UBS CIO Houseview and Year ahead

November 2017

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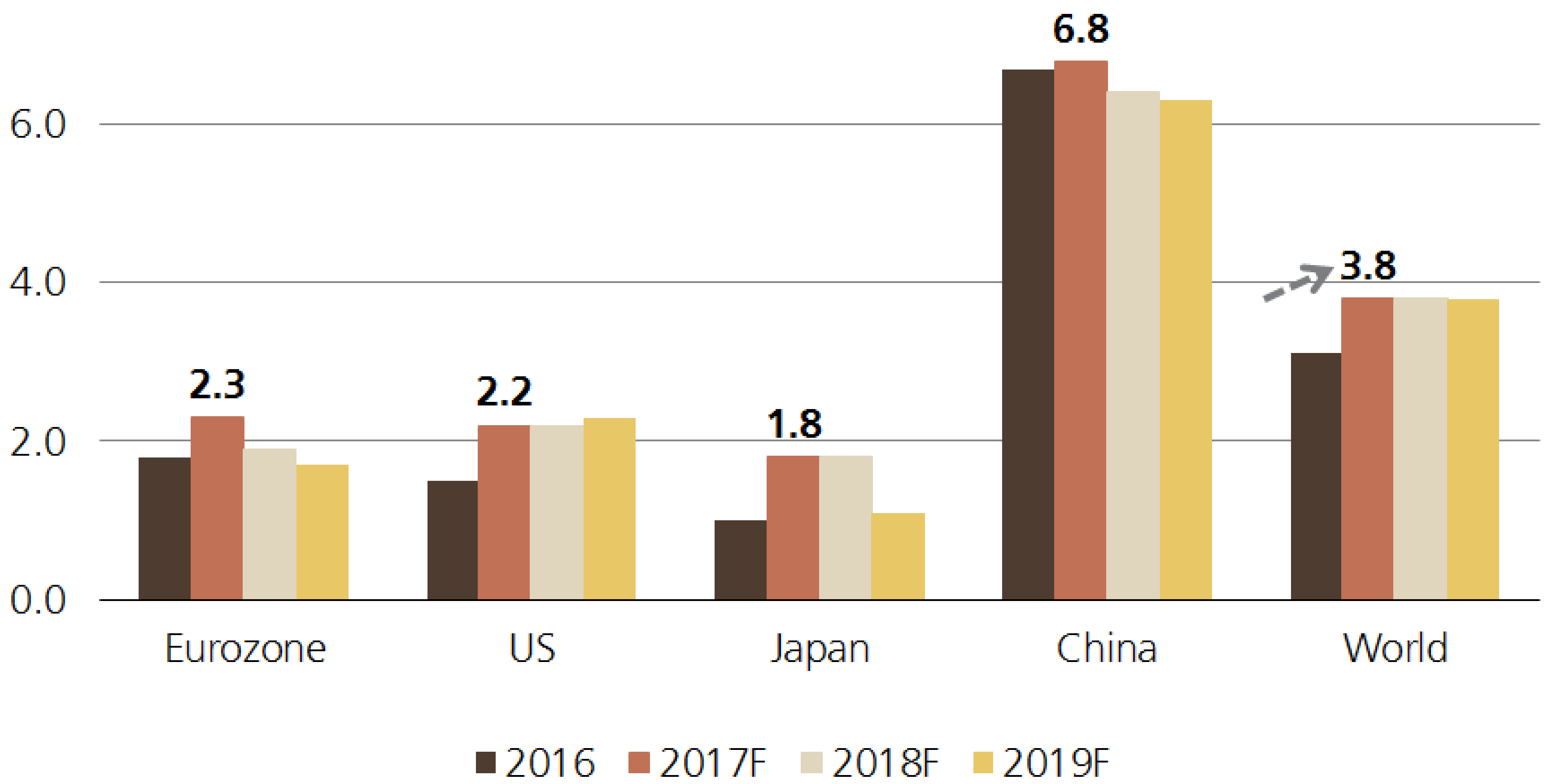
Head, European CIO

Section 1:

Global outlook and positioning

Global growth is accelerating

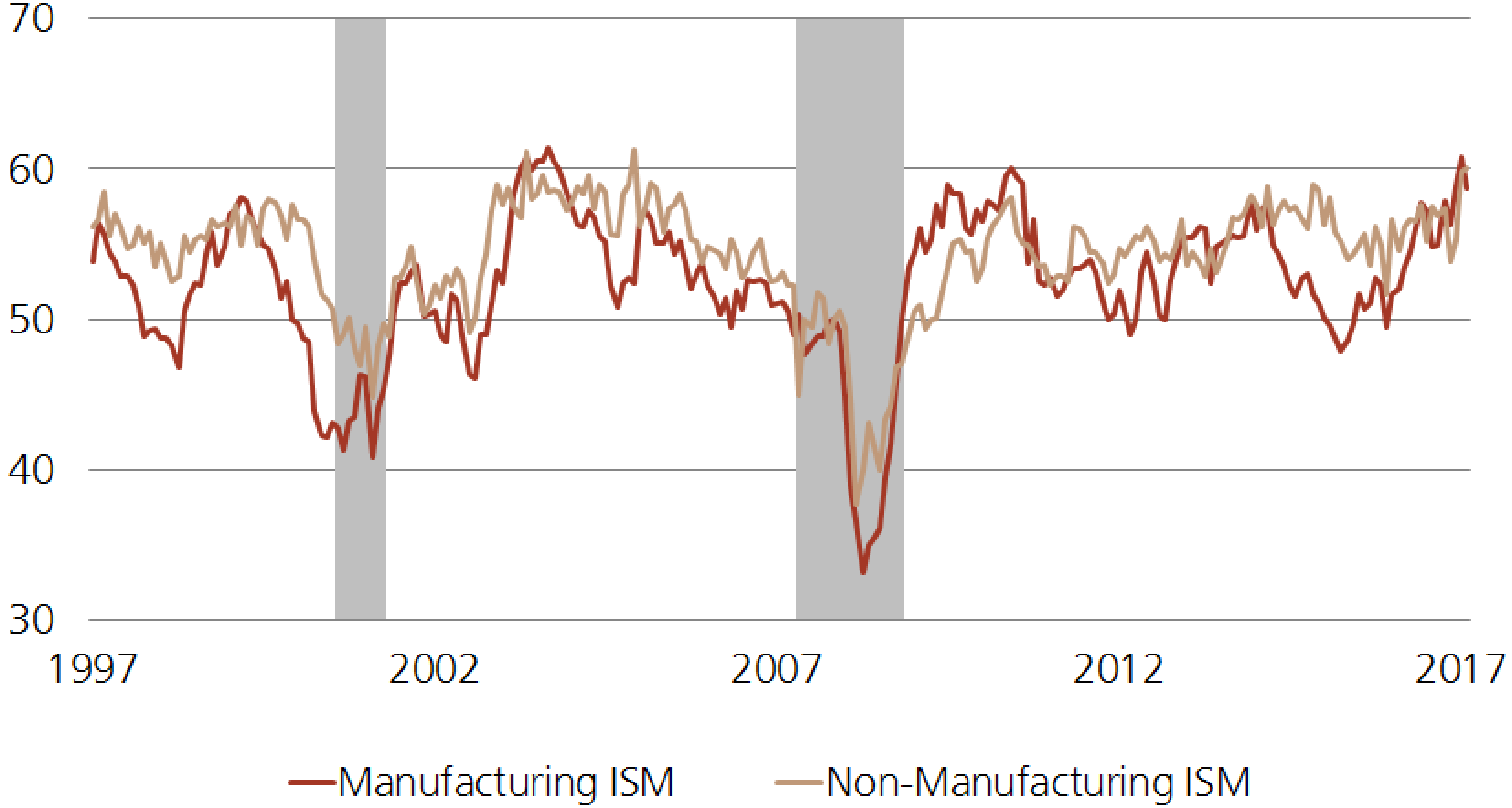
Real GDP growth (in %), including forecasts



