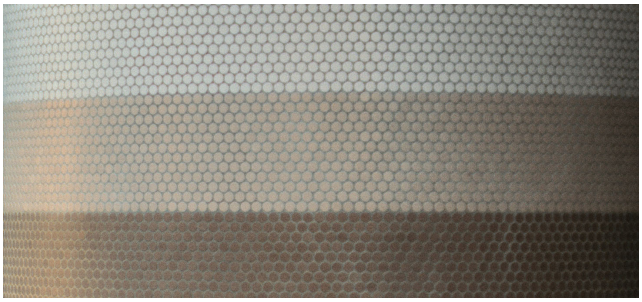
Report Completion Date
23 October 2026, 14:42 UTC
Chief Investment Office GWM
Investment Research

Opportunities emerging in fixed income

Opportunities emerging in fixed income

Author: Sagar Khandelwal, Strategist, UBS Switzerland AG

- **Why?** 1) Fixed income offers attractive opportunities across regions and market segments. 2) Quality bonds can provide income, potential price gains if inflation moderates or growth slows, and valuable portfolio diversification. 3) Combining high-quality bonds with selective emerging market exposure, rate-linked opportunities, and diversified income strategies can broaden sources of portfolio return.
- **Why now?** 1) The recent rise in yields has created tactical opportunities to add medium- to long-duration exposure to high-quality bonds. 2) Emerging market bonds offer appealing yields and diversified return potential, while higher starting yields can help cushion the impact of market volatility. 3) For investors in lower-rate jurisdictions such as Switzerland, drawing income from a diversified range of sources remains especially important.



Rather than timing the peak in yields, investors can use current opportunities to strengthen income and diversification. Source: Jason Leung_Unsplash

We view fixed income as Attractive, with opportunities across regions and market segments. In high-quality bonds, investors can consider adding exposure to the medium- to long-term maturity range, where we believe yields provide income, potential price gains if growth slows, and portfolio diversification. Emerging market bonds also offer appealing yields and diversified return potential.

Stronger investment grade issuers, meanwhile, offer attractive carry across medium maturities, in our view, while higher-risk credit should remain relatively short-dated. We remain cautious on the longest maturities given fiscal concerns and rising AI-related issuance. Investors should calibrate credit and duration risk to their objectives. For example, more income-focused investors may prefer shorter maturities to reduce duration risk. In Switzerland, diversified income sources remain especially important.

Add medium- to long-duration high-quality bonds

The recent rise in yields has created tactical opportunities to add some duration in high-quality bonds. Medium- to long-duration high-quality bonds have scope for price gains and can provide valuable diversification. Alongside attractive income, these securities may appreciate if tighter monetary policy slows growth or reduces longer-term inflation expectations, leading yields to decline.

Investors should remain selective. We are more cautious on the longest-dated bonds, given fiscal sustainability concerns, growing AI-related debt issuance, and the potential for term premiums to remain elevated. In credit, stronger investment grade issuers offer attractive carry across medium maturities. More income-focused investors may prefer shorter maturities to reduce sensitivity to changes in interest rates.

Seek appealing income and diversification through emerging market bonds

Emerging market credit offers an attractive source of risk-adjusted returns within global fixed income, in our view. The asset class benefits from a compelling combination of attractive carry, supportive technicals, and resilient fundamentals. Many sovereign borrowers have strengthened their external balances, while corporate issuers generally maintain conservative leverage and solid earnings momentum.

This report has been prepared by UBS Switzerland AG. **Please see important disclaimers and disclosures at the end of the document.**

Current yield levels offer an attractive income cushion, while stable credit metrics and robust investor demand should continue to support valuations. Emerging market bonds can therefore complement high-quality developed-market exposure and broaden the drivers of portfolio income. But investors should remain diversified and avoid overexposure to any single country, issuer, or segment. As emerging market credit carries greater credit and market risk, relatively short-dated exposure may help limit the combined sensitivity to credit spreads and interest rates.

