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

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Asia asset class preferences

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

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

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Messages in Focus



Position for a broadening rally

We expect global equities to rise over 10% by the end of 2026, with the rally continuing to broaden beyond the direct leaders of the AI infrastructure buildout. Investors who are underallocated to stocks should consider adding to equities, while those with concentrated positions in individual stocks or US tech can benefit from diversifying into underappreciated tech stocks or into sectors like health care, utilities, and banking. We also see upside in Europe, Japan, China, and emerging markets, making a broad global equity allocation increasingly attractive. Incorporating long-only multifactor quantitative strategies can further enhance diversification and help manage risk, particularly amid ongoing political and macroeconomic uncertainty.

- *Global equities*
- *Long-only multifactor*
- *US equities*
- *European equities; European Leaders*
- *Global banks, US healthcare, consumer discretionary, and utilities, Japan equities*

Source of funds

- Cash; Money market funds; Expiring fixed-term deposits
- Excess single name exposures
- Excess US tech exposure



Seek opportunities in China

For those seeking diversification beyond the US and US tech, China and broader Asia present compelling opportunities in our view. AI innovation and spending are driving growth in China's tech sector, and we expect earnings to rise significantly in 2026. This is fueling Chinese equities more broadly, supported by healthy liquidity and reasonable valuations. Expanding exposure to Asia, including India and Singapore, can help improve portfolio balance.

- *China technology*
- *China equities*
- *Broad Asia and EM exposure*

Source of funds

- Cash; Money market funds; Expiring fixed-term deposits
- Excess single name exposures
- Excess US/US tech exposure



Invest in transformational innovation

We continue to expect transformational innovation to be a key driver of equity market returns in the years ahead. We see further upside in AI-linked stocks—a core driver for our positive equity market view—albeit with market leadership likely transitioning away from the enabling layer increasingly toward applications. Investors heavily concentrated in AI enabling layer stocks should therefore consider spreading exposure. Meanwhile, the surge in data center demand is continuing to fuel investment in power and grid infrastructure. And we expect companies pioneering treatments and technologies to extend healthy lifespans (including by utilizing AI) to emerge as new market leaders.

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

Source of funds

- Cash
- Money market funds
- Excess single name exposures



Favor commodities

We believe that recent strong performance from industrial and precious metals has scope to continue, and we see commodities set to play a more prominent role in portfolios in 2026, with returns driven by supply-demand imbalances, geopolitical risks, and long-term trends. For investors with substantial allocations and significant unrealized profits in gold, broadening commodity exposure to include copper, aluminum, and agricultural assets can help diversify sources of future return.

- *Broad commodities*
- *Gold*

Source of funds

- Cash; Money market funds
- Excess low quality fixed income
- Excess US dollar holdings
- Excess gold or silver holdings

Messages in Focus



Seek diversified income

Tight credit spreads and concerns about government debt suggest a nuanced approach to yield generation. We like high grade and investment grade bonds, see attractive return potential in EM bonds, and also like diversified income strategies across equities, fixed income, and structured investments.

- *Diversified fixed income strategies (with preference for quality bonds and EM bonds)*
- *Equity income strategies*
- *Yield-generating structured investment strategies*

Source of funds

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



Hedge market risks

Rising geopolitical and political risks against a backdrop of still-low volatility provides investors an opportunity to diversify and hedge potential market risks. Combining capital preservation strategies and structured investments can help lock in gains and maintain upside potential during periods of low volatility. We also believe quality bonds offer attractive yields and can buffer portfolios, while gold's diversification benefits remain appealing, in our view. Holding sufficient liquidity can also help investors avoid forced selling in the event of a market drawdown.

- *Build a liquidity strategy*
- *Gold*
- *Quality bonds*
- *Capital preservation strategies*

Source of funds

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

Strategic Messages in Focus

Diversify with alternatives

As the global rate-cutting cycle ends and governments face rising debt levels, alternatives can play a critical role in diversifying income and return sources. Investors with significant exposure to individual hedge funds or managers should consider broadening into diversified alternative solutions, including private markets, multi-strategy hedge funds, and real estate, to manage risk and benefit from opportunities beyond traditional equities and bonds.

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

Source of funds

- Cash
- Overexposure to stocks
- Overexposure to bonds

Optimize your leverage

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

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

Source of funds

- Existing assets

Strengthen your core

Periods of market volatility can reveal parts of a portfolio that may not be working effectively toward long-term goals. Implementing a "core" portfolio that is well diversified across asset classes, geographies, and sectors helps grow wealth steadily. Reviewing core holdings for concentration and broadening across asset classes and regions ensures investors stay on course for long-term goals, even as markets and "satellite" investments become more volatile.

- *Diversified portfolios*

Source of funds

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

Go sustainable






Many of the underlying drivers for the power and resources opportunity—electrification, resource efficiency, and policy developments—also speak for an expanding opportunity set in sustainable investing. Global investment in the energy transition reached a record in 2024, resource efficiency remains critical, and climate adaptation is gaining attention as financial losses rise. These trends, alongside ongoing policy support, are expanding the universe of investable asset classes—enabling multi-asset portfolios to capture growth and diversification opportunities, even as political debate around sustainability continues.

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

Source of funds

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

Summary of asset class views

	We like	Source of funds
Equities	 <ul style="list-style-type: none"> • Global equities • US equities • European equities; European Leaders • Global banks, US healthcare, consumer discretionary, and utilities • Japan equities • China equities, China technology • Broad Asia and EM exposure 	Cash Money market funds Excess equity exposure Least preferred single stocks
Bonds	 <ul style="list-style-type: none"> • High grade, investment grade and emerging markets bonds • Diversified fixed income strategies (with preference for quality bonds and EM bonds) 	Excess cash Money market funds Excess HY bonds
Foreign exchange	 <ul style="list-style-type: none"> • EUR • AUD • NOK • CNY • FX carry (long INR, AUD, MXN, BRL, ZAR) 	Excess cash Money market funds Excess USD holdings
Commodities	 <ul style="list-style-type: none"> • Broad commodities • Gold • Active commodity strategies 	Excess cash Money market funds Excess USD holdings
Hedge funds, private markets	 <ul style="list-style-type: none"> • Hedge funds: Low net equity I/s, macro, and multi-strategy, merger arbitrage • Private markets: Select direct lending, value-oriented buyout, secondaries including infra, and thematically software, health, and climate 	Excess bonds and equities Excess cash

Section 2

Macroeconomic outlook

Global economy: Support for trend-like growth

Base case (60%)

Consumer spending continues to provide the foundation for trend-like economic growth, with relatively firm consumption at the end of 2025 suggesting ongoing stability in early 2026. Rising real incomes support European spending, and in the US a willingness to reduce household savings rates covers the impact of tariffs on prices. Employment remains strong enough to give consumers the confidence to spend, without being so strong as to raise concerns about labor costs.

The policy environment remains generally growth supportive. Fiscal policy is neutral or accommodative (with the exception of the UK, where there is some tightening). Monetary policy has already moved to neutral in the Euro area, and rate cuts are expected in both the UK and the US. The US Federal Reserve is expected to cut rates in anticipation of lower inflation in 2026 and in spite of higher near-term inflation risks.

AI investment spending should continue to grow, but at a slower pace than in 2025. This may free some resources for more conventional investment spending.

Positive case (20%)

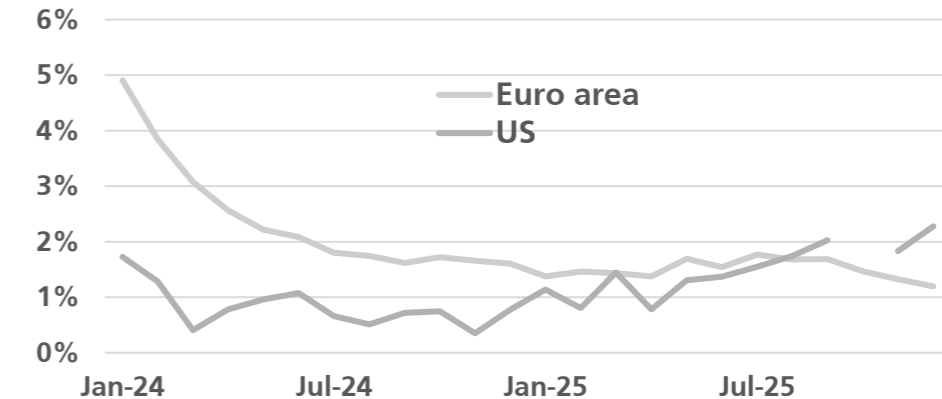
Geopolitical issues are quickly downplayed, and a more predictable policy path ensues. US business owners recover the confidence to make longer-term decisions and undertake more aggressive hiring. International trade, excluding the US, moves from stability to outperformance of nominal GDP. European consumers cut their savings rate, supporting overall demand. Lower interest rates allow a modest increase in private sector borrowing. Inflation outside of the US remains low.

Negative case (20%)

US effective tariff rates increase from current levels and provoke retaliation from other countries. Uncertainty about policy causes US firms to fire workers (not merely suspend hiring). Falling US real incomes and rising fear of unemployment deter consumers from using lower savings to finance price increases, which Fed policy can do little to shift. European consumer sentiment sours, causing savings rates to remain high. Disrupted trade weighs on global sentiment.

Food prices influence perceptions of affordability

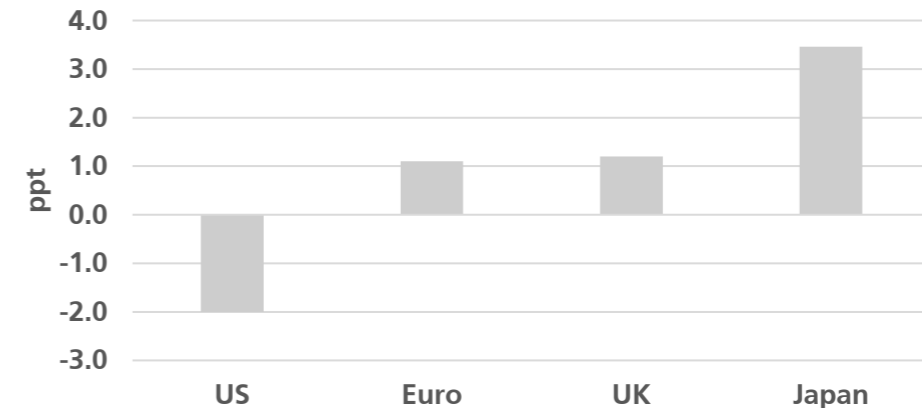
% change y/y in US and Euro area processed food prices



Source: Haver, UBS, as of 19 January 2026

Falling youth employment is a uniquely US phenomenon

Change in youth employment rate from early 2024



Source: National statistical agencies via Haver, UBS, as of 19 January 2026. Euro area 15-24 y/o (quarterly data). Japan 15-24 y/o (monthly data). US and UK 16-24 y/o (monthly data)

US economy: Shutdown GDP drag in 4Q. Fiscal-driven rebound in 1H.

Base case (60%)

Growth

Growth concluded 3Q at a strong 4.3% rate, boosted by positive revisions to consumption, while labor indicators continue to point to a gradual cooling trend. The recent increase in the unemployment rate has reversed; however, the private job growth trends remain at local lows. The 4Q GDP rate is tracking near 2%, with a step-down from a potential 1pp drag from the government shutdown. We anticipate an acceleration in 1Q from the unwind of shutdown, combined with fiscal policy measures and loose financial conditions. The Fed's attention to labor market softness supports the expectation of at least one more rate cut.

Inflation

Recent inflation figures have been softer partly due to a shutdown distortion that caused core CPI to fall from 3% in September to 2.6% in December. Core goods prices remained steady in the last report, indicating that tariff impacts are still contained for now. We anticipate that tariffs will continue to affect core goods prices through 1H26. Tariff policy risk remains uncertain, especially with a Supreme Court decision that could impact the legal basis for tariffs. Service inflation is slowing due to reduced rent growth inflation.

Positive case (20%)

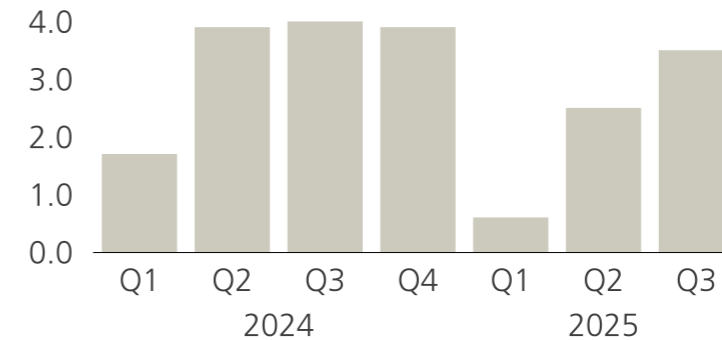
Consumption may prove resilient despite signs of stress in lower-income households, since higher-income households are powering the majority of purchases, aided by rising wealth. AI-related business investment should continue to power headline GDP activity into 2026 and possibly broaden out. AI adoption may boost productivity sooner than expected and support faster wage growth.