Source: CIO WM, November 16, 2017

US: Business sentiment at high levels

US ISM Manufacturing and Non-Manufacturing, grey-shaded areas indicate US recessions



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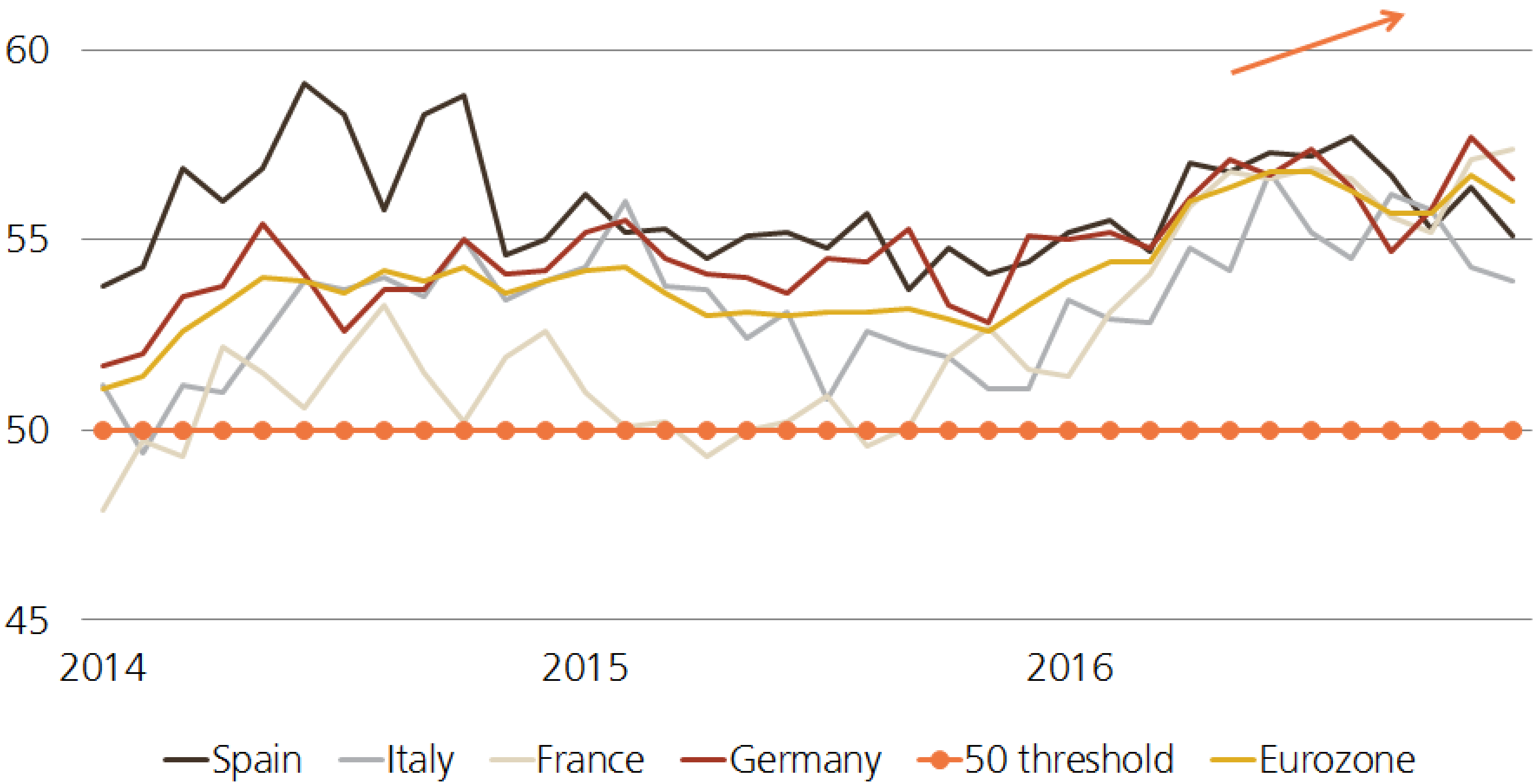
Source: UBS WM CIO, Bloomberg, November 2017

