



Year Ahead 2019: Turning points

Mark Andersen,
Chief Investment Office



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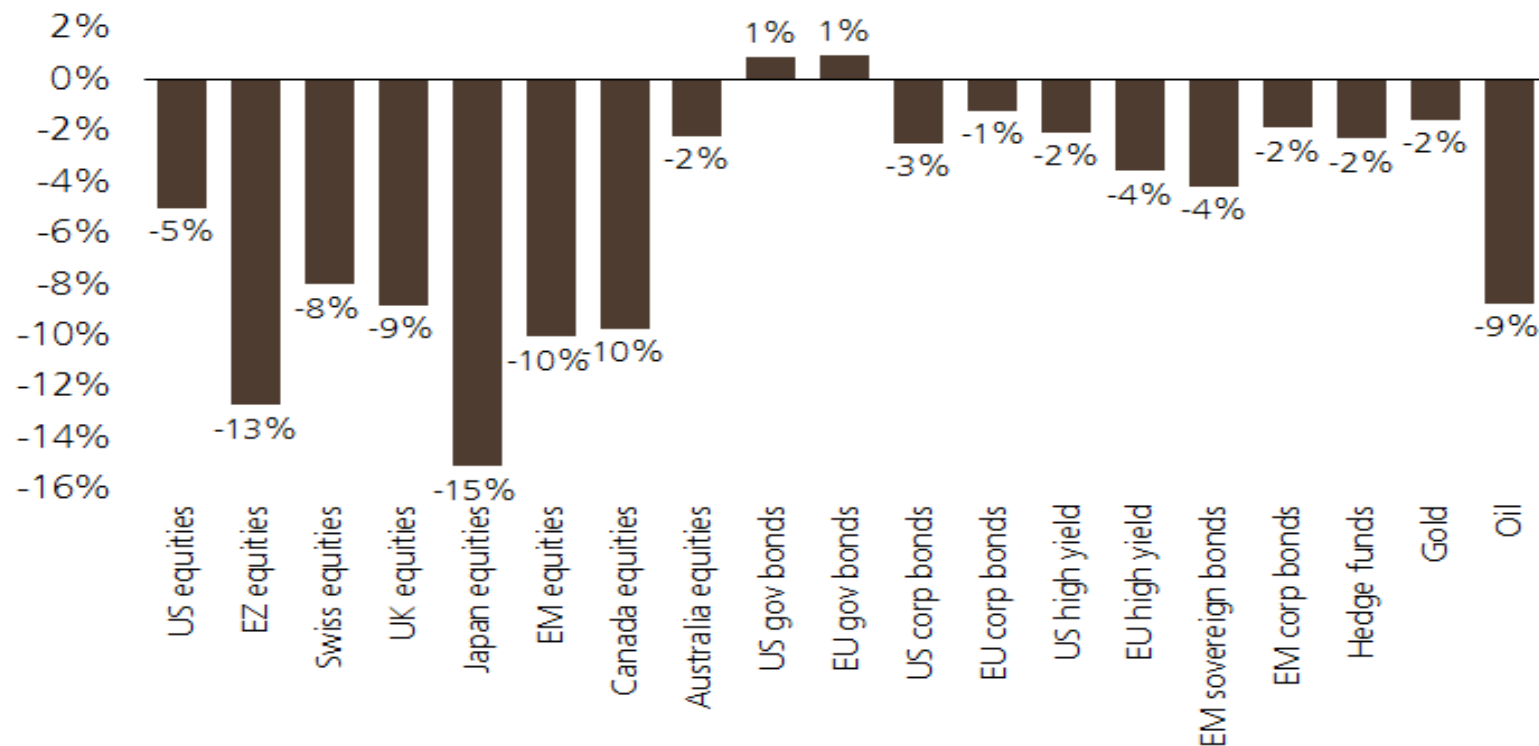
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Best Overall Private Banking Services 2018