Negative case (20%)

The slowdown in the labor market is a key risk that affects the consumption outlook, especially for lower- to middle-income households with limited savings. A rise in the unemployment rate could lead to more cuts in 2026, and Fed personnel changes could also add to a more dovish outlook for policy rates. If the economy shows a recessionary trajectory, the Fed could cut by over 200 basis points.

Consumption to slow in 4Q, then restrengthen in 1H

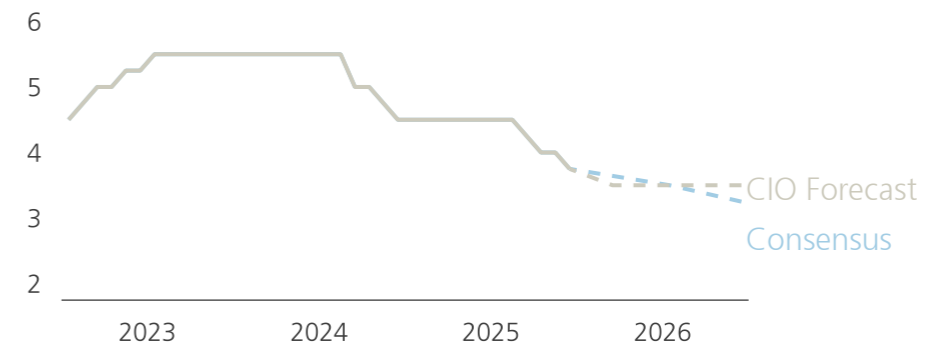
Real PCE, q/q SAAR %



Source: Macrobond, UBS, as of 20 January 2026

December FOMC guidance suggests a higher bar for cuts

Federal funds rate and forecast, in %



Source: Bloomberg, UBS, as of 20 January 2026

Eurozone economy: Positive data point to some tailwinds

Base case (60%)

Growth

After delivering some upside surprises in late 2025, the Eurozone economy is expected to accelerate in 2026, aided by a more supportive policy mix in Germany and a neutral monetary policy stance. The labor market remains strong, and survey data indicate robust activity in the services sector, along with signs of stabilization in the key manufacturing sector. We forecast GDP growth of 1.1% in 2026. Greater clarity around a trade agreement with the US, as well as high levels of consumer savings and low corporate leverage, should further support economic activity.

Inflation

Inflation is expected to fall below 2% through 2026 owing to lower energy prices and a higher euro, although it should remain close to target. Forward-looking indicators also point to moderating wage growth and productivity gains.

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

Positive case (20%)

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

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

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

Negative case (20%)

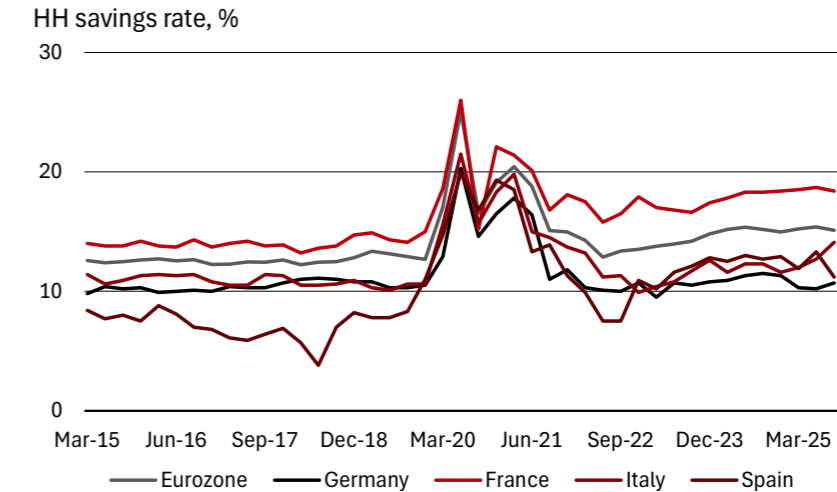
The US-EU trade agreement does not hold, resulting in a tit-for-tat tariff war.

Fiscal consolidation returns in 2026 owing to bond market pressures.

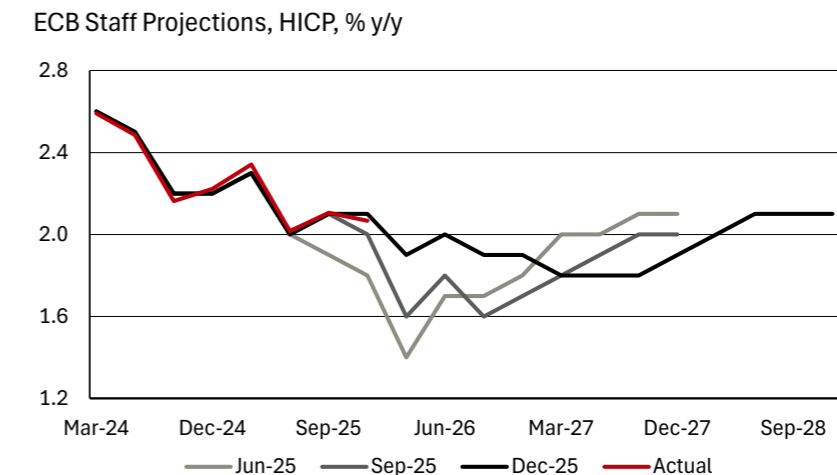
Consumption remains muted as households show reluctance to spend their income gains amid low confidence in the economic outlook and rising concerns about the labor market.

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

Saving rates remain higher than their pre-pandemic levels



Below-target inflation unlikely to result in cuts from the ECB



Swiss economy: Inflation to remain muted

Base case (60%)

Growth

Consumer sentiment brightened slightly in December but remained in negative territory. Consistent with the latest consumer sentiment reading, the PMI also signals downside risks to the economy, having stayed below the growth threshold of 50 points for three consecutive years.

Tariffs on exports to the US remain substantial and are likely to weigh on foreign trade in 2026. Consumption, on the other hand, should continue to support the economy, although to a lesser extent as labor market conditions deteriorate. Adjusted for sporting events, we expect subpar growth of 1.4% in 2025 and 0.9% this year.

Inflation

Inflation came in at 0.1% y/y in December, averaging 0.2% for full-year 2025. We expect inflation to remain muted over the course of this year, staying once more at the lower end of the SNB's 0–2% target range.

The current expansionary policy stance appears appropriate, and we expect the SNB to keep its policy rate steady at 0% in 2026.

Positive case (20%)

Better global growth momentum:

US growth surprises positively and reaccelerates, and European growth benefits from stronger global demand and fiscal easing. Switzerland would benefit from this stronger global backdrop and from a weaker Swiss franc; accordingly, the SNB could signal that a rate hike may become appropriate by late 2026.

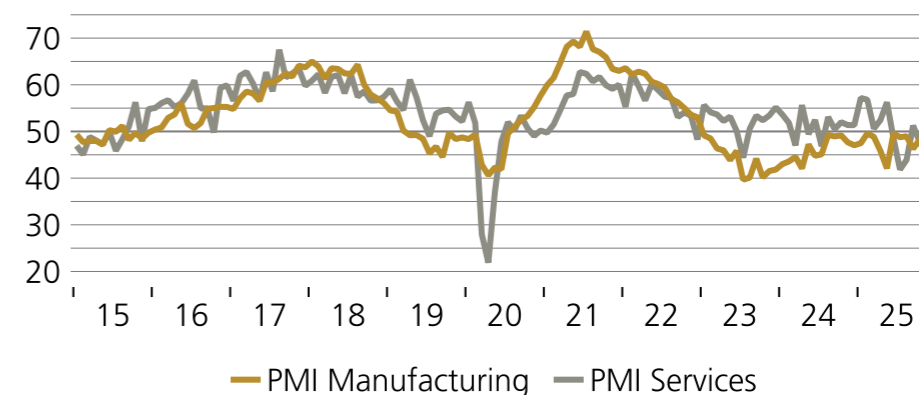
Negative case (20%)

Trade-related slowdown:

Swiss exports contract sharper than expected, as tariffs on exports to the US remain high because the trade deal, after all, is not concluded. Additionally, weaker consumption—driven by a downturn in the Swiss labor market—amplifies downside risks for the Swiss economy. With inflation already low, further Franc appreciation may force the SNB to lower rates into negative territory.

Swiss PMI below growth threshold for 36 straight months

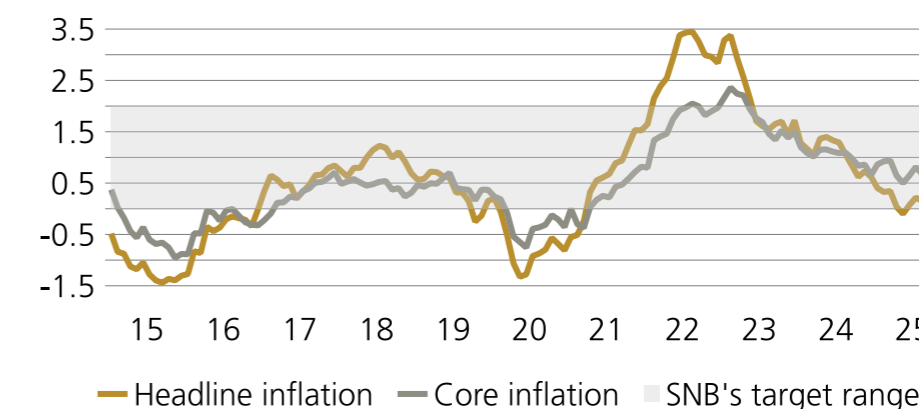
Swiss Purchasing Managers' Index (PMI)* for manufacturing and services, growth threshold = 50 points



Source: Macrobond, UBS, as of December 2025

Inflation at the lower end of SNB's target range

Headline and core inflation (consumer price index), year over year, with UBS forecasts, in %



Source: Macrobond, UBS, as of December 2025

Chinese economy: Uneven growth, reactive easing

Base case (60%)

Growth

GDP growth reaches 5% in 2025 with export and production resilience. We expect China's GDP to moderate to around 4.5% y/y in 2026, with risks to the upside, on measured and reactive policy easing. Retail sales may stabilize at around 3% y/y, while investment growth should recover to low-single digits, and export growth is expected to moderate to 2-3% y/y.

We expect US-China relations and tariffs to be relatively stable in 2026, with anticipated bilateral visits of the two top leaders. US effective tariffs on China have room to go lower from current 30%.

Recent policies have been front-loaded to sustain growth momentum in early 2026. Monetary policy remains moderately loose with targeted cuts for policy lending tools; we expect RRR and policy rate cuts ahead at calibrated timing. Fiscal support is to stay measured and reactive, with potential focus on new productivity growth and social welfare support.

Inflation

We expect CPI inflation to pick up mildly in 2026 from 0.1% y/y in 2025, with measured consumption stimulus. PPI may turn less negative (2025: -2.6% y/y), helped by anti-involution measures to curb oversupply in some upstream sectors.

Positive case (20%)

China rolls out large-scale stimulus.

US and China reach a deal with large concessions on trade and tech.

US economy is more resilient than expected, and the Fed cuts rates further.

Negative case (20%)

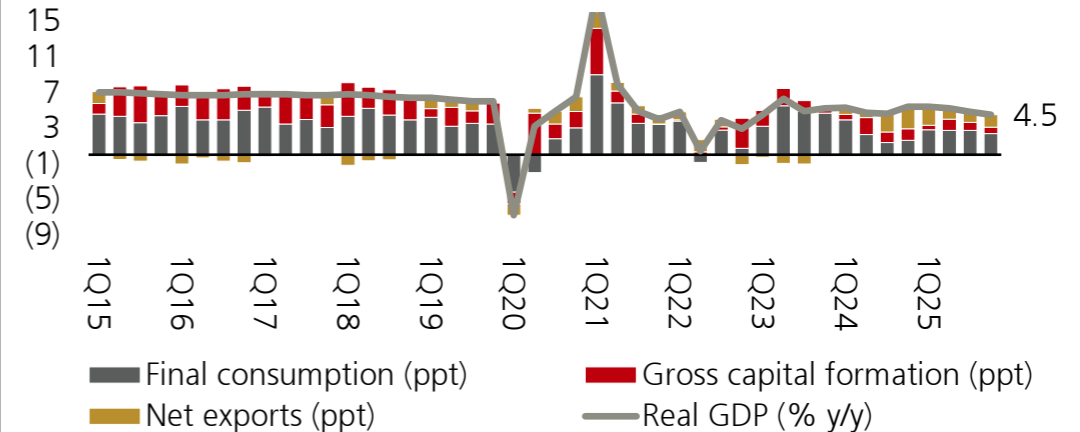
China's property market risks intensify and spread to financial institutions.