Also broad based recovery in Europe

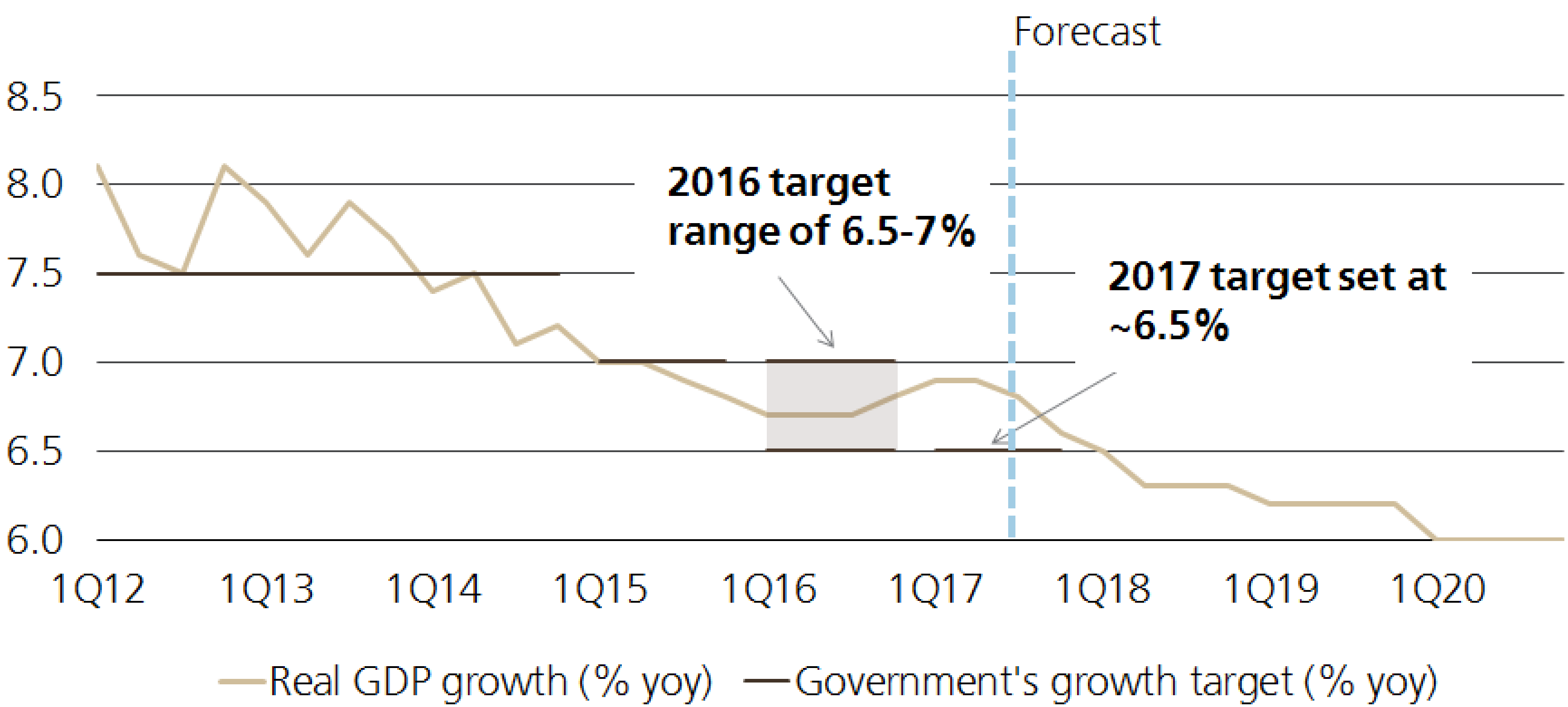
Composite PMIs in most European countries are clearly in expansionary territory (>50)



Mild moderation in China

China's real GDP growth and government's growth target, in %, yoy

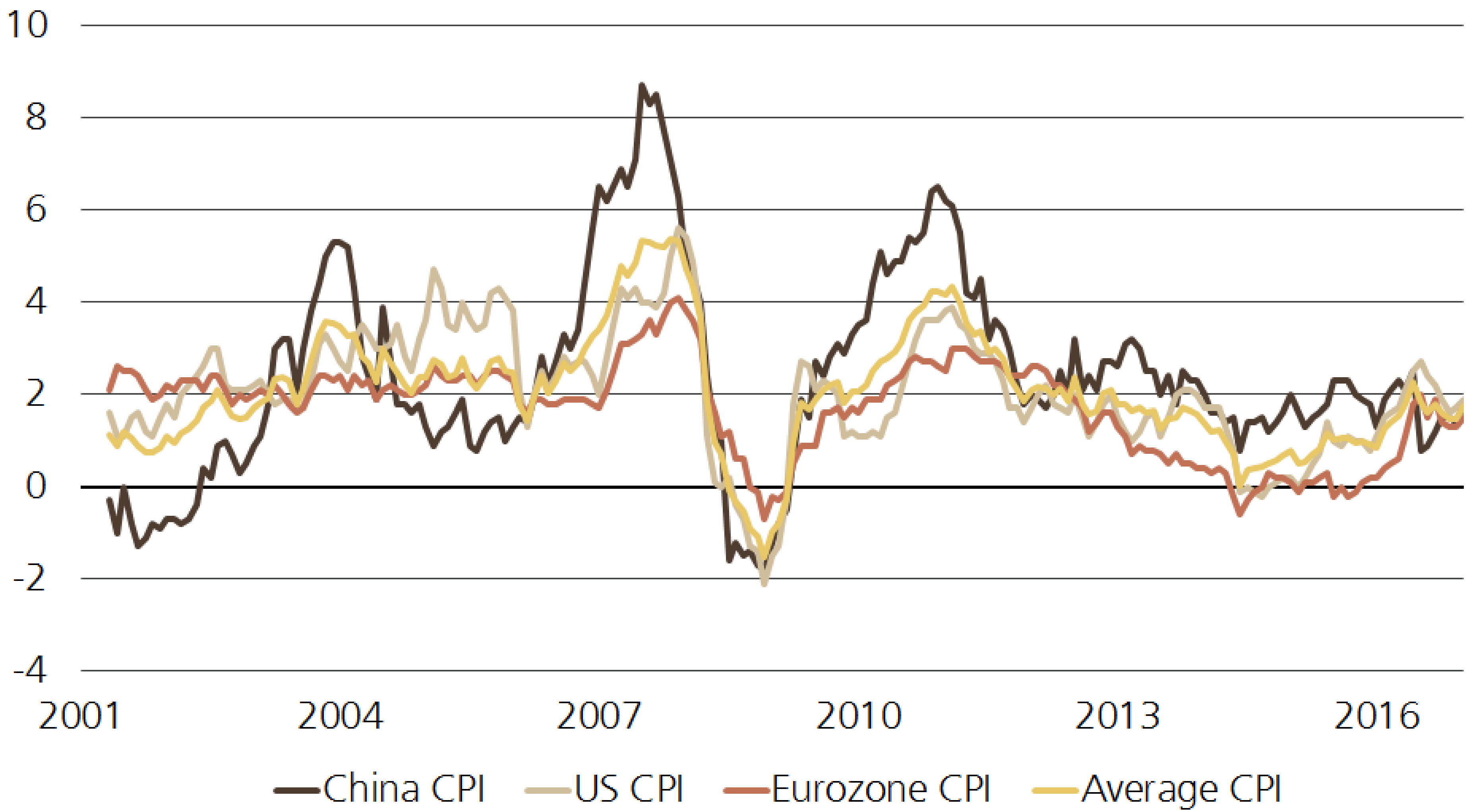
China's growth to moderate but remain above target – government likely to stick to a reasonable growth target of above 6% p.a. over the next three years