2018: A difficult year for global investors

Global equities, MSCI World index, in USD





2019: Financial markets are challenged

Global equities, MSCI World index, in USD





The challenges to markets

The Fed and the business cycle

Scenario probabilities

Upside 15%
Base case 60%
Downside 25%

US corporate credit

Scenario probabilities

Upside 15%
Base case 65–75%
Downside 10–20%

China's economy

Scenario probabilities

Upside 10–20%
Base case 60–80%
Downside 10–20%

Global



Trade policy

Scenario probabilities

Upside 15%
Base case 50%
Downside 35%

Source: UBS, February 2019

Scenario probability
Next 6–12 months

CIO Risk Scores



Source: UBS

Brexit: A European drama, but with limited global ramifications





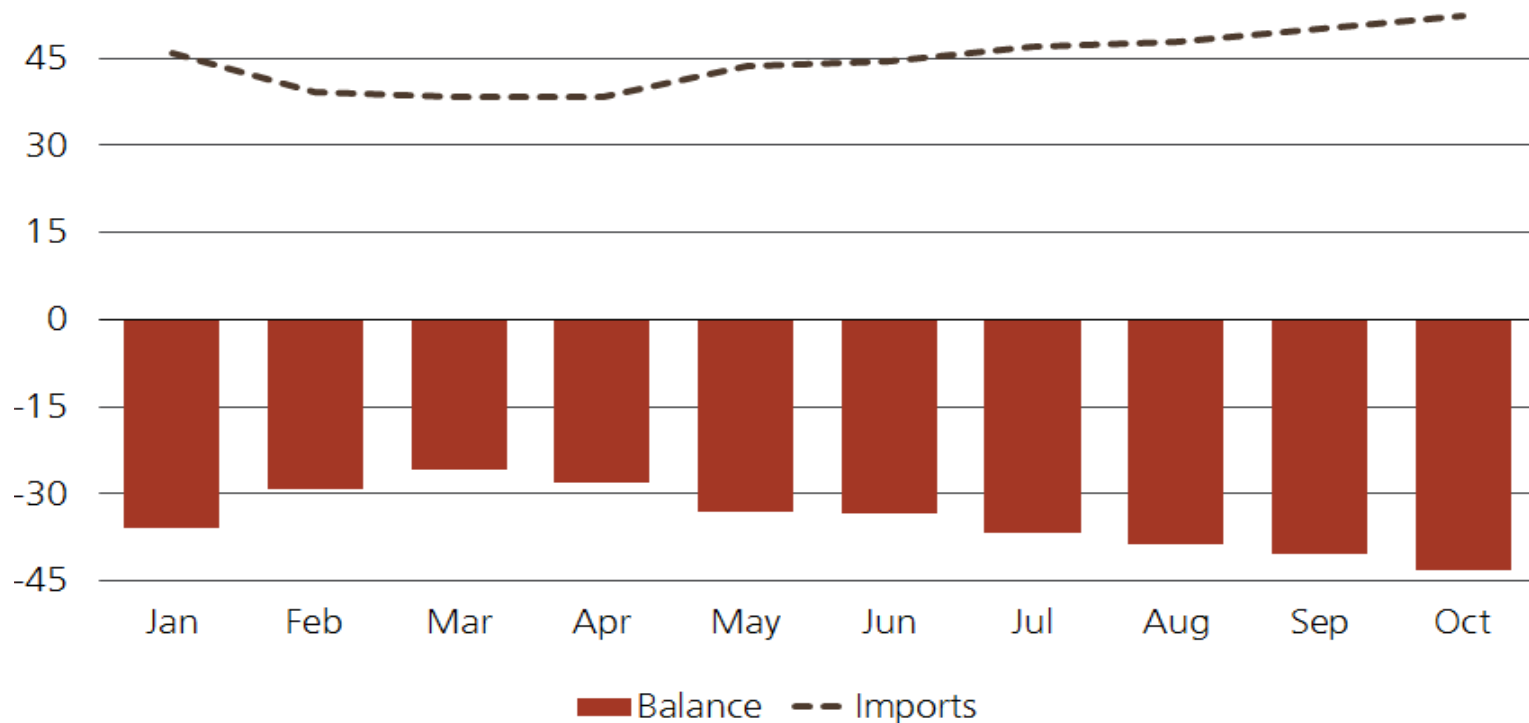
US-China: The real risk to markets





US-China: The trade deficit in focus

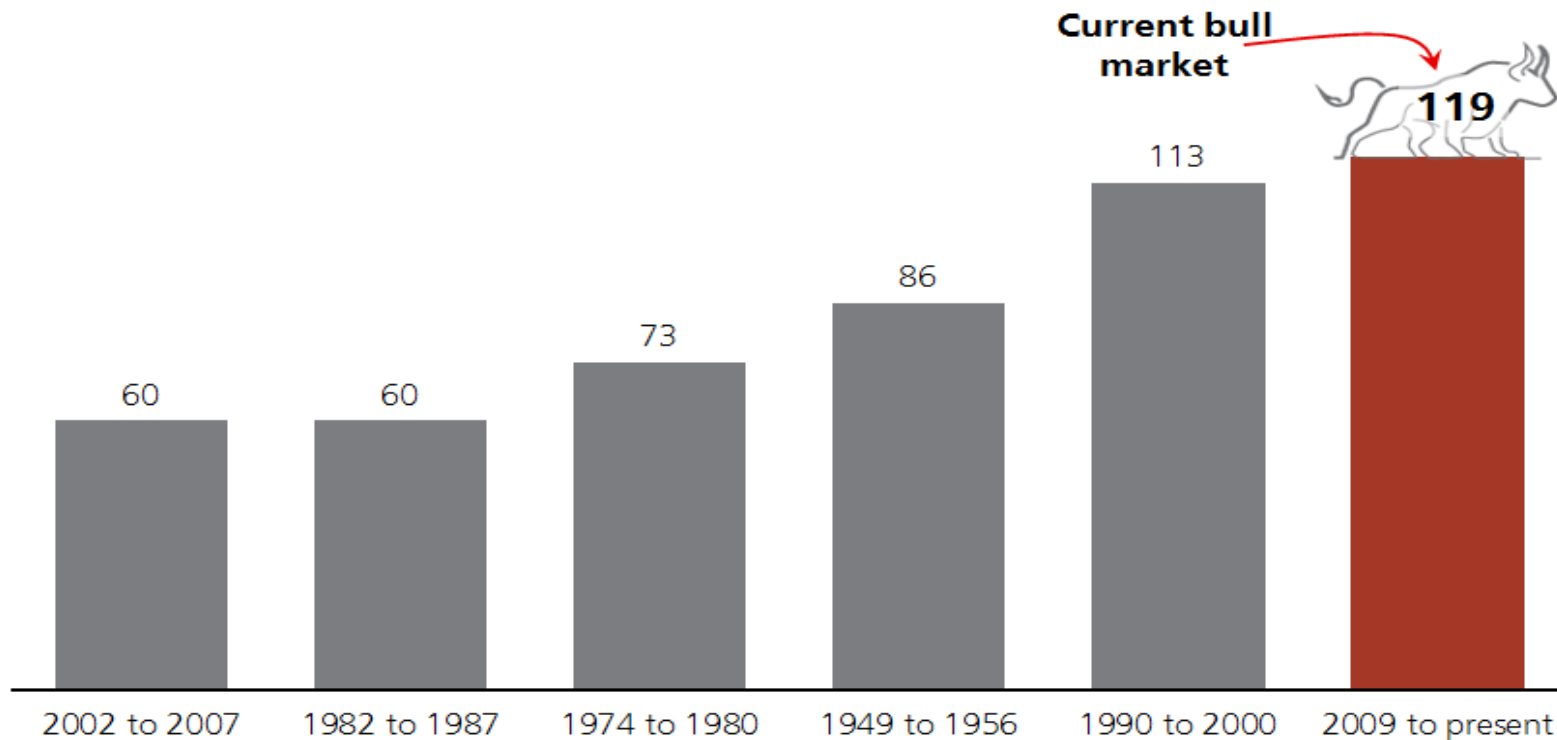
US trade with China in 2018 (USD bn, monthly data)





Recession risk: The longest economic expansion on record

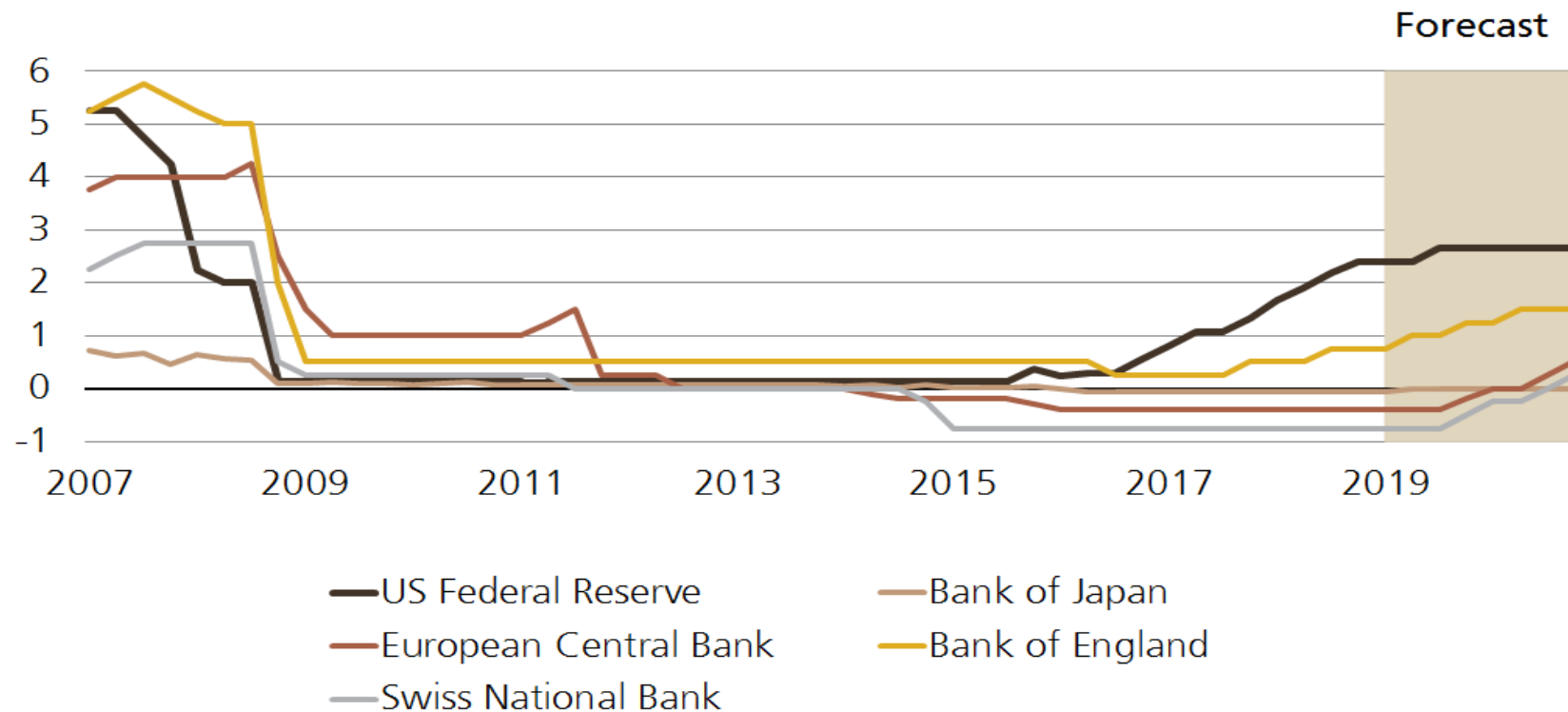
Post-WWII economic expansions, in total months