US hikes tariffs and adds more geopolitical pressure, and China retaliates reciprocally.

US economy dips into recession.

2026 GDP growth target may be set at 4.5-5%

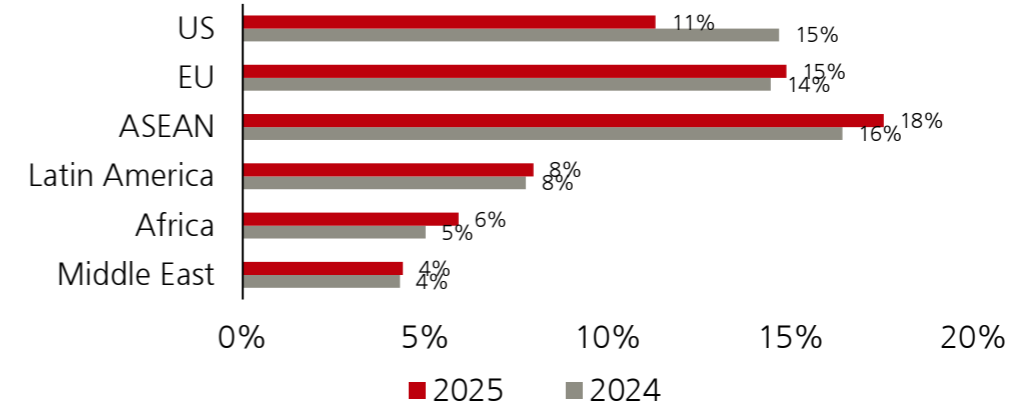
GDP growth breakdown



Source: CEIC, UBS, as of December 2025

Export resilience with diversion to non-US markets

Share of China total exports, %



Source: CEIC, UBS, as of December 2025

Section 3

Asset class views

Section 3.1

Summary of major asset classes

Equities

Attractive

Central scenario

MSCI AC World December 2026 target: 1,370

Global equity markets continue to grind higher in January, albeit at a slower pace. However, the broadening of performance that began last year has further accelerated, with cyclical regions and sectors sharply outperforming recently. Looking ahead, we maintain our Attractive outlook on the asset class. Structural trends—such as AI—remain important tailwinds, while the combination of supportive monetary and fiscal policies provides a solid foundation for the broader market. We therefore recommend maintaining a well-diversified exposure to equities. This month, we upgrade consumer discretionary in the US to Attractive and launch our new series, “Quant Pathways,” dedicated to the multiple benefits of investing in quantitative strategies.

In our view, the macro environment continues to improve and global economic growth appears to be bottoming out. Despite recent flare-ups over Greenland, tariff headwinds should gradually recede. In addition, we are seeing a rare combination of supportive monetary and fiscal policies. The effects of past and upcoming Fed rate cuts should increasingly filter through to the economy, while fiscal policy is turning more positive across regions. The One Big Beautiful Bill Act in the US is expected to boost investment and consumption, German spending on defense and infrastructure is accelerating, and Japan’s new budget is highly pro-growth. As a result, we believe cyclical sectors and regions remain particularly attractive and could be key drivers of positive surprises this year.

Structural trends also remain intact and should continue to drive future equity gains. While AI-related markets may have lagged recently, their earnings potential remains robust—we expect, for example, 25% earnings growth for the companies selected in our “AI” portfolio this year. That said, we also recommend diversifying across the AI value chain. The enabling layer, which builds the AI infrastructure, has captured most of the gains so far, but we anticipate significant upside in the intelligence and application layers this year as well.

While these evolving trends—combined with elevated geopolitical uncertainties—may result in higher volatility, we remain confident that strong structural trends and a robust macro backdrop bode well for earnings. We expect almost 12% earnings growth for the MSCI AC World Index this year, which is significant and provides some buffer. Although valuations remain elevated by historical standards, they are not unreasonable and even edged lower in recent months as earnings growth outpaced price gains.

Within equities, we continue to focus on diversification and recommend a blend of markets exposed to structural trends—such as the US and China’s tech sector—alongside cyclical exposure to markets like emerging markets, Japan, and Europe. In terms of sectors, beyond tech and utilities, which offer structural growth,

we particularly favor banks globally. In the US, we are adding consumer discretionary to our preferred sectors, while in Europe, industrials are among our top picks.

To further enhance portfolio diversification, we see particular value in complementing traditional portfolio construction with quantitative strategies. These approaches are generally only weakly correlated with macroeconomic fundamentals and are largely uncorrelated, making them less susceptible to behavioral biases. Our new series, “Quant Pathways,” is dedicated to exploring this topic.

Equities

Upside scenario

MSCI ACWI December 2026 target: 1,480

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

Growth surprises positively, inflation negatively: Economic growth rebounds faster than expected without significant inflation pressures.

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

Downside scenario

MSCI ACWI December 2026 target: 830

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

Geopolitical turmoil: Escalations in geopolitical tensions in the Middle East, Russia/Ukraine, or heightened US-mainland China tensions dampen sentiment. Fresh tariffs are another risk

Inflation: A sharp pickup in inflation not only delays Fed cuts, but prompts investors to start pricing in rate hikes.

Bonds

Fixed income total returns over the last month were flat to slightly up. Outright yield levels were the main contributor. Lower-quality credit segments did marginally better as spreads tightened due to a broad-based risk-on appetite. There was some dispersion globally as US and Japanese rates moved slightly higher and curves steepened, whereas European and UK markets saw yields drift lower.

In the US there is an ongoing debate as to how much lower the Fed will take rates; however, this is narrowly clustered around whether it is another 25bps or 50bps. On the other side, the likelihood of the Fed raising rates remains low, given a relatively benign inflation outlook and the broader policy backdrop in an election year. This asymmetry toward further Fed easing should result in total returns exceeding prevailing cash yields with further potential upside in a more challenging macroeconomic environment. The long end of global bond curves continue to be sensitive to fiscal and political challenges, with the volatility in the Japanese bond market the latest high profile example. Elevated yields are already weighing heavily on government debt servicing costs and feeding back into fiscal fragility. Looking at most major developed markets, it appears that there is a lack of political willingness to cut spending or raise taxes. However, there is also an understanding that conducting reckless fiscal policy can result in inflation and instability in sovereign bond markets. Our base case is that fiscal concerns may cause short-term volatility; however, both government and central banks have enough levers they can pull to ensure there is not a complete breakdown of rate markets, causing broader financial spillovers. They have a key policy priority in ensuring public and private sector debt remains serviceable. Governments are heavily skewing issuance toward the short end of the curve, where there is more demand, to address supply-demand imbalances at the long end and avoid instability.

The data fog caused by the US government shutdown has begun to lift with recent releases feeding into a relatively upbeat narrative on the US economy, contributing to a gentle move toward higher Treasury yields and a flatter yield curve. Of note, the unemployment rate reverted to 4.4% in December after appearing to spike to 4.6% in November (subsequently revised down to 4.5%). Meanwhile, delayed CPI inflation data released for November and December both printed below market expectations. Core CPI is currently running close to its cyclical low, at 2.6% y/y. However, some statistical payback is expected in the coming months, as data collection issues have biased reported prices lower in key categories. Terminal pricing for the Fed Funds rate remains relatively sticky in the 3-3.25% range, implying two more rate cuts. Yet, these easing expectations have been pushed back to the June meeting and beyond as most interpretations of the data suggest a lack of urgency for the Fed to follow-up on its recent 75bp round of rate cuts while still recognizing the FOMC's viewpoint that the Fed Funds rate can move lower from its current restrictive territory. Added to this there is increased public scrutiny of Federal Reserve policy as this year's midterm elections approach. Ideally, having the economy firing on all cylinders with buoyant markets would be the best backdrop for the current administration and their political prospects. A key element to achieve this would be for nominal interest rates to remain stable or lower. At the time of writing, the nominee for Chair Powell's replacement remains unknown. While media outlets had been reporting Kevin Hassett as a front runner, which had been interpreted as dovish given his current position within the administration, the president was recently reported as saying that he actually wants to keep him in his post as Director of the National Economic Council.

Outside of interest rate policy there have been a number of important policy developments relevant for the US bond market. First, has been proposals from within the Trump administration

consistent with the drive to lower long-term borrowing costs. The most relevant here is the use of Government Sponsored Entity (GSE) balance sheets to purchase an initial USD 200bn of mortgage-backed securities. This has the effect of bypassing the Fed and off-setting its ongoing balance sheet run-off in this market segment. In theory, this could be expanded further and has, as a result, been effective in driving mortgage spreads tighter. Second, the Fed itself has responded to recent tightening of interbank funding markets by announcing Reserve Management Purchases (RMPs) of T-bills at its December meeting. Effectively, in three months the Fed has moved from announcing the end of its balance sheet reduction in October to now once again expanding its balance sheet, albeit with shorter duration assets. As a by-product, this supports the US Treasury's shift in issuance strategy away from longer duration bonds and toward T-bills, which is expected to lead to a USD 400bn reduction in coupon-bearing net Treasury bond supply this year.

European bond markets have been stable to slightly stronger over the month, with German bunds trading in a tight 10bps range, notably outperforming US Treasuries. The European Central Bank (ECB) kept the deposit rate unchanged at 2% in December, with President Lagarde reiterating a balanced approach to monetary policy. This was seen as gentle push back against market pricing which had swung hawkish after Executive Board member Isabelle Schnabel's comments implied comfort with the idea that the next move could be a rate hike. Rates markets now indicate that expectations are once again skewed toward easing, with about 6bps of cut expectations priced in for this year. This strikes us as appropriate given the current geopolitical risks around Greenland and potential impacts on trans-Atlantic trade, as well as the fact that inflation has moved down to the ECB's 2% target in December and is expected to undershoot in the coming months on energy price base effects as well as the diversion of Chinese imports from the US to Europe that is exerting some downside pressure on prices. On the German fiscal front, implementation will take time given the fragility of the German coalition government, with much disagreement on policy priorities and how the spending is deployed.

Bonds

We continue to see value in German government bonds, which have cheapened considerably since the fiscal announcements and rise in term premium, given that there is a lot priced in terms of growth and inflation optimism now despite some material structural headwinds.

In Switzerland, the policy rate is back at zero, as deflation—amid a very strong currency—remains the key risk. The Swiss National Bank (SNB) has stated that the bar to take policy rates into negative territory is high, somewhat contrary to current market pricing which suggests that a step into negative territory over the next six months remains a live possibility. Inflation numbers for the month of December showed a small pick-up in the annual pace of inflation to 0.1%, although this was the result of base effects. A further pick-up is expected, although this may be hindered by the ongoing slow pass-through of recent currency appreciation and much will depend on external factors outside the SNB's control.

Even after a strong finish to 2025, the Gilt market remains one of our preferred developed bond markets. Benchmark government yields start the year at a higher level across the curve than in any other developed market except Australia. Yet, unlike some of their peers there is a clear bond friendly macro narrative still to play out in the UK and scope for capital gains as interest rates fall. First, disinflation is not yet complete. After peaking close to 4% in September, core inflation is now running at 3.2% and is projected to fall back toward the Bank of England's (BoE) 2% inflation target by the middle of the year. Second, for all the angst over the budget, gross government debt is not particularly elevated relative to other major economies—at 101% of GDP—and the DMO has proved adept at shortening the duration of its issuance. Actually, the fiscal impulse in 2026 is set to be the most contractionary among peers for the second year in a row, based on IMF projections. This factor is a key differentiator for gilts and should be associated with lower relative nominal yields. Finally, and with

fiscal policy constrained, the onus remains firmly on the BoE to ease policy. We see room here for greater easing than expected by the market, especially if labor market outcomes disappoint.