Source: CEIC, CIO WM, as of 3Q 2017

Average headline CPI across regions remains subdued

Headline CPI in China, in the US, in the Eurozone and average CPI



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Source: CIO WM, Bloomberg, September 2017

CIO central bank navigator

CIO's policy expectations for the major central banks

Fed

- One more hike in Dec. 2017, two more hikes in 2018. Passive quantitative tightening will start in October 2017
- Powell, Trump's pick for Fed chair, represents continuity; biggest difference with Yellen is on regulation

ECB

- On Oct. 26, the ECB confirmed CIO's expectation: Monthly purchases will be halved to EUR 30bn from next Jan. to Sept. (ECB statement: "or beyond, if necessary")
- First interest rate hike in 2019 at the earliest

BoJ

- Bond purchases, at JPY 60 trillion per year, to shrink further
- In 2H2018, 10y JGB rates to be raised to 0.2% from 0%, when actual yield reaches ~0.2% alongside a solid inflation upswing

BoE

- After the BoE's November 25bps hike (to 0.5%), policy rates should stay on hold for the time being.
- However, the BoE will likely maintain a more hawkish tone to keep the possibility of tighter monetary policy alive among investors and households.

SNB

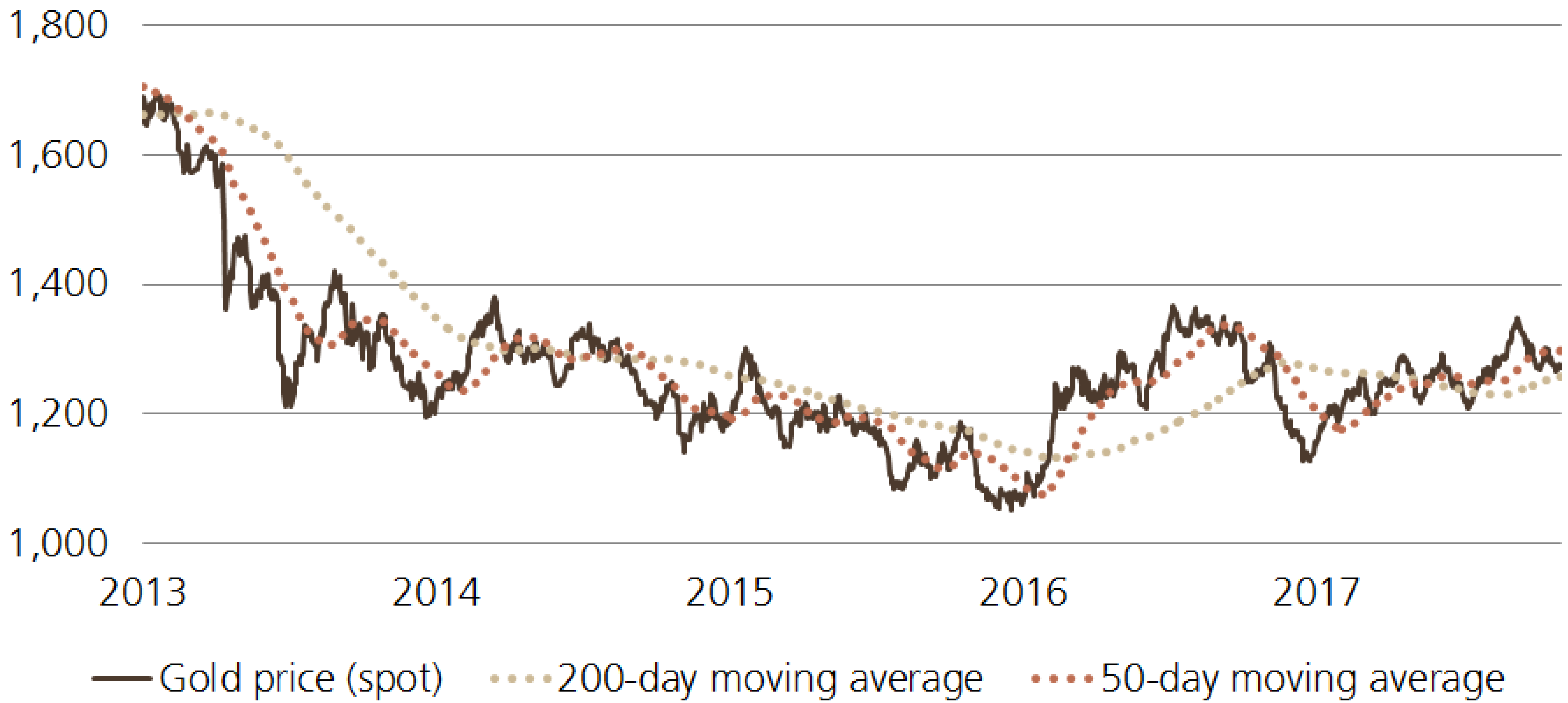
- Given that the ECB should end its bond purchases in Sept. 2018, the SNB could raise rates once at the end of 2018. Further rate rises not before the second half of 2019
- Balance sheet reduction unlikely for now

Source: UBS WM CIO, November 13, 2017

Gold: Beyond price, protection

Gold (spot), in USD/oz (as of November 1, 2017)

CIO maintains its forecast of USD 1,250/oz in 6–12 months, but at this stage of the economic cycle investors shouldn't fixate on specific prices, as gold's role in protecting portfolios from spikes in market volatility or geopolitical risks remains relevant.