Consider rate-linked income opportunities

Shifting monetary policy expectations and elevated interest rate volatility can create opportunities for investors to consider income strategies whose returns are linked to the level or path of interest rates. Such strategies may complement conventional bond exposure and help investors seek income in an environment where policy rates and bond yields could remain volatile.

The appropriate approach will depend on an investor's objectives, investment horizon, liquidity needs, and capacity to bear risk. Investors should understand that income may depend on specified interest rate conditions and that structures can involve limitations, complexity, liquidity constraints, and issuer-credit risk. Rate-linked strategies should therefore form part of a diversified income allocation rather than replace core high-quality bond exposure.

Diversify income sources for Swiss franc investors

For investors in Switzerland, diversified income sources remain important. Lower yields in the domestic bond market can make it harder to meet income objectives using Swiss franc bonds alone. Investors can consider combining highly rated Swiss corporate bonds with global fixed income, emerging market bonds, selected credit, rate-linked strategies, and equity income.

Quality dividend equities focus on companies that pay higher dividends while displaying attributes such as strong free cash flow generation or high returns on equity. They tend to be found in more defensive parts of the market, and history suggests that dividend payments may prove relatively stable during an economic downturn.

We particularly like Swiss dividend-paying equities. Their average dividend yield of around 3% is above both the historical average of 2.4% since 2004 and the yields available on highly rated Swiss franc bonds. Over the past three decades, dividends have accounted for more than half of the SMI's total return. Balance sheets and profitability are generally robust, in our view, suggesting that market-wide distributions are sustainable despite risks to corporate profits from weaker economic prospects.

Currency risk can be a larger contributor to fixed-income returns than in other asset classes. Swiss investors adding international bonds should therefore align their holdings with their overall currency strategy, using an appropriate mix of currency-hedged funds, local bonds, and international bonds. Diversifying across asset classes and income sources can help investors seek more durable income without relying excessively on any single market outcome.

Global asset class preferences definitions
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 and commonly known indices, House View scenarios, and analyst convictions over the next 12 months.
Absolute view
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 a five-tier rating system with two additional preferences. When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
Relative preferences
For the multi asset view, we also include relative preferences to help investors compare between items.
Preferred: We view this item more favorably than others within its asset class.*
Neutral: We see this item similarly to others within its asset class.*
Least preferred: We view this item less favorably than others within its asset class.*
*In the case of cross-asset, compared to other asset classes.
Note: 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.

Appendix

Risk information
UBS Chief Investment Office's ("CIO") investment views are prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland) or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). The investment views have been prepared in accordance with legal requirements designed to promote the **independence of investment research**.
Generic investment research – Risk information:
This publication is **for your information only** and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein does not constitute a personal recommendation or take into account the particular investment objectives, investment strategies, financial situation and needs of any specific recipient. It is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS). All information and opinions as well as any forecasts, estimates and market prices indicated are current as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria. UBS may utilise artificial intelligence tools ("AI Tools") in the preparation of this document. Notwithstanding any such use of AI Tools, this document has undergone human review.
In no circumstances may this document or any of the information (including any forecast, value, index or other calculated amount ("Values")) be used for any of the following purposes (i) valuation or accounting purposes; (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or (iii) to measure the performance of any financial instrument including, without limitation, for the purpose of tracking the return or performance of any Value or of defining the asset allocation of portfolio or of computing performance fees. By receiving this document and the information you will be deemed to represent and warrant to UBS that you will not use this document or otherwise rely on any of the information for any of the above purposes. UBS and any of its directors or employees may be entitled at any time to hold long or short positions in investment instruments referred to herein, carry out transactions involving relevant investment instruments in the capacity of principal or agent, or provide any other services or have officers, who serve as directors, either to/for the issuer, the investment instrument itself or to/for any company commercially or financially affiliated to such issuers. At any time, investment decisions (including whether to buy, sell or hold securities) made by UBS and its employees may differ from or be contrary to the opinions expressed in UBS research publications. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information

contained in one or more areas within UBS, into other areas, units, divisions or affiliates of UBS. Futures and options trading is not suitable for every investor as there is a substantial risk of loss, and losses in excess of an initial investment may occur. Past performance of an investment is no guarantee for its future performance. Additional information will be made available upon request. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information.