From a credit point of view, valuations remain rich across the board. January is seasonally a heavy month for corporate bond issuance and this year is no exception. Importantly, the supply is being met with robust demand as investors continue to deploy cash into fixed income. In addition to strong technicals, the fundamental backdrop remains supportive in public corporate bond markets. Credit metrics have shown little degradation, no aggressive ambitions to leverage and default rates and distress ratios low. Valuation remains the key impediment to tactically move down the credit spectrum into the more cyclical higher-levered corporate segments. Having said that, we see forward returns as remaining respectable and above cash as the high starting outright level of rates and some potential capital gains from duration should more than offset the risk of spread widening. In terms of emerging market bonds, similarly we see fundamentals as being in a good place, with ongoing upgrades and positive inflation dynamics, as food and energy prices ease. Additionally, a number of commodity exporters will benefit from improving terms of trade balances as precious and industrial metal prices appreciate due to strategic reasons. Furthermore, given potential fiscal fragility in developed markets, emerging markets can be viewed as an alternative destination for capital flows and diversification. Given the longer duration nature of the emerging market bond complex, our prospective total returns are more appealing than the lower duration higher beta developed corporate bond complex given our view of slightly lower rates from here, hence the asset class preference difference.

High grade bonds

We maintain our Attractive view on high grade (HG) bonds, supported by the likelihood of further Federal Reserve easing. There is an ongoing debate as to how much lower the Fed will take rates, which is narrowly clustered around whether there will be another 25bps or 50bps of cuts. On the other side, the likelihood of the Fed raising rates remains low, given a relatively benign inflation outlook and the broader policy backdrop in an election year. This asymmetry toward further Fed easing should result in total returns exceeding prevailing cash yields, with further potential upside in a more challenging macroeconomic environment, in our view. HG bonds (rated AA- or better) offer low default risk and attractive yields—above 4% in USD and GBP, and close to 3% in EUR. Tactically, we see value in long-duration positions relative to strategic benchmarks in the US, UK, and Germany, especially in the belly of the curves.

Investment grade bonds

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

Bonds

High yield bonds

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

Emerging market (EM) bonds

We upgrade the view to Attractive. Looking ahead, while some spread widening is expected due to heavy developed market supply and ongoing geopolitical risks, we believe outright yields in EM bonds remain attractive and should support high- single-digit returns—well above cash. The macro backdrop is constructive, with the prospect of further Federal Reserve rate cuts and supportive central bank actions, including the Fed's Reserve Management Purchase program, helping to ensure liquidity in global markets. Overall, EM debt remains a key portfolio diversifier and is well positioned for continued resilience.

FX

EURUSD has traded in a narrow range between 1.15 and 1.19 in recent months, as positive and negative factors on both sides of the Atlantic have largely offset each other. US macro data present a mixed picture: Stronger-than-expected 3Q GDP and resilient retail sales point to a robust economy, while a weak labor market and subdued inflation suggest ongoing challenges. This combination supports the case for the Federal Reserve to cut rates further, aiming to move monetary policy from restrictive toward neutral, in line with its dual mandate of full employment and price stability.

In Europe, sentiment indicators remain robust, but improvement in hard economic data is needed to sustain euro strength. We expect this hard data to perk up in the coming months as fiscal stimulus gradually feeds into the economy. Overall, we anticipate another bout of USD weakness, with EURUSD likely to move toward 1.20 in the coming months.

Beyond economic fundamentals, the USD is heavily influenced by political developments. While the main trade war uncertainties appear to be behind us, issues such as Venezuela, Greenland, and concerns over Federal Reserve independence continue to drive USD volatility. Demonstrations of US military strength typically support the USD, but actions that undermine the NATO alliance could increase uncertainty. The nomination of a new Fed Chair and subpoenas involving Chair Powell and Governor Cook are negatives, as they raise questions about the Fed's independence. Another wildcard is the Supreme Court's upcoming decision on the legality of US tariffs, which could reignite trade war concerns. Many of these decisions are expected in the coming weeks. Overall, we see political risks skewing toward USD weakness at the margin.

From a broader perspective, EURUSD has risen from near parity to 1.17, and we expect it to reach 1.20. This suggests that much of the EURUSD rerating has already occurred. While hedging USD exposure remains relevant in the coming months, it will become less compelling as EURUSD approaches our 1.20 target. We no longer recommend hedging USDCHF, though it can still help reduce portfolio volatility in certain contexts.

We expect 2026 to be a pro-carry year. Fiscal easing in the US, Europe, Japan, and China should help prevent major downside risks and keep volatility subdued. With most major central banks ending their easing cycles, strong FX moves driven by policy divergence are less likely. In this environment, carry trades in select high-yielding currencies should remain attractive.

Within the G10, currencies offering higher nominal or real yields—particularly the AUD and NOK—are likely to outperform. The AUD should benefit from robust, fiscally driven growth, encouraging more hedging by Australian asset managers and pushing AUDUSD above 0.70. We see the NOK as a higher-beta way to position for a stronger European growth outlook. While the GBP also offers an elevated yield, fiscal and growth concerns weigh on the currency. Among emerging markets, we continue to favor the MXN, BRL, ZAR, and INR for their higher yields.

Conversely, the Swiss franc, which offers the lowest yield globally, should remain subdued in a pro-risk environment. We expect EURCHF to move modestly higher toward 0.94-0.95. With spot moving slightly against the CHF and the yield differential adding to that, the CHF remains a valid funding currency. In some cases, pairing trades—such as using the CAD to fund a long AUD position—can help reduce volatility, as both currencies tend to react similarly to global risk events.

We raise the CNY to Attractive from Neutral. The CNY has strengthened by about 1.6% since the start of December 2025 amid FX conversions by Chinese companies, which prompted the People's Bank of China (PBoC) to guide the daily CNY fixings steadily stronger. We see more room for CNY gains, with the real effective exchange rate having fallen by nearly 20% from its 2022 peak, which explains China's robust monthly trade surplus of around USD 100bn. We maintain a Neutral preference on the JPY amid market concerns that the upcoming election would lead to a strengthened Takaichi government and potentially see a deterioration in Japan's fiscal balance.

Against a sideways-trending dollar in 2H25, emerging market currencies overall weren't able to repeat the strong 1H25 performance. Higher-yielding currencies, however, continued to deliver solid total returns. We think the outlook for the latter group remains supportive. Some residual US dollar softness this year, a Federal Reserve with a dovish bias, resilient growth, supportive commodity prices, still-high nominal and real yields and a solid domestic backdrop in some emerging markets should provide options for global investors looking for opportunities as global yields drift lower. We like to position in a diversified way in high-yielding emerging market currencies including the BRL, MXN, INR, ZAR, TRY, and EGP. Risks to our outlook stem from trade frictions weighing on global growth or public or private debt sustainability concerns throwing a wrench in supportive global backdrop. A re-acceleration of the US economy could also lead to the Fed turning more hawkish and providing support to the US dollar. Politics, fiscal dynamics, and monetary policy may also affect individual currencies.

FX

Our FX outlook remains closely tied to developments in the US and global economy. A surprise global downturn could undermine our preference for carry trades, while a strong rebound in the US economy could delay rate cuts, strengthen the USD, and also pose risks to our carry strategy.

Geopolitical risks also remain elevated, particularly regarding Ukraine, Iran, the US-Greenland relationship, and concerns about the Federal Reserve's independence. With FX volatility currently subdued, there is a risk of a sharp increase in volatility should unforeseen events occur.

Commodities

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

Base Metals

Limited growth in copper and aluminum supply is likely to persist in 2026, which should boost prices due to ongoing market shortages. Our projected copper price for December 2026 is USD 14,000/mt, driven by both short-term and long-term demand trends. For commodities like zinc, where supply can better adjust, we foresee prices dropping.

Precious Metals

Since supplies are difficult to ramp up, demand factors will take center stage. Lower US interest rates (both real and nominal), a weaker US dollar in the first half of the year and continued fiscal deficits in major economies should sustain demand. Still, after significant price increases, further gains may be limited unless there are major shocks to economic policy or interest rates. We predict gold at USD 5,000/oz during the first half of 2026.

Energy

While the oil market is currently well supplied, in line with seasonal patterns, the balance should tighten as we move into the second half of the year as growth in non-OPEC+ production levels off. With global economic conditions stable and oil demand rising, OPEC+ will likely regain influence over pricing. We expect Brent crude oil to reach USD 67 per barrel by the end of 2026.

Agriculture

Grains and soft commodities faced challenges in 2025, ending the year down by around 5% and 8%, respectively. The January USDA report showed a continuing grain surplus, with corn prices falling most due to higher-than-expected yields and harvested area. Cocoa performed worst among softs, and faces ongoing pressure from weaker demand. Outside this, weather-related uncertainties remain elevated in 2026 as the ENSO patterns swing from La Niña to El Niño.

Livestock

Cattle and hogs have maintained strong performance, consistent with last year's results. The US cattle sector remains the primary contributor, as USDA data indicate ongoing supply shortages, while hog production continues to fall short of projections.

Section 3.2

Details per asset class

Eurozone equities

Attractive

Central scenario

DJ Euro Stoxx 50 December 2026 target: 6,600

After three years of stagnant earnings, we believe the cyclical outlook is brightening and expect profit growth to accelerate to 7% in 2026 and 18% in 2027, driven by an expected improvement in consumer and business confidence, and supportive global monetary and fiscal policy. In addition, Europe's structural outlook is stronger than at any time in the last 15 years. The region has meaningful exposure to our Power and resources TRIO, regional banks are healthier, the outlook for global capex is brighter, and European leaders are increasingly recognizing the need to restore Europe's competitiveness. We believe valuations remain reasonable, especially relative to global peers and in light of the strong earnings outlook.

Tensions with the US over Greenland, including the threat of tariffs, raise risks to the near-term cyclical outlook. But unless there is a prolonged standoff or a retaliatory tariff escalation, we see the impact as manageable. The direct impact of tariffs is small with most goods sold in the US, also produced there. Therefore, the greater impact comes from second order effects on consumer confidence, delayed business investment and the impact to global growth, which we believe are much lower than last year's global tariff threats. We therefore maintain our positive view on European equities.

Our investment preferences center around the region's structural and cyclical beneficiaries. We continue to like the European industrials, IT, and utilities sectors as beneficiaries of global secular changes linked to AI, data centers, rising power demand, the energy transition, and defense spending. Industrials and IT can also benefit from the improving cyclical outlook, alongside European banks where we believe valuations are still reasonable and the earnings outlook is supported by an improving outlook for loan growth, fees, and ongoing asset repricing. We also like Germany as the primary driver of Europe's easier fiscal backdrop and with investor sentiment having now cooled, as well as real estate as a beneficiary of past European Central Bank rate cuts. Our "European Leaders" theme seeks to identify Europe's leading companies that are positioned to benefit from global trends and the region's structural shifts.

CIO themes

European Leaders

Europe's leading companies that are positioned to benefit from global trends and the region's structural shifts.

Preferences:

- Banks
- Industrials
- IT
- Utilities
- Real estate
- Germany

Eurozone equities

Upside scenario

DJ Euro Stoxx 50 December 2026 target: 7,100

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

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

More supportive global policy, for example further interest rate cuts, or more supportive fiscal policy out of Europe, the US, or China could lift our earnings expectations and support valuations.

Structural reforms make further progress, for example defense spending beyond Germany; a more pragmatic approach to competition by the EU; or progress on the savings and investments union drive better access to funding and more innovation in the long run, supporting higher valuations for European equities.

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

Downside scenario

DJ Euro Stoxx 50 December 2026 target: 4,400

Global economic weakness materializes, potentially due to labor market weakness weighing on consumption or delayed investment.

US-EU trade war re-escalates, raising near-term risks to growth and investor sentiment.

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

Valuations derate, either in the event that the macro backdrop deteriorates or high valuations in high-growth segments start to come under pressure.

Political uncertainty could return in Europe.

US equities

Attractive

Central scenario

S&P 500 December 2026 target: 7,700

While 2026 may still be very young, it has already been eventful, highlighted by a flurry of White House policy proposals and a number of geopolitical events. However, our views on the US stock market have not changed. Despite posting three straight years of strong gains (that averaged 23% per year), we still think there is more to go for the S&P 500 this year. In our view, the main drivers of the equity bull market remain in place: 1) resilient economic growth; 2) an accommodative Federal Reserve; and 3) the investment in and adoption of AI. Let's look at them one by one.