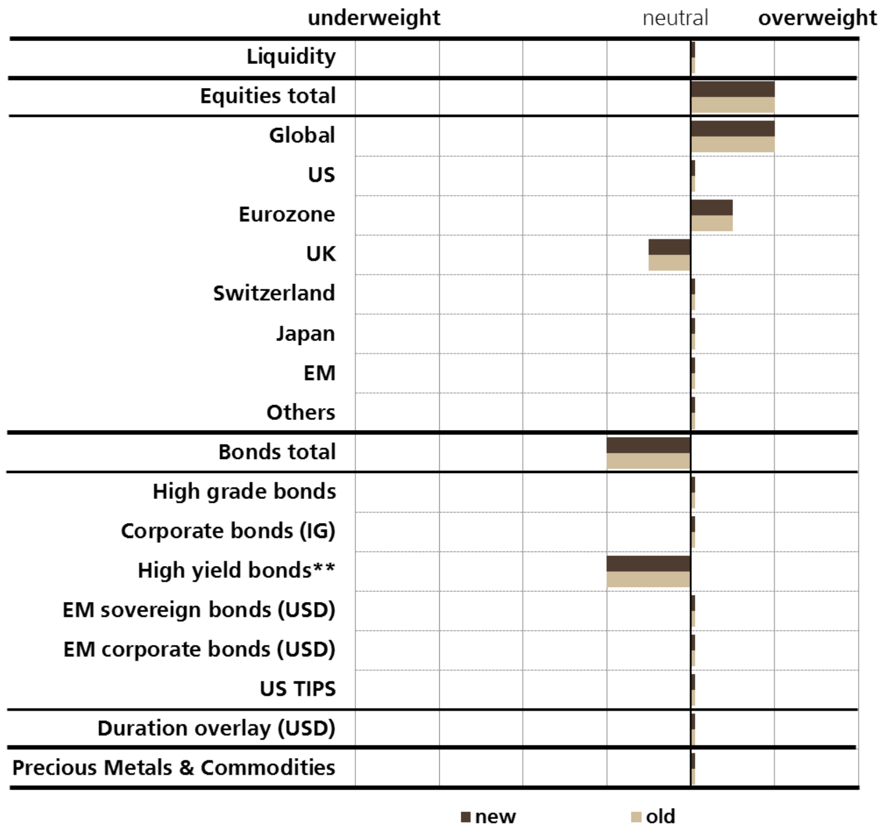
Source: CIO WM, Bloomberg, November 1, 2017

Section 2:

Our positioning

Global tactical asset allocation

Tactical asset allocation deviations from benchmark*

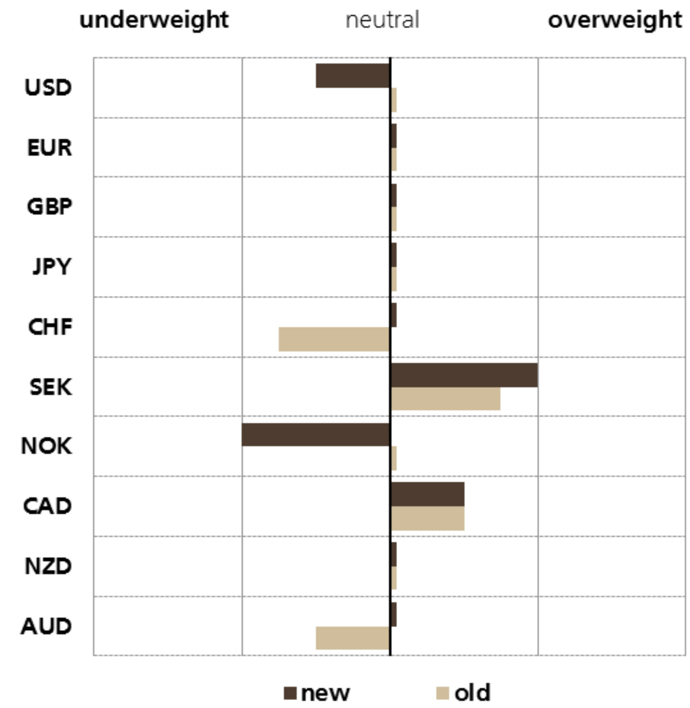


(As of November 16, 2017)

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

**Position includes an underweight in EUR HY.

Currency allocation



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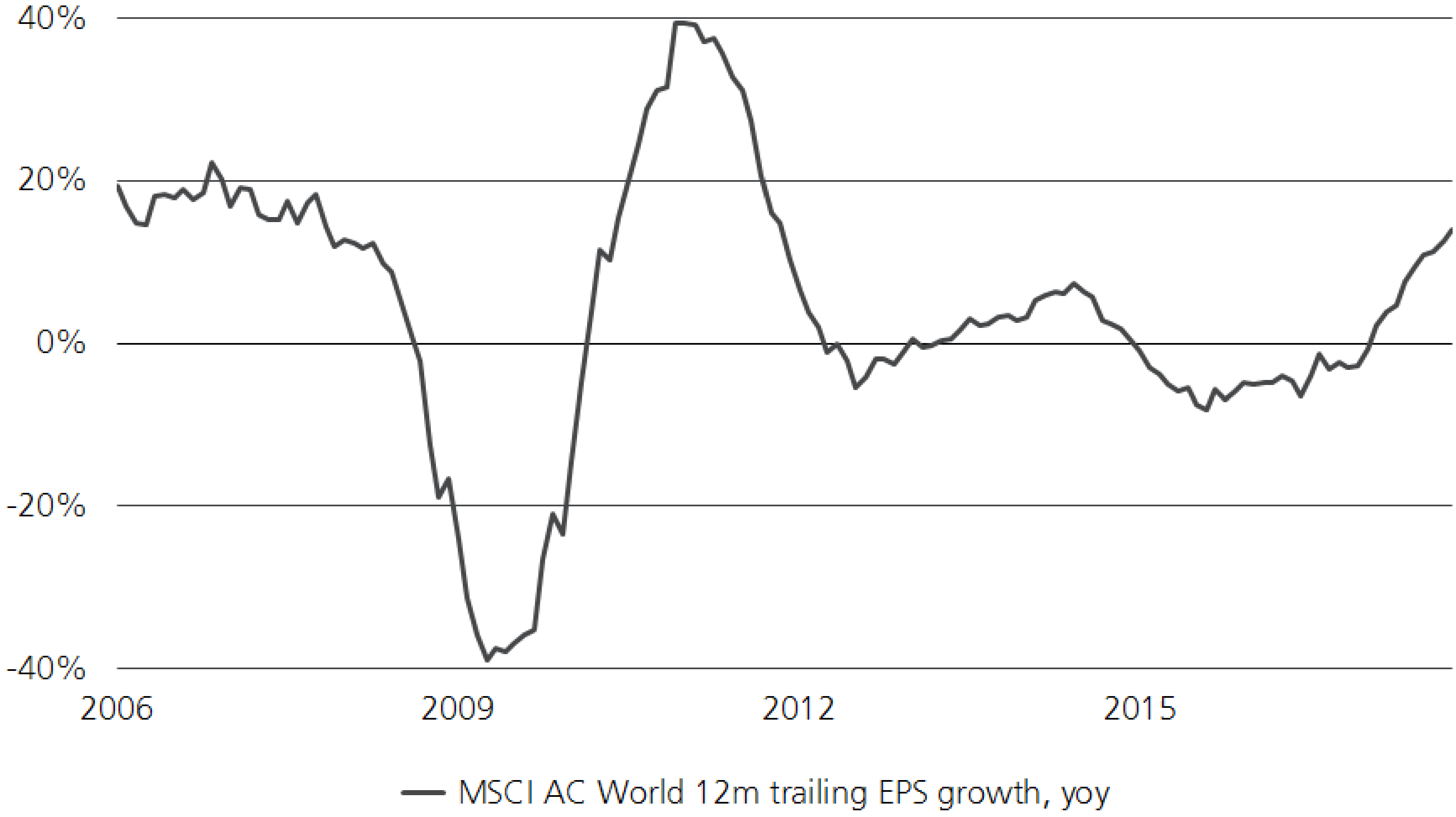
Global earnings recovery supports equities