Different areas, groups, and personnel within UBS Group may produce and distribute separate research products **independently of each other**. For example, research publications from **CIO** are produced by UBS Global Wealth Management. **UBS Global Research** is produced by UBS Investment Bank. **Research methodologies and rating systems of each separate research organization may differ**, for example, in terms of investment recommendations, investment horizon, model assumptions, and valuation methods. As a consequence, except for certain economic forecasts (for which UBS CIO and UBS Global Research may collaborate), investment recommendations, ratings, price targets, and valuations provided by each of the separate research organizations may be different, or inconsistent. You should refer to each relevant research product for the details as to their methodologies and rating system. Not all clients may have access to all products from every organization. Each research product is subject to the policies and procedures of the organization that produces it. The compensation of the analyst(s) who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking, sales and trading or principal trading revenues, however, compensation may relate to the revenues of UBS Group as a whole, of which investment banking, sales and trading and principal trading are a part.

Tax treatment depends on the individual circumstances and may be subject to change in the future. UBS does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon both in general or with reference to specific client's circumstances and needs. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein.

This material may not be reproduced or copies circulated without prior authority of UBS. Unless otherwise agreed in writing UBS expressly prohibits the distribution and transfer of this material to third parties for any reason. UBS accepts no liability whatsoever for any claims or lawsuits from any third parties arising from the use or distribution of this material. This report is for distribution only under such circumstances as may be permitted by applicable law. For information on the ways in which CIO manages conflicts and maintains independence of its investment views and publication offering, and research and rating methodologies, please visit www.ubs.com/research-methodology. Additional information on the relevant authors of this publication and other CIO publication(s) referenced in this report; and copies of any past reports on this topic; are available upon request from your client advisor.

Important Information About Sustainable Investing Strategies: This terminology refers to definitions in the UBS Sustainable Investing Framework and does not refer or relate to any product specific regulatory labelling regime or naming conventions. Sustainable investing strategies aim to consider and incorporate environmental, social and governance (ESG) factors into investment process and portfolio construction. Strategies across geographies approach ESG analysis and incorporate the findings in a variety of ways. Incorporating ESG factors or sustainable investing considerations may inhibit UBS's ability to participate in or to advise on certain investment opportunities that otherwise would be consistent with the Client's investment objectives. The returns on a portfolio incorporating ESG factors or sustainable investing considerations may be lower or higher than portfolios where ESG factors, exclusions, or other sustainability issues are not considered by UBS, and the investment opportunities available to such portfolios may differ.

External Asset Managers / External Financial Consultants: In case this research or publication is provided to an External Asset Manager or an External Financial Consultant, UBS expressly prohibits that it is redistributed by the External Asset Manager or the External Financial Consultant and is made available to their clients and/or third parties.

USA: Distributed to US persons only by UBS Financial Services Inc. or UBS Securities LLC, subsidiaries of UBS AG. UBS Switzerland AG, UBS Europe SE, UBS Bank, S.A., UBS Brasil Administradora de Valores Mobiliarios Ltda, UBS (Brasil) Corretora de Valores S.A., UBS Asesores Mexico, S.A. de C.V., UBS SuMi TRUST Wealth Management Co., Ltd., UBS Wealth Management Israel Ltd and UBS Menkul Degerler AS are affiliates of UBS AG. **UBS Financial Services Inc. accepts responsibility for the content of a report prepared by a non-US affiliate when it distributes reports to US persons. All transactions by a US person in the securities mentioned in this report should be effected through a US-registered broker dealer affiliated with UBS, and not through a non-US affiliate. The contents of this report have not been and will not be approved by any securities or investment authority in the United States or elsewhere. UBS Financial Services Inc. is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule**.

For country information, please visit ubs.com/cio-country-disclaimer-gr or ask your client advisor for the full disclaimer.

Except as otherwise specified herein and/or depending on the local entity from which you are receiving this report, this report is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).
Version D/2026. CIO82652744
© UBS 2026. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.