While US economic growth has cooled, we expect it to get a multi-pronged boost this year. First, some of the stimulus measures in the One Big Beautiful Bill Act will start to take effect in the first half of the year. Specifically, the removal of taxes on tips and overtime, as well as higher limits for state and local income tax deductions, will all put more money into households' wallets. Second, tariff-related headwinds will likely start to fade as this source of inflation subsides. And finally, the Fed rate cuts from 2025 should start to boost economic activity. Monetary policy typically works with a lag as it takes time for businesses and consumers to take advantage of lower financing costs. All of this underpins our conviction in the outlook for healthy US profit growth in the coming year.

Turning to the outlook for monetary policy, we think inflation will continue to cool. Therefore, the Fed will be in a position to resume cutting interest rates later this year. This combination of resilient economic growth and Fed rate cuts is a very favorable mix for US equities. History has shown that stocks tend to generate better-than-average returns when the Fed cuts rates and the US economy is not in recession.

Lastly, we think AI spending and adoption will remain a support for the market. But within the AI complex, we think the opportunities are shifting. After three years of explosive investment in AI infrastructure, we think the growth rate is slowing down. It should remain very healthy and drive earnings growth for the beneficiaries, but not to the same extent as the last couple of years. Instead, we believe more of the opportunity is shifting to the application layer—into companies selling tools that ride on the AI infrastructure.

So, when we put all of this together, we still see healthy upside for US equities. But we see a broader number of companies benefiting from the above-mentioned trends. As a result, market breadth looks poised to improve compared to the very low levels of the last three years. In that light, we have upgraded the consumer discretionary sector to Attractive. Companies in the sector should

benefit from the fiscal stimulus as well as a potential improvement in the housing market, which is a key priority for the Trump administration.

So, while US stocks look poised to have another good year, investors should ensure that their portfolio is positioned for the broadening trend.

US equities

Upside scenario: Tech boom

S&P 500 December 2026 target: 8,400

More benign tariff policy: Effective US tariff rate falls below 10% following trade agreements, carveouts, and legal challenges. Reduced uncertainty and healthy consumption drive the US economy to grow above trend in 2026. Residual negative tariff effects are offset by deregulation and lower taxes.

Geopolitical de-escalation: A ceasefire between Russia and Ukraine is reached, with strong security guarantees.

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

Downside scenario: Material slowdown

S&P 500 December 2026 target: 4,500

Material US slowdown: The lagged effects of US tariff and migration policies and concerns about AI monetization weigh on consumption, investment, the labor market, and household wealth, causing the US economy to slow materially.

Inflation: Inflation increases more than market expectations, prompting investors to start to anticipate potential Fed rate hikes.

Geopolitical turmoil: Tensions in the Middle East escalate, with potential for a significant and sustained disruption to oil supply. The Russia-Ukraine conflict reintensifies and US-China relations worsen. Any of these outcomes could lead to a risk-off environment and a flight to quality.

Sector preferences

Attractive sectors

- **Consumer discretionary:** Fiscal stimulus and moving past peak tariff headwinds should keep consumer spending resilient. Fed rate cuts and supportive affordability proposals may help lead to a pickup in housing activity.
- **Communication services:** The sector should continue to benefit from AI-driven improvements to content recommendations, advertising, and cost efficiencies, along with new opportunities in monetizing GenAI products.
- **Financials:** Deregulation is a key driver for the banks. We also expect continued gains in capital market activity and an improvement in net interest margins/income that should drive valuation upside. We expect continued solid growth in payment networks.
- **Health care:** Policy and tariff uncertainty is showing signs of easing which should benefit the sector. In our view, valuations remain attractive.
- **Information technology:** We believe AI investment spending is intact, with key components likely supply constrained in the coming quarters. We expect investors to continue to favor sectors that have high-quality companies with good secular growth.
- **Utilities:** The sector's defensive characteristics should offer ballast in a portfolio if economic growth slows further. We maintain our favorable view on AI trends and roughly 20-25% of the sector has material exposure to AI power demand.

UK equities

Central scenario

FTSE 100 December 2026 target: 10,500

Despite a difficult macro backdrop last year of slow growth, sticky inflation, and tight monetary and fiscal policy, alongside a further fall in oil prices, the UK stock market (FTSE 100) delivered a 22% price return in 2025. But almost all of that came from just 25 companies in the index, so returns were very narrow and largely driven by idiosyncratic factors. The banks rerated sharply as earnings held up. Clarity around US health care policy supported a recovery of pharmaceutical stocks. Defense-related stocks performed strongly as Europe's defense needs came into focus. And there were also outsized gains from some mining companies on the back of strong price increases for gold, silver, and copper.

While we maintain a positive outlook across many of these segments, we don't expect a repeat of these large gains in 2026. Much of the rerating has now happened across most sectors, and the FTSE 100 index overall now trades at 13.3x forward P/E—a 9% premium to its 20-year average. Returns, in our view, therefore need to come from earnings going forward, which we expect to grow 5% in 2026 and 15% in 2027 as global economic growth perks up. This should support further gains for the FTSE 100 in 2026, but equity returns will likely lag earnings from here. In our view, further valuation upside is limited with bond yields still elevated, while the UK market has relatively weak longer-term growth prospects given its low exposure to major global structural trends like AI and power and resources.

Our preferences in the wider region tilt to beneficiaries of the cyclical upswing we expect (Eurozone, Germany, banks, IT, and industrials), alongside areas exposed to structural trends (IT, industrials, utilities, and our "European Leaders" theme), and beneficiaries of lower rates (real estate and Swiss high-quality dividend stocks). The UK's more defensive sector mix—which make up around one-third of the FTSE 100 by market cap—means that UK equities are likely to lag other more economically sensitive markets in the region. And while the UK's commodity-sensitive stocks can benefit from rising demand, we see upside for oil prices only coming later in 2026.

CIO themes

European Leaders

Europe's leading companies that are positioned to benefit from global trends and the region's structural shifts.

Preferences

Banks
Industrials
IT
Utilities
Real estate

UK equities

Upside scenario

FTSE 100 December 2026 target: 11,300

Global growth improves more rapidly supported by easy financial conditions and improving consumer and business confidence.

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

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

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

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

Downside scenario

FTSE 100 December 2026 target: 7,200

Global economic downturn materializes, potentially due to labor market weakness weighing on consumption or delayed investment.

Re-emergence of US-Europe trade war raises risks to growth and investor confidence.

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

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

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

Swiss equities

Central scenario

SMI December 2026 target: 14,000

Swiss stocks did well in 2025. Large-caps—i.e., the Swiss Market Index—achieved a total return of 18%. The rest of the Swiss market—i.e., the SPI Extra index—gained 16.9%. As we expect 2025 profits for the SMI to have improved by 4%, stock valuations increased over the course of last year but remain fair, in our view.

Annual earnings updates for 2025 will peak in February and end in mid-April. The first three quarters of last year ended with overall results that beat market expectations. The results for 4Q25 are unlikely turn out any different. Key profit risks remain negative currency effects and the still challenging economic environment.

Looking ahead, we expect SMI profits to continue to improve this year. We currently forecast a 5% increase. This will be supported by a gradual economic recovery from 2H26, moderating currency headwinds from 2Q26, fairly robust organic sales growth of around 5%, selective acquisition benefits as well as some margin improvements from companies benefiting from restructuring and gradually improving economic prospects.

The pharmaceutical sector continues to perform solidly despite the risks arising from US policy, which could have a negative impact on growth and margins in the medium term. However, the worst-case scenarios for the industry seem very unlikely after Trump's price and tariff deals with major pharmaceutical companies, including the Swiss leaders. Even though the sector has likely passed its low point, a sustained recovery is not yet assured.

Cyclical companies still lack a tailwind from the macroeconomic environment. This is well illustrated by the industrial leading indicators, the various purchasing managers indexes, most of which have remained just below the level that would indicate an imminent improvement. This applies in particular to the US and Switzerland; in the Eurozone, it dropped back to just below the breakeven mark of 50 in 4Q25. Thanks to monetary policy support worldwide, we expect moderately positive growth in Europe and globally from 2H26. We recommend taking a selective approach to cyclical stocks.

In terms of structural growth, the Swiss equity market offers particularly good opportunities in the Longevity investment theme. In the fields of Power and resources, a number of Swiss industrial companies are benefiting from transformative innovations in digitalization and the energy transition. Our tactically favored investment theme in Switzerland is "Swiss high-quality dividends," i.e. companies with attractive dividend yield or dividend growth.

Swiss equities

Upside scenario

SMI December 2026 target: 15,000

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

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

Manageable currency impact: Currency effects were modestly negative in 2024 but significantly negative in 2025. This year, currency losses for Swiss companies will remain markedly negative in 1Q26, but we expect them to moderate thereafter.

Downside scenario

SMI December 2026 target: 10,500

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

Valuations: While dividend yields may remain attractive, corporate profit growth may shrink by a low- to mid-single-digit percentage in 2026, suggesting modest downside risks to SMI dividends for business year 2026 and leaving the SMI trading at an unjustified premium to its 25-year forward P/E average.

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

Emerging market equities

Attractive

Central scenario

MSCI EM December 2026 target: 1,640

Emerging market (EM) equities delivered a standout performance in 2025, returning 34%—their strongest annual gain since 2017 and outpacing global peers. Looking ahead to 2026, we see further upside potential, supported by robust earnings growth, favorable policy environments, and attractive valuations. We maintain our Attractive stance on EM equities (MSCI EM Index), with a revised December 2026 target of 1,640, and continue to favor China, China tech, India, Brazil, and Indonesia.

Supportive global monetary conditions and a softer US dollar are likely to sustain capital inflows, while ongoing reforms and fiscal discipline in key economies enhance resilience. In Asia, fiscal support should help cushion downside risks, and higher prices for select commodities—particularly precious metals and critical minerals—are set to benefit commodity exporters.

Earnings growth remains the key driver. We expect MSCI EM to deliver the highest global EPS growth rate this year at 20%, fueled by China's recovery, rapid AI adoption, strong domestic demand, and tech-related sectors. Recent upward earnings revisions reinforce this positive outlook. Improvements in corporate governance, especially in Asia, are boosting return-on-equity ratios and supporting valuations. Despite recent gains, EM valuations remain attractive relative to global peers, and continued underallocation by global investors leaves room for further inflows.

Within China, we continue to rate the technology sector as Most Attractive, given the government's commitment to advancing this area. By 2027, Beijing aims for domestic self-sufficiency in core AI technologies and a globally competitive industrial base, supported by a

range of AI and manufacturing initiatives. President Xi's New Year address and the Central Economic Work Conference have reinforced this focus, prioritizing "AI+" adoption, technology hubs, and the advancement of semiconductors and digital platforms through localization. The anticipated launch of new domestic AI models, such as DeepSeek, and ongoing initiatives are expected to accelerate technology adoption and earnings growth.

Our preference for China's tech sector also underpins our Attractive stance on broader China equities, which are further supported by improved liquidity and early signs of macroeconomic stabilization. The manufacturing PMI climbed above 50 in December, signaling the first expansion since March 2025 and renewed momentum in the real economy. Full-year GDP growth reached 5%, in line with the government's target, with consumption contributing 52% to growth, supported by trade-in subsidies. Policymakers have also provided support through property easing and auto/trade-in subsidies, stabilizing key sectors and lifting consumer sentiment. Renewed southbound inflows and demand for new listings suggest improving liquidity and investor appetite. The upcoming "Two Sessions" in March could be a key catalyst, with potential for further policy support and new growth initiatives. Investors should watch for evidence of AI investment and monetization in the upcoming 4Q25 earnings season, which could mark an inflection point for renewed interest in Chinese equities and support EM equity upside.

India continues to deliver resilient growth, underpinned by government measures (such as GST tax cuts) and a supportive monetary environment. We expect GDP growth to remain near trend and forecast Nifty EPS growth at 7.4% for FY26 and accelerating to

mid-teens in subsequent years. Current valuations reflect strong profit progression but offer limited scope for further re-rating in our view, given that the Nifty index is trading at 20.3x forward earnings. In Southeast Asia, Indonesia remains compelling due to strong dividend yields, undemanding valuations, and a positive shift in earnings trajectory.

We maintain a Neutral stance on Taiwan and South Korea. Taiwan's equity market has rallied on surging AI investment and renewed chip exports, though most near-term drivers are now reflected in valuations. South Korea's recent rally, driven by memory sector strength and Micron's earnings, appears overextended, prompting a selective approach focused on tech names with sustainable earnings momentum.

Brazil also remains another compelling opportunity. Valuations are still at 9.3x forward earnings, below their 10-year average and global peers. The anticipated start of a domestic rate-cutting cycle in 1H26 should ease financial conditions and support a rotation from bonds into equities. Election dynamics and fiscal policy credibility will likely be key factors for market direction and volatility in 2H.