Year-on-year growth of earnings per share (EPS)



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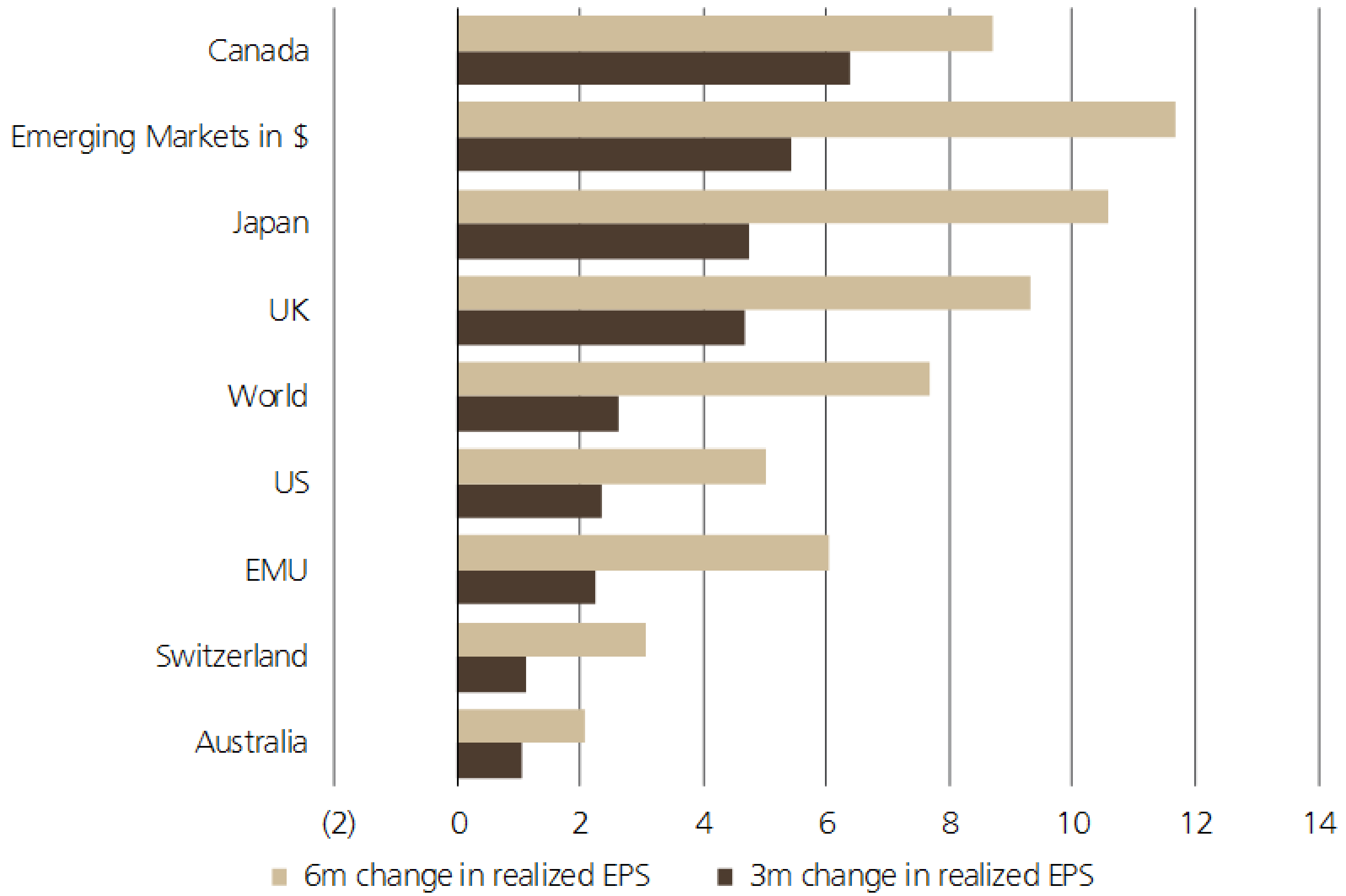
Source: Thomson Reuters, UBS WM CIO, as of end October 2017

Positive earnings dynamics across most regions

IBES 6-month and 3-month change in 12-month trailing earnings per share (EPS), in %



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Source: Thomson Reuters, UBS WM CIO, as of end October 2017