We recommend investors position for earnings-driven upside in EMs, focusing on tech, AI, and domestic policy beneficiaries. The 4Q25 earnings season from mid-February to late March will be especially important for evidence of AI investment, monetization, and margin recovery among Chinese e-commerce giants. Consensus estimates for MSCI EM 4Q25 sales and EPS growth are 7% and 10%, respectively.

Emerging market equities

Upside scenario

MSCI EM December 2026 target: 1,720

Supportive global monetary policy and EM FX dynamics:

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

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

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

Renewed foreign investor inflows and a broadening rally:

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

Downside scenario

MSCI EM December 2026 target: 1,120

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

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

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

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

Sector Preferences:

Most Attractive: China tech

Attractive: Mainland China, India, Brazil, Indonesia

Neutral: South Korea, Taiwan, Thailand, Malaysia, Philippines, Mexico, South Africa

Japanese equities

Central scenario

TOPIX December 2026 target: 3,800

We maintain an Attractive view on Japan. On 19 January, Japanese Prime Minister Sanae Takaichi formally dissolved the House of Representatives, and called for a snap election to be held on 8 February. In the days following media reports of the 9 January dissolution, the Topix rose 4.4% with its P/E ratio temporarily expanding to 17.0x.

Some profit-taking may emerge ahead of the election after a strong year-to-date rally, but we forecast further upside over the medium term if the LDP is able to secure a single-party majority, as expected. Historically, foreign investors have tended to increase their exposure

to Japanese equities during periods of strong leadership (with reform expectations), clear policy direction, and long-term administrations, as seen under the Koizumi (2005) and Abe (2012, 2014) governments.

Beyond the election, we are seeing a shift to “good” inflation driven by a turnaround in real wages. Further progress in equity market reforms—such as in corporate governance (due around June) and the Topix (October)—should also increase incentives for companies to enhance corporate value and increase investments. Meanwhile, the negative impact of tariffs on earnings is nearly done running its course, and corporate profit growth rates should accelerate to 10% in FY26 from 4% in FY25. Additionally, we expect the Topix's ROE to expand in 2026, prompting a rerating.

Upside scenario

TOPIX December 2026 target: 4,200

The LDP and Ishin together secure a two-thirds supermajority (election): This would be the most positive outcome for the equity market in the short term.

Pro-growth strategy: The new administration implements unprecedented pro-growth strategies, enhancing earnings growth at Japanese companies in the medium term.

Higher ROE: If improvements in corporate governance over the past several years drive ROE above its historical range toward 10%, this could trigger a rerating.

Global manufacturing recovery: This could lead to stronger-than-expected EPS growth for Japanese companies.

Downside scenario

TOPIX December 2026 target: 2,300

The LDP and Ishin together fall short of a majority (election): This would likely be negative for equities as it could weaken policy execution.

Material US slowdown and inflation: This could cause lower EPS and weigh on Japanese equity valuations.

A rise in Japan's inflation: The greatest strength of the Takaichi administration is its record-high approval rating, which may be undermined by rising prices.

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

Asian ex-Japan equities

Attractive

Central scenario

MSCI Asia ex-Japan December 2026 target: 1,065

After outperforming in 2025, Asia ex-Japan should continue to present compelling opportunities in 2026. Performance so far this year has extended the region's outperformance, with the MSCI Asia ex-Japan up 6.5% year-to-date. We believe this momentum will persist throughout the year, supported by resilient macro fundamentals, robust earnings growth, and strong exposure to technology and innovation. Our preferred markets remain China, China tech, Hong Kong, India, Singapore, and Indonesia. Investor interest and sentiment are being supported by international liquidity and a weaker US dollar, along with policy reforms and prudent fiscal management in select Asian economies. Against this backdrop, we project regional earnings to grow by 22% this year and revise up our December 2026 index target to 1,065 for the MSCI Asia ex-Japan index.

Within China, we believe the technology sector warrants a Most Attractive rating, particularly given the government's ongoing commitment to advancing this area. By 2027, Beijing aims to achieve domestic self-sufficiency in core AI technologies and to build a globally competitive industrial base through a range of AI and manufacturing initiatives. Recent policy meetings, including the Central Economic Work Conference, have reinforced this focus by prioritizing the acceleration of "AI+" adoption, the development of technology hubs, and the advancement of semiconductors and digital platforms through localization efforts.

Our preference for China's technology sector also underpins our Attractive stance on broader Chinese equities. This view is further supported by improved liquidity conditions and early signs of macroeconomic stabilization. The manufacturing PMI has climbed above 50, signaling a tentative return to expansion. Full-year growth reached 5% year over year, in line with the government's target. Notably, consumption contributed 52% to full-year GDP growth, supported by trade-in subsidies. In addition, policymakers have introduced targeted measures for the property and automotive sectors, aiming to shore up demand and bolster consumer sentiment. These efforts should help reinforce the stabilization trend and support continued economic growth.

India's economic momentum remains steady, anchored by front-loaded government reforms and supportive central bank liquidity measures. We expect GDP growth to stay near trend and forecast Nifty EPS growth at 7.4% for FY26 before accelerating into the mid-teens in subsequent years. Current valuations reflect strong profit progression but offer limited scope for further re-rating, in our view, with the Nifty index at 20.3x forward earnings. Our preferred sectors include financials, consumer, and IT services, all of which are set to benefit from rising demand for AI integration and digital transformation, in our view.

Taiwan's market has rallied on strong AI capex demand and the resumption of key chip exports to mainland China, with TSMC remaining a structural leader. However, we believe most near-term catalysts are priced in, making entry levels less attractive. South Korea's recent surge was driven by memory sector optimism and Micron's earnings, but the rally now looks stretched, in our view. We remain Neutral on both markets, favoring select tech names where earnings momentum persists.

In Southeast Asia, both Indonesia and Singapore stand out as Attractive markets. Singapore continues to draw attention as initiatives to revitalize its equity capital market gain traction, and we view these efforts to rejuvenate the market positively. Indonesia also remains compelling, supported by its strong dividend yields, undemanding valuations, and a positive shift in earnings momentum.

Asian ex-Japan equities

Upside scenario

MSCI Asia ex-Japan December 2026 target: 1,132

The Fed cuts rates faster than expected

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

Successful trade negotiations for China and India

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

Strong Chinese stimulus and demand recovery

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

Downside scenario

MSCI Asia ex-Japan December 2026 target: 733

US rates stay higher for longer

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

Aggressive escalation of geopolitical and trade tensions

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

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

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

Market preferences

Most Attractive: Mainland China tech

Attractive: Mainland China, India, Hong Kong, Singapore, Indonesia

Neutral: South Korea, Thailand, Taiwan, Malaysia, Philippines

Australian equities

Attractive

Central scenario

S&P/ASX 200 Index December 2026 target: 9,600

The ASX 200 has risen approximately 1% year-to-date, with gains led primarily by the materials sector, which continues to demonstrate robust momentum, supported by favorable supply conditions, stable demand, and a notable increase in M&A activity. In contrast, technology-related stocks and financials underperformed.

Since the second half of 2025, the materials sector has surged 49.3%, significantly outperforming both the ASX 200 index (+4.5%) and the banking sector (-1.8%). This marks the largest relative outperformance for materials since 2009. The durability of this rotation remains a key focus for investors. We continue to view the backdrop as constructive, underpinned by favorable supply-demand dynamics. Persistent supply constraints in industrial metals such as copper and aluminum—driven by years of underinvestment, declining ore grades, operational disruptions, and extended mine development timelines—have resulted in notable market deficits, with copper and aluminum shortfalls estimated at 407,000 and 309,000 metric tons, respectively. The recent uptick in M&A activity within the mining sector further highlights the growing appeal of high-quality industrial metal assets amid ongoing supply tightness.

On the demand side, both cyclical and structural factors remain supportive. Cyclical drivers include the ongoing global economic recovery and robust capital expenditure growth, while structural trends such as electrification, the transition to clean energy, increased defense spending, and the expansion of data infrastructure continue to underpin long-term demand. Against

this backdrop, we expect the positive earnings upgrade cycle and bullish momentum for metals and mining companies to persist into 2026. We remain constructive on large-cap diversified miners listed in Australia, which offer robust free cash flows, resilient dividend yields, and strong balance sheets, supported by world-class assets and disciplined capital allocation. Select pure-play industrial metals, precious metals, and critical mineral miners also provide strong leverage to commodity price cycles, quality resource assets, and operational scale.

Recent domestic data continue to indicate a modest economic recovery. Household spending posted a strong increase in November, with broad-based gains across most categories, driving annual growth to its fastest pace since September 2023. The latest UBS consumer survey reveals that, despite expectations of further rate hikes by the RBA, sentiment remains especially positive regarding household wealth and housing. Wealth expectations are near cycle highs, particularly among high-income households, while nominal consumer spending intentions over the next 12 months remain close to record levels. Nominal household income expectations also remain robust, supported by the latest employment data showing the unemployment rate declined to 4.1% in December alongside broad-based job growth. In this context, we believe select domestically-oriented companies with exposure to consumer and housing segments are well positioned to benefit from the improving household wealth environment.

We maintain our Attractive view on Australian equities, with ASX 200 targets of 9,350 by end-June 2026 and 9,600 by end-December 2026. We expect positive earnings momentum to continue, led by the materials sector, while the banking sector should remain resilient on stabilizing net interest margins and robust loan growth. We favor sectors poised to benefit from: (1) a modest global cyclical upturn (materials); (2) improving domestic consumption (discretionary, housing, and financials); and (3) domestic AI-related proxies (quality growth).

Australian equities

Upside scenario

S&P/ASX 200 December 2026 target: 10,200

Successful trade negotiations resulting in accelerated and extensive tariff reductions: A rapid and extensive removal of tariffs would stabilize global trade and support economic growth of Australia's major trading partners like China. This would boost export demand and drive earnings upside for export-oriented and cyclical sectors, particularly those that have faced recent headwinds (such as resources).

Faster-than-expected recovery in corporate earnings growth: A quicker or higher rebound in underlying economic growth, domestic consumption, business conditions, and trade demand could drive a faster-than-expected recovery in corporate earnings growth for the market. Such upside surprises would support higher equity market valuations.

Stronger-than-expected recovery in China's economic growth: If the Chinese government implements significant and detailed fiscal packages to stimulate property-related sectors and consumption, this would drive upside to China's economic growth and increase demand for key commodities such as iron ore and energy, which are major Australian exports to China. This should drive positive earnings revisions for the resources sector, which is a heavyweight in the Australian equity index.

Downside scenario

S&P/ASX 200 December 2026 target: 8,400

Escalation of trade tensions, resulting in aggressive tariffs: A worsening of trade tensions and a sharp increase in "reciprocal" tariffs between major economies would disrupt global trade flows. This would weaken global economic growth and negatively affect export demand and earnings for companies exposed to the global business cycle, particularly those in the resources sector.

Prolonged weakness in the labor market: A sustained rise in the unemployment rate and further softness in the trend of employment growth would likely weigh on real disposable incomes, resulting in weaker household spending and consumer sentiment. This, in turn, could further delay the timeline for a domestic economic recovery.

Weaker-than-expected economic growth in China: A sharper slowdown in China's economy due to tariffs and insufficient policy support would trigger further earnings downgrades particularly for Australia's resource sector, posing downside risks to equity market index returns.

High grade

Attractive

Central scenario

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

We maintain our Attractive view on high grade (HG) bonds, supported by the likelihood of further Federal Reserve easing. There is an ongoing debate as to how much lower the Fed will take rates, which is narrowly clustered around whether there will be another 25bps or 50bps of cuts. On the other side, the likelihood of the Fed raising rates remains low given political pressure and expectations of a relatively benign inflation path this year. This asymmetry toward further Fed easing should result in total returns exceeding prevailing cash yields with further potential upside in a more challenging macroeconomic environment, in our view. HG bonds (rated AA- or better) offer low default risk and attractive yields—above 4% in USD and GBP, and close to 3% in EUR. Tactically, we see value in long-duration positions relative to strategic benchmarks in the US, UK, and Germany, especially in the belly of the curves.

The long end of global bond curves continues to be sensitive to fiscal and political challenges, with the volatility in the Japanese bond market the latest high-profile example. Elevated yields are already weighing heavily on government debt-servicing costs and are feeding back into fiscal fragility. Looking at most major developed markets, there is a lack of political willingness to cut spending or raise taxes. However, there is also an understanding that reckless fiscal policy can result in inflation and instability in sovereign bond markets. Our base case is that fiscal concerns may cause short-term volatility, but both governments and central banks have enough levers they can pull to stabilize rate markets, causing broader financial spillovers. They have a key policy priority in ensuring public and private sector debt remains serviceable. Governments are heavily skewing issuance toward the short end of the curve, where there is more demand, to address supply-demand imbalances at the long end and avoid instability.

USD

The data fog caused by the US government shutdown has begun to lift with recent releases feeding into a relatively upbeat narrative on the US economy, contributing to a gentle move toward higher Treasury yields and a flatter yield curve. Of note, the unemployment rate reverted to 4.4% in December after appearing to spike to 4.6% in November (subsequently revised down to 4.5%). This allayed some commentators' worst fears, although it remains too early to tell if the gradual trend toward labor market deterioration has turned, in our view. Meanwhile, delayed CPI inflation data released for November and December both printed below market expectations. Core CPI is currently running close to the low point in the cycle at 2.6% y/y, although we expect some statistical payback in the coming months as data collection issues have biased reported prices in key categories lower.

Terminal pricing for the fed funds rate remains relatively sticky in the 3-3.25% range, implying two more rate cuts. Yet, these easing expectations have been pushed back to the June meeting and beyond as most interpretations of the data suggest a lack of urgency for the Fed to follow up on its recent 75bps round of rate cuts while still recognizing the FOMC's viewpoint that the fed funds rate can move lower from its current restrictive territory. Additionally, there is ongoing pressure on the Fed from the Trump administration to ease policy as this year's midterm elections come into view. Ideally, having the economy firing on all cylinders with buoyant markets would be the best backdrop for the current administration and their political prospects. A key element to achieve this would be for nominal interest rates to remain stable or ideally lower. At the time of writing, the nominee for Chair Powell's replacement remains unknown.

Outside of interest rate policy, there have been a number of important policy developments relevant for the US bond market. First, the Trump administration have made proposals consistent with the drive to lower long-term borrowing costs. The most relevant here is the use of Government Sponsored Entity (GSE) balance sheets to purchase an initial USD 200bn of mortgage-backed securities. This has the effect of bypassing the Fed and offsetting its ongoing balance sheet run-off in this market segment, could in theory be expanded further and has as a result been effective in driving mortgage spreads tighter. Second, the Fed itself has responded to recent tightening of interbank funding markets by announcing Reserve Management Purchases (RMPs) of T-bills at its December meeting. In three months, the Fed has effectively moved from announcing the end of its balance sheet reduction in October to now once again expanding its balance sheet, albeit with shorter duration assets. As a by-product, this supports the US Treasury's shift in issuance strategy away from longer duration bonds and toward T-bills, which is expected to lead to a USD 400bn reduction in coupon-bearing net Treasury bond supply this year.

EUR and CHF

HG bond markets in Europe have been stable over the month with German Bunds trading in a tight 10bps range, notably outperforming US Treasuries. The European Central Bank (ECB) kept the deposit rate unchanged at 2% in December with President Lagarde reiterating a balanced approach to monetary policy. This was seen as gentle pushback against market pricing, which had swung hawkish after Executive Board member Isabelle Schnabel's comments implied comfort with the idea that the next move could be a rate hike. Rates markets now indicate that expectations are once again skewed toward easing with about

High grade

6bps of rate-cut expectations priced in for this year. This strikes us as appropriate given the current geopolitical risks around Greenland and potential impacts on trans-Atlantic trade. Moreover, inflation has moved down to the ECB's 2% target in December and is expected to undershoot in the coming months on energy price base effects as well as the diversion of Chinese imports from the US to Europe that is exerting some downside pressure on prices. On the German fiscal front, implementation will take time and the current German coalition government is fragile.

In Switzerland, the policy rate is back at zero, as deflation amid a very strong currency remains the key risk. The Swiss National Bank (SNB) has stated that the bar to take policy rates into negative territory is high, somewhat contrary to current market pricing, which suggests that a step into negative territory over the next six months remains a live possibility. Inflation numbers for the month of December showed a small pickup in the annual pace of inflation to 0.1%, although this was the result of base effects. We expect a further rise, although this may be hindered by the ongoing slow pass-through of recent currency appreciation and much will depend on external factors outside the SNB's control.

Upside scenario

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

GBP

Gilts saw a strong end to 2025, and we see the same dynamics continuing in 2026. Benchmark government yields started this year at a higher level across the curve than in any other developed market except Australia. Falling interest rates in the UK set the scene for a benign macro backdrop, in our view. First, disinflation is not yet complete. After peaking close to 4% in September, core inflation is now running at 3.2% and is projected to fall back toward the Bank of England's (BoE) 2% inflation target by the middle of the year. Second, for all the angst over the budget, gross government debt is not particularly elevated relative to other major economies at 101% of GDP, and the DMO has proved adept at shortening the duration of its issuance. The UK fiscal impulse in 2026 is set to be the most contractionary among peers for the second year in a row, based on IMF projections. This factor is a key differentiator for gilts and should be associated with lower relative nominal yields. Finally, and with fiscal policy constrained, the onus remains firmly on the BoE to ease policy. We see room here for greater easing than expected by the market, especially if labor market outcomes disappoint. Monetary policy is still broadly considered to be in restrictive territory even after the BoE's

December rate cut. In fact, the 3.75% bank rate remains the second-highest policy rate in developed markets and implies an ex-ante real rate close to 2% by mid-year as inflation decelerates.

Downside scenario

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

Investment grade

Attractive

Central scenario

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

Investment grade (IG) credit delivered strong returns last year, with the US index rising 7.95% and the EU index up 6.81%. Most of this performance was driven by income, 7.9% in the US and 2.96% in the EU, with the remainder largely attributable to positive duration effects as interest rates declined. Following the Federal Reserve's rate cut in December, we expect further easing in interest rates toward 3% over the coming year, creating a supportive environment for higher-quality fixed income. Looking ahead, increased supply from developed market sovereign and corporate issuers may lead to some modest spread widening, but this is unlikely to offset the positive performance generated by current yield levels.

We continue to hold an Attractive view on investment grade bonds given the current appealing risk-reward profile. While credit spreads remain at the low end of their historical range, we believe the total return outlook for US and EUR IG is supported by the high level of outright interest rates, with potential upside from lower yields in the event of a more adverse growth backdrop and faster-than-expected rate cuts. All-in yields are close to 4.5% for US IG and around 3.2% for EUR IG, which are still elevated versus historical levels (based on data since 2010) and provide a decent amount of cushion against the risk of rising rates or spreads. We find the outright level of yields appealing and believe investors with excess cash holdings should look to lock in current yields in medium-duration investment grade bonds for durable income prospects. In particular, we note that investors do not need to give up yield to deploy excess cash holdings to medium-duration investment grade bonds, given IG bond yields are higher than prevailing cash rates. At the same time, rate volatility has fallen

alongside yield levels so far this year, keeping the risk-adjusted return outlook favorable.

While the recent rise in government yields has resulted in modest year-to-date losses, we maintain the view that rates will trend lower over the course of the year as labor market conditions continue to soften. Combined with attractive carry as of 21 January, the overall risk-reward profile remains favorable, in our view. This outlook is supported by resilient fundamentals in higher-quality corporate issuers and strong investor demand. Although spreads are near the lower end of their historical range, we believe the total return potential for US and EUR investment grade bonds is well supported by carry.

On the technical side, supply volumes were elevated in January, as anticipated, with the majority of issuance driven by M&A-related funding. By 20 January, new issuance had reached USD 141 billion, making it one of the busiest months on record. Despite this surge in supply, robust investor demand has readily absorbed the new deals, leaving the technical backdrop for the asset class highly supportive. Looking ahead, the prospect of declining cash rates is likely to drive further inflows into high-quality credit.

In terms of fundamentals, these remain solid. The median net leverage of US IG issuers (excluding financials and utilities) was stable in the last reported quarters, with the 3Q estimate around 2.0x (according to BofA data, 21 Jan). EBITDA growth for the median issuer accelerated to 6.7% year over year (y/y), outpacing debt growth, which also picked up to 3.2% y/y. Rating migrations were positive for US and EUR issuers (based on Bank of America

data as of December), and our base case is for them to remain in a good place.

Our view on US IG spreads remains unchanged: While spreads may widen, the move is likely to be limited. Supportive factors, including low recession risk, a dovish Fed, strong investor demand, and improving credit quality should continue to underpin the market. Key risks to our view include a meaningful slowdown or an outright recession, though we believe spread-widening would be offset sufficiently by falling interest rates in this scenario. Should interest rate volatility rise again—particularly if driven by concerns of re-accelerating inflation, increasing the risk of the Federal Reserve paring back expectations of near-term rate cuts—this could also place renewed upward pressure on spreads. With respect to the credit cycle, a material rise in creditor-unfriendly actions, such as debt-funded M&As and share buybacks, would likely lead to credit quality deteriorating over time.

Investment grade

Upside scenario

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

Positive surprise

AI investment and adoption are exceeding expectations, driving stronger revenue and productivity gains. Robust consumption, investment, and productivity are set to support US economic growth of 2.5-3.0% in 2026, with business-friendly policies offsetting lingering tariff effects.

Downside scenario

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

Hard landing

Delayed effects of US tariffs, migration policies, and AI monetization concerns are slowing US growth and impacting other open economies. Central bank actions help limit downside risks, but sovereign debt worries are rising.

High yield

Central scenario

December 2026 spread targets: 320bps (USD HY)/300 bps (EUR HY)

We are Neutral on high yield (HY) bonds. Credit spreads have been at historically compressed levels for some time and are well below the average non-recessionary levels. This suggests the segment is vulnerable to spread widening on negative surprises. We had a taste of this heading into year-end given a number of high-profile bankruptcies from issuers in the trade receivable and asset-backed markets. Although these issuers did not have any direct debt obligations in high yield public markets, their defaults did generate some spillover, as they alerted investors to ongoing risks at these tight valuations and complacency that had set in for the more cyclical, higher-levered segments of credit markets.

Taking tight valuations aside, fundamentals in aggregate remain solid with issuer balance sheets relatively conservative and a minimal buildup of financial leverage since the pandemic despite the constructive growth backdrop and accommodative financial conditions. According to Bank of America, credit metrics have remained stable in recent quarters. Aggregate US HY leverage (gross debt/LTM EBITDA) at 4.4x is still slightly below the long-term average, while interest coverage (LTM EBITDA/interest expense) of 4.0x is still above the long-term average (based on data since January 2000). Credit quality has generally improved in recent years: The share of BB rated bonds in the US HY index remains around half the universe and the portion of secured bonds stands at a historical high of around a third of the universe. Distress ratios remain below average and have trended lower in recent months. Part of this improvement in credit quality is due to the strong growth in private credit. Borrowers have had a number of different funding options in recent years, and private markets have been a

key source of that, particularly for more distressed issuers that may have faced more scrutiny if looking to fund in public markets. The upshot is a lot of lower-rated issuers have elected to shift their funding from public to private sources.

Par-weighted default rates remained at low levels of 1.2% in US HY and 2.0% in European HY at the end of December. Our estimate for defaults has drifted lower to around 2% for the prospective 12 months in both the US and EUR HY markets. Many HY issuers have been able to tap markets to refinance upcoming maturities in recent quarters, reducing risks related to a near-term refinancing wall. Last year, refinancing was the predominant use of proceeds at 65% of total US HY issuance, which is slightly above the long-term average. CCC issuance remained low for the year. While the fallout from higher and uncertain tariff rates has the potential to weigh on business models with less pricing power, we take comfort in the limited direct operational exposure of HY issuers to tariffs at the aggregate index level. The current deliberations in the US Supreme Court regarding the legality of tariffs implemented under emergency powers may impact a number of businesses that have absorbed the costs in their margins. If they are deemed illegal, it may have a positive impact as refunds would be expected.

In the opening weeks of January, we have seen the traditional seasonal ramp up of corporate issuance as companies look to start early in their debt funding programs. Importantly this supply is being met with solid demand, as gauged by spread performance post pricing. There remains clear investor demand, as current all-in yields continue to be appealing, and flows into HY funds remain positive. Last year the HY market we saw USD 573bn of global HY

issuance, which was only surpassed during the pandemic when rates were low and liquidity abundant.

In summary, we see overall credit spreads in high yield as tight with limited room for material tightening from here. This is partly justified by overall strong fundamentals and technicals. Having said that, we see the primary source of total returns to be generated by yield and some duration benefits rather than spread compression. Returns should remain positive and exceed cash returns.