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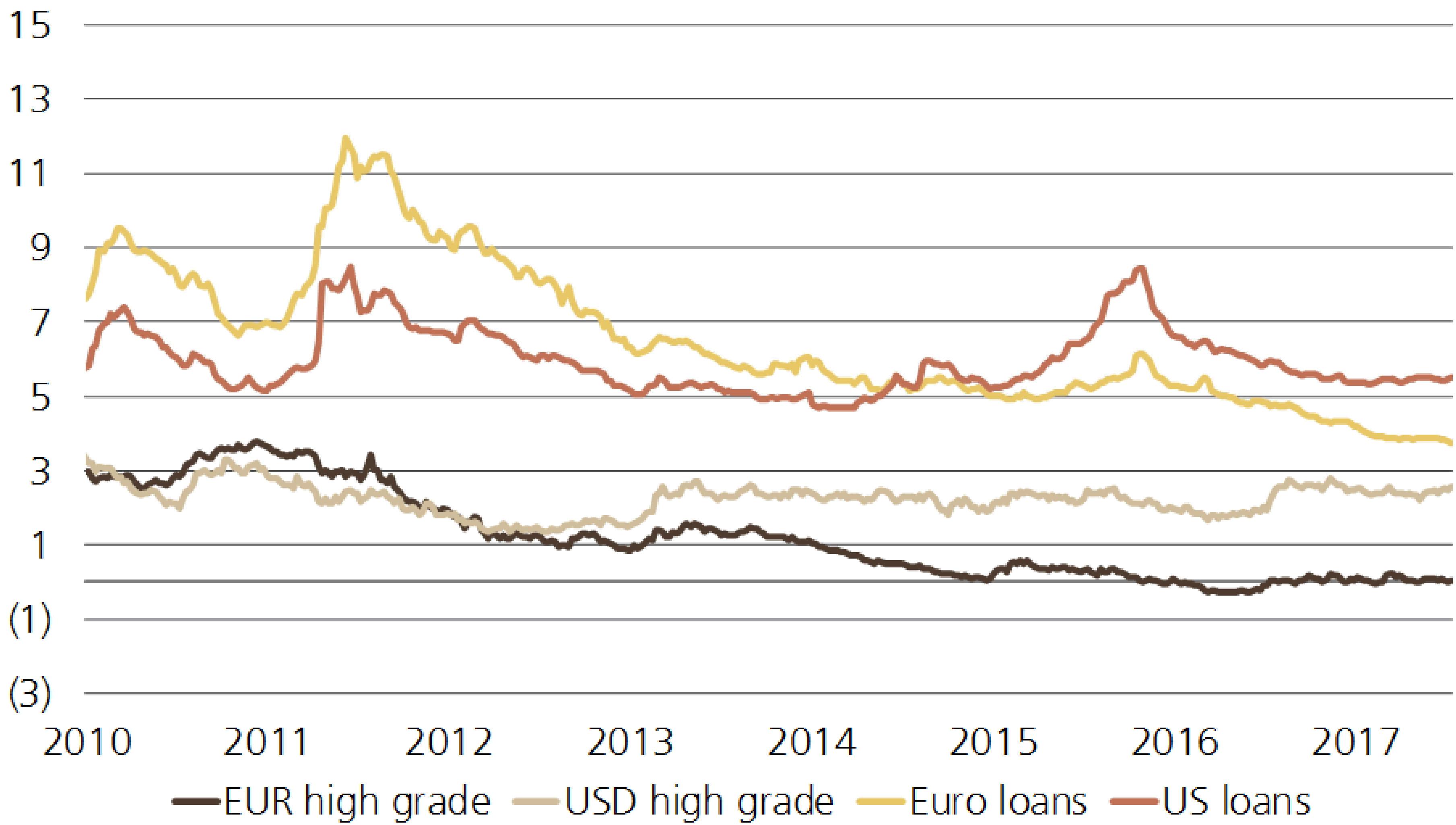
Equities: Eurozone equities vs UK equities

- **How Europe is performing?**
  - **Solid nominal GDP growth, helped by synchronised global growth**
  - **Eurozone is a play on global growth and reflation:**
    - 50%-plus of MSCI EMU revenues are generated outside the Eurozone…
    - …including 30% from emerging markets
  - **Corporate earnings growth:**
    - Solid growth more than offsets negative impact from strong euro
    - EPS 2017e +10-12%; 2018e growth: ~10%
  - **Valuation:** fair, in current, low interest rate environment

- **Eurozone sector and country preferences**
  - Sector allocation – a cyclical tilt
    - **Sectors O/W**: Energy, Industrials and IT
    - **Sectors U/W:** Consumer Staples, Healthcare and Real Estate
  - **Countries:** Germany O/W; Benelux U/W; France Neutral

Senior loans still provide attractive carry

Yields to worst (in %)



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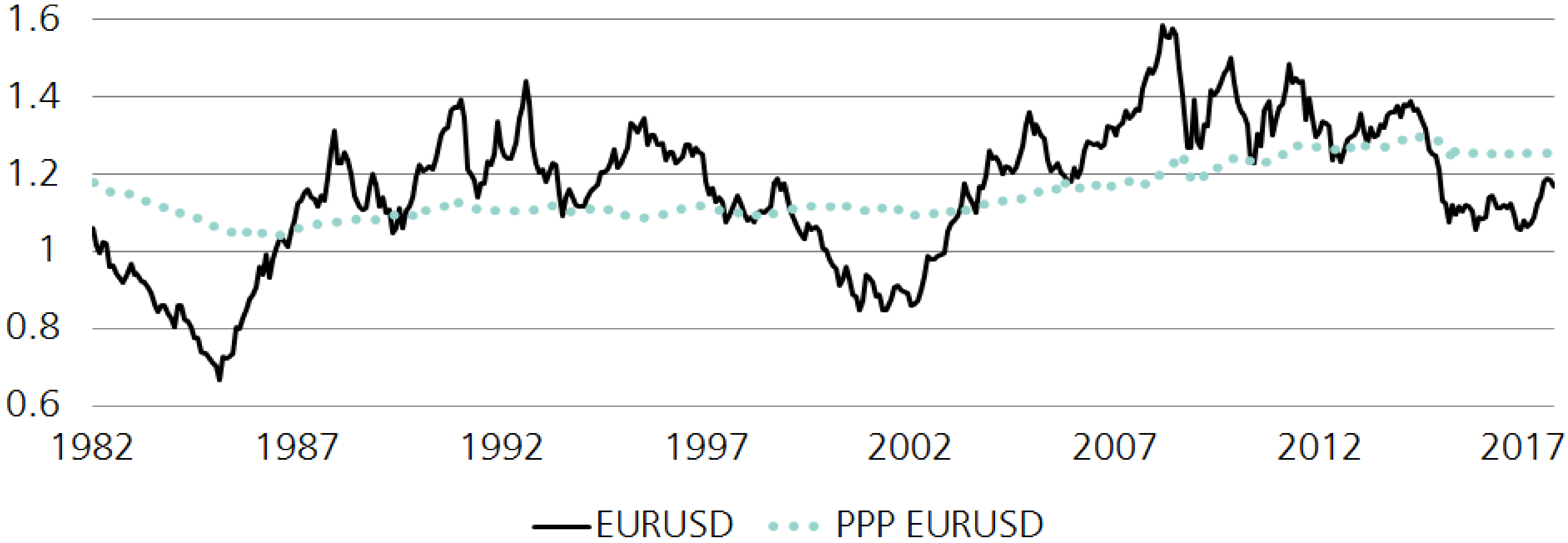
Source: UBS WM CIO, Bloomberg, as of November 10, 2017

The euro expected to climb even higher against the dollar

EURUSD exchange rate since the 1980s, CIO's forecasts and PPP

The synchronous upswing of the global economy and the very cautious changes in monetary policy should boost the euro in the next six-12 months.

EURUSD forecasts	3 months	6 months	12 months	vs. PPP
	1.18	1.22	1.25	1.26



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Source: UBS CIO WM, Bloomberg, as of October 27, 2017
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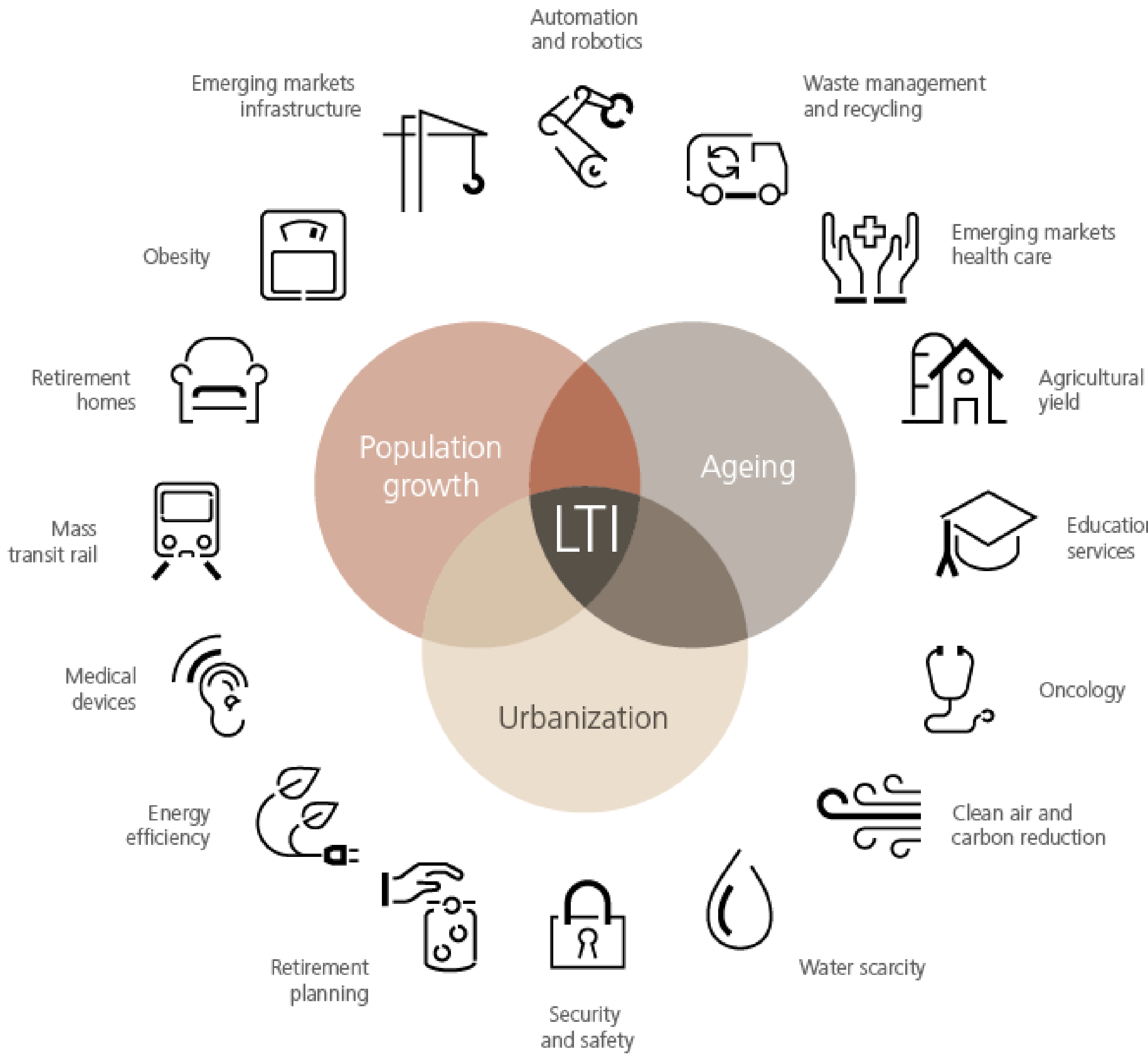
2018 Year Ahead

- **Growth to continue at similar pace to 2017**
    - **Recession unlikely, still positive equities**
- **But investors will need to adapt:**
    - **Monetary tightening – negative stimulus by the end of 2018**
        - **Look at alternatives in case increased correlation between bonds/equities**
        - **Active management could work better without easy money**
        - **Need to diversify regionally if you're in a politically risky country: (UK, Spain, Italy, South Africa, Mexico, Brazil etc)**
- **Technological disruption - Opportunities in US tech, digital data, smart mobility, and automation**
- **Environmental and social change – opportunities in sustainability to match returns and make a difference.**

Focus on Long Term sustainable themes



Further available themes include Protein consumption, Digital data, E-commerce, Silver spending, EM tourism, Frontier markets, Middle East – prosperity beyond oil

Source: UBS WM CIO, as of July 2017

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