High yield

Upside scenario

ICE BofA US high yield spread December 2026 target: 270bps/ICE BofA Euro high yield spread December 2026 target: 250bps

Positive surprise

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

Downside scenario

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

Hard landing

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

Emerging market bonds

Attractive

Central scenario

December 2026 spread targets: 280bps (EM sovereign bonds) /250bps (EM corporate bonds)

Emerging market (EM) US dollar-denominated debt delivered strong returns in 2025, with sovereign and corporate bonds gaining 14.3% and 8.7%, respectively. This performance was driven by lower developed market yields, tighter EM bond spreads, and improving fundamentals, including a wave of rating upgrades and declining default rates. EM debt also benefited from resilient global economic growth, easing inflation, and a weaker US dollar, which improved debt serviceability and attracted investor demand as developed markets faced persistent fiscal challenges.

At the country level, risks have started to ease, with positive political developments in Argentina and Venezuela fueling market

optimism, and credit upgrades across several EM countries. The number of distressed issuers declined, and corporate fundamentals improved, as reflected in a lower default rate and rising interest coverage ratios. Commodity-exporting EMs benefit from strong demand and higher prices, further supporting their external balances and credit profiles.

Looking ahead, while some spread widening is expected due to heavy developed market supply and ongoing geopolitical risks, we believe outright yields in EM bonds remain attractive and should support high single-digit returns—well above cash. The macro backdrop is constructive, with the prospect of further Federal

Reserve rate cuts and supportive central bank actions, including the Fed's Reserve Management Purchase program, helping to ensure liquidity in global markets. Overall, EM debt remains a key portfolio diversifier and is well positioned for continued resilience, in our view. Given this backdrop, we have decided to shift the asset class to Attractive from Neutral. For further insights, please refer to our 22 January note, "EM bonds moving up the ranks."

Upside scenario

EMBIG Diversified / CEMBI Diversified spread December 2026 targets: 230bps / 190bps

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

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

Downside scenario

EMBIG Diversified / CEMBI Diversified spread December 2026 targets: 550bps / 450bps

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

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

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

Asian bonds

Attractive

Central scenario

JACI composite spread December 2026 target: 165bps

Asia credit bonds – Attractive

We maintain an Attractive view on Asia credit. Last year, the JP Morgan Asia Credit Index (JACI) delivered a robust 8% in total returns, about double the return on cash, as long-end US rates declined and spreads tightened. For 2026, we expect a solid return performance of around 6%, outpacing cash rates of roughly 3.5%. Returns should be driven primarily by carry, complemented by a further mild decline in base yields, while spreads are likely to remain tight. Key catalysts include a constructive macroeconomic backdrop, with Asia PMIs continuing to recover and the region's growth pulse firming. Given Asia credit's heavy weighting in financials and sovereigns, these higher-beta segments should benefit from resilient economic activity. Credit fundamentals remain broadly stable, with healthy balance sheets, though we see limited room for further ratings uplift from here. Technicals are supportive as well, with another year of low net supply forecast, in contrast to the higher supply expected in developed markets amid large funding needs. We continue to favor Asia investment grade (IG) and higher-quality high yield (HY) with robust fundamentals, and we believe Asia credit remains a useful diversifier versus DM credit bonds.

Asia investment grade (IG) – Attractive

We maintain an Attractive stance on Asia IG. All-in yields have been range-bound around 5% for some time, while spreads have been range-bound around 105bps, at the tight end of the past decade's range and implying limited scope for further compression. Against this backdrop, we expect roughly 6% total

returns in 2026, driven mostly by carry (about 5%) and a mild decline in base rates, with spreads likely to remain range-bound. Fundamentals remain solid across Asia IG, and the macroeconomic picture is resilient as rate cuts filter through regional economies. Balance sheets are healthy, and we see no broad deterioration on the horizon. Technicals remain a support, net new supply is expected to stay very low, and recent Asia IG new issues have attracted exceptionally strong demand, particularly from Asian investors and helping to anchor spreads. This stands in contrast to developed markets, where heavy issuance needs may intermittently pressure spreads. Within Asia IG, we like some BBB issuers and subordinated financials, and prefer a duration of 5-8 years given the steeper yield curve.

Asia high yield (HY) – Neutral

We remain Neutral on Asia HY, with a preference for higher-quality names. Last year's total return was a stellar 10.2%, among the best across global credit, driven by both elevated carry and about 130bps of spread tightening. Looking ahead, Asia HY spreads have tightened back to near decade tight levels of around 400bps, with Asia HY ex-distressed bonds yielding close to 7%. Against this backdrop, we expect around 7% total returns in the year ahead, driven mostly by carry rather than further spread compression. Fundamentals remain broadly stable despite some recent credit rating downgrades, which were concentrated in China's property sector as certain issuers faced bond repayment pressure. We view these pressures as relatively isolated, with the

rest of the Asia HY universe showing solid underlying credit profiles. Technicals are also supportive as net new supply remains scarce. Within HY, we continue to prefer names in Macau gaming given strong fundamentals and healthy cash generation, and we also favor some commodity issuers supported by firm commodity demand dynamics.

Asia local currency bonds – Attractive

We maintain an Attractive view. In USD terms, last year's return was 7.5% (iBoxx ALBI), driven by Asia FX strength and falling local bond yields. For 2026, we forecast total returns of around 5–6%, supported by yield carry and a further, if modest, appreciation in Asia FX. We think US dollar weakness may persist at least through 1H26, as the Federal Reserve is likely to cut rates. In Asia, FX gains are likely to continue, led by the CNY where record exporter conversion of USD proceeds has been supportive. On rates, we expect Asian local curves to remain broadly stable around the 4% range, with most central banks near the end of their easing cycles and inflation likely having bottomed. EM local bond inflows continue to be robust, and we see Asia well-positioned to benefit, particularly with potential index inclusion catalysts ahead, such as South Korea in WGBI and the Philippines in GBI-EM. We therefore continue to prefer a diversified basket approach to reduce single-currency volatility while maintaining exposure to Asia's FX and carry tailwinds.

Asian bonds

Upside scenario

JACI composite spread December 2026 target: 140bps

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

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

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

Downside scenario

JACI composite spread December 2026 target: 230bps

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

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

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

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

Neutral: Asian high yield, Chinese government bonds

Gold

Central scenario

Gold December 2026 target: USD 4,800/oz

Gold demand is expected to grow steadily through 2026, driven by lower real yields, ongoing global economic concerns, and uncertainty surrounding US domestic policy, especially related to the midterm elections and increased fiscal stress. As worries mount over the strength of US public finances, both central banks and investors are likely to continue favoring real assets like gold for its freedom from counterparty risk. Recent years have seen the official sector play a major part in moving the market, and this strategic focus should remain strong next year. Updated forecasts predict gold purchases will reach 950 metric tons in 2026, up from the earlier projection of 900 metric tons. Ongoing under-reporting seen in IMF monthly data, and recent discussions with reserve managers point to robust plans for increasing gold reserves.

Interest in exchange-traded funds (ETFs) tied to gold is also set to remain high, with inflows projected at 825 metric tons for 2026—an increase from a previous forecast of 750 metric tons. The figure is more than twice the annual average inflow from 2010 to 2020. However, gold prices are trading at an elevated premium, and downside risks could emerge if a hawkish pivot by the Federal Reserve were to surprise and/or large ETF outflows were to affect the market, while past patterns signal a period of price consolidation can occur after US elections. As such, we target USD 5,000 per ounce over the first three quarters of the year before a moderation to USD 4,800/oz (from USD 4,300/oz) by end-2026. On the other hand, if political or financial risks increase, prices could climb to as much as USD 5,400/oz (previously USD 4,900/oz).

Crude oil

Central scenario

Brent crude oil December 2026 target: USD 67/bbl

The Group of Eight OPEC+ members had previously agreed in November to maintain unchanged production quotas for the first quarter of 2026, citing seasonal factors in the oil market. This position was reiterated at the 4 January meeting, with the next gathering scheduled for 1 February.

According to the latest OPEC press release, the Group of Eight will “continue to closely monitor and assess market conditions,” meeting monthly and remaining prepared to adjust production as needed in response to market fundamentals. Options include reversing the previous production increases, maintaining current production levels, and/or further unwinding production cuts. The market focus, however, will likely be less on the Group of Eight meeting, and more on developments in Venezuela.

Over the weekend, the US military conducted strikes in Venezuela and captured President Nicolas Maduro. While US President Donald Trump stated that the US would oversee Venezuela, the nature of the transition remains uncertain—it could proceed in an orderly fashion or, alternatively, result in a power vacuum: Many individuals who benefited from the Maduro system are likely to resist change, with little incentive to relinquish their previous advantages. The country is now led by former Vice President Delcy Rodriguez, who has stated that Venezuela is prepared to defend its national resources.

President Trump also indicated that the oil export embargo will remain in place for now. Consequently, Venezuelan oil exports and production continue to face disruptions. According to Reuters, exports are “paralyzed as port captains have not received requests to authorize loaded ships to set sail.” Although Venezuela possesses significant oil reserves, any recovery in production would require substantial investment given the neglected infrastructure resulting from years of mismanagement and underinvestment. It remains unclear which companies would be willing to invest in Venezuela at current oil prices, especially amid ongoing political, security and legal uncertainties. Additionally, Venezuelan oil is primarily extra-heavy crude—highly viscous and with elevated sulfur and metals content—making it less valuable than sweet light crude.

So, over the next 12 months, we do not anticipate any significant impact on global oil market balances. However, if the US oil embargo on Venezuela were lifted—which has recently depressed production and exports—there could be a modest recovery to pre-embargo levels. Achieving a substantial increase in production, though, would likely take years. By 2030, that additional oil supply may be needed by the oil market, given limited global investment in new production capacity in recent years and ongoing growth in global oil demand.

We anticipate that the market surplus will persist into early 2026, consistent with seasonal patterns, but expect it to narrow as the year progresses. We forecast global oil demand to increase by approximately 1.2mbpd in 2026, while non-OPEC+ supply is expected to increase by around 0.8mbpd. We continue to believe that the oil market remains overly complacent regarding potential supply disruptions. Our Brent price forecasts for 2026 are USD 62/bbl at end-1Q, USD 65/bbl at mid-year, and USD 67/bbl at year-end.

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Appendix

Global Investment Process and Committee Description

The UBS investment process is designed to achieve replicable, high-quality results through applying intellectual rigor, strong process governance, clear responsibility and a culture of challenge.

Based on the analyses and assessments conducted and vetted throughout the investment process, the Chief Investment Officer (CIO) formulates the UBS Wealth Management Investment House View preferences at the House View Investment Meeting (HVIM). Senior investment professionals from UBS, complemented by selected external experts, debate and rigorously challenge the investment strategy to ensure consistency and risk control.

House View Investment Meeting Composition

The HVIM comprises top market and investment expertise from UBS:

- Mark Haefele (Chair)
- Solita Marcelli(*)
- Ulrike Hoffman-Burchardi
- Tan Min Lin
- Themis Themistocleous
- Paul Donovan
- Adrian Zuercher
- Mark Andersen

(*) Business area distinct from Chief Investment Office Global Wealth Management

US Investment Strategy Committee description

We recognize that a globally derived house view is most effective when complemented by local perspective and application. As such, UBS has formed a Global Wealth Management US Investment Strategy Committee.

US Investment Strategy Committee Composition

- Ulrike Hoffman-Burchardi
- Jason Draho (chair)
- Leslie Falconio
- David Lefkowitz
- Alejo Czerwonko

Cautionary statement regarding forward-looking statements

This report contains statements that constitute “forward-looking statements”, including but not limited to statements relating to the current and expected state of the securities market and capital market assumptions. While these forward-looking statements represent our judgments and future expectations concerning the matters discussed in this document, a number of risks, uncertainties, changes in the market, and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to (1) the extent and nature of future developments in the US market and in other market segments; (2) other market and macro-economic developments, including movements in local and international securities markets, credit spreads, currency exchange rates and interest rates, whether or not arising directly or indirectly from the current market crisis; (3) the impact of these developments on other markets and asset classes. UBS is not under any obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

Appendix

Non-traditional asset classes are alternative investments that include hedge funds, private equity, private credit, 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.
- **Private Credit:** There are risks specifically associated with investing in **private** credit. This could include losses stemming from defaults on loans, which in significant adverse circumstances could result in a substantial loss of investment.
- **Foreign Exchange/Currency Risk:** Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer’s “home” currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

Key risks of investing in private markets

Investors in private market funds must consider the following risks:

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

Key risks of investing in hedge funds

Investors in hedge funds must consider the following risks:

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

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