Global central banks tightening monetary policy

Policy rates, in %



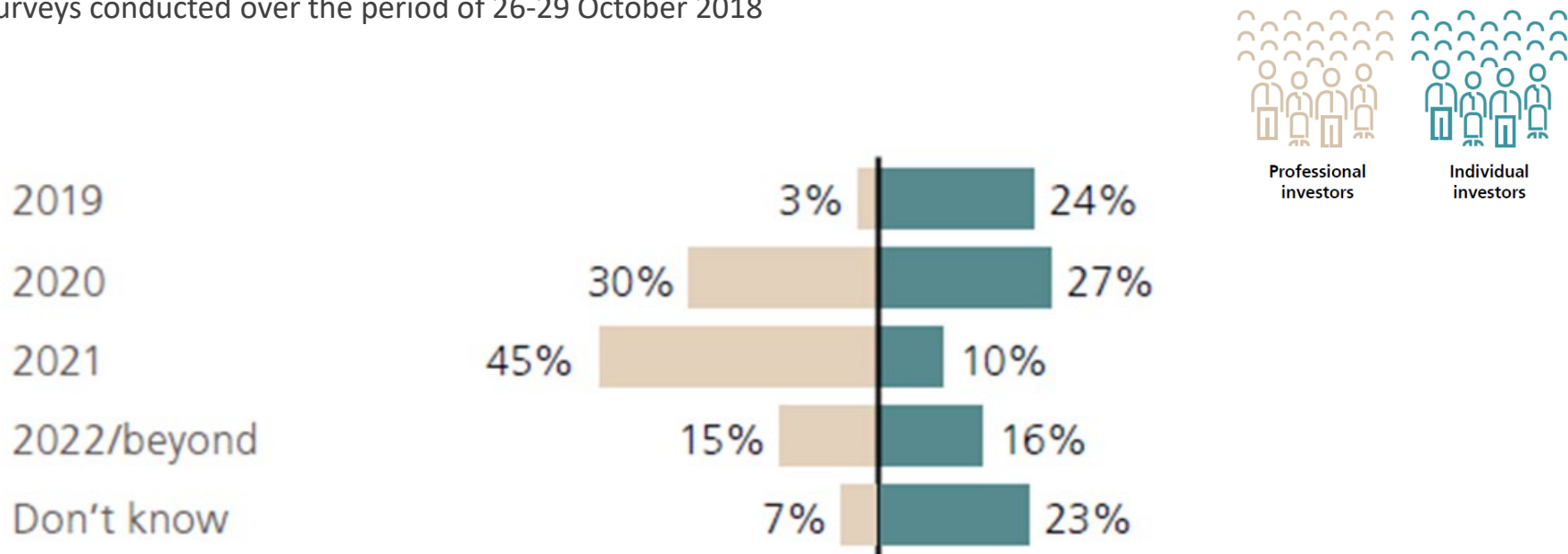
Source: Haver Analytics, UBS as of 7 November 2018



Note: Includes securities purchases of the ECB, Federal Reserve, Bank of England and Bank of Japan (financed by central bank money creation). 3-month moving average until end of 2019

Recession survey: When do you expect it to start?

Surveys conducted over the period of 26-29 October 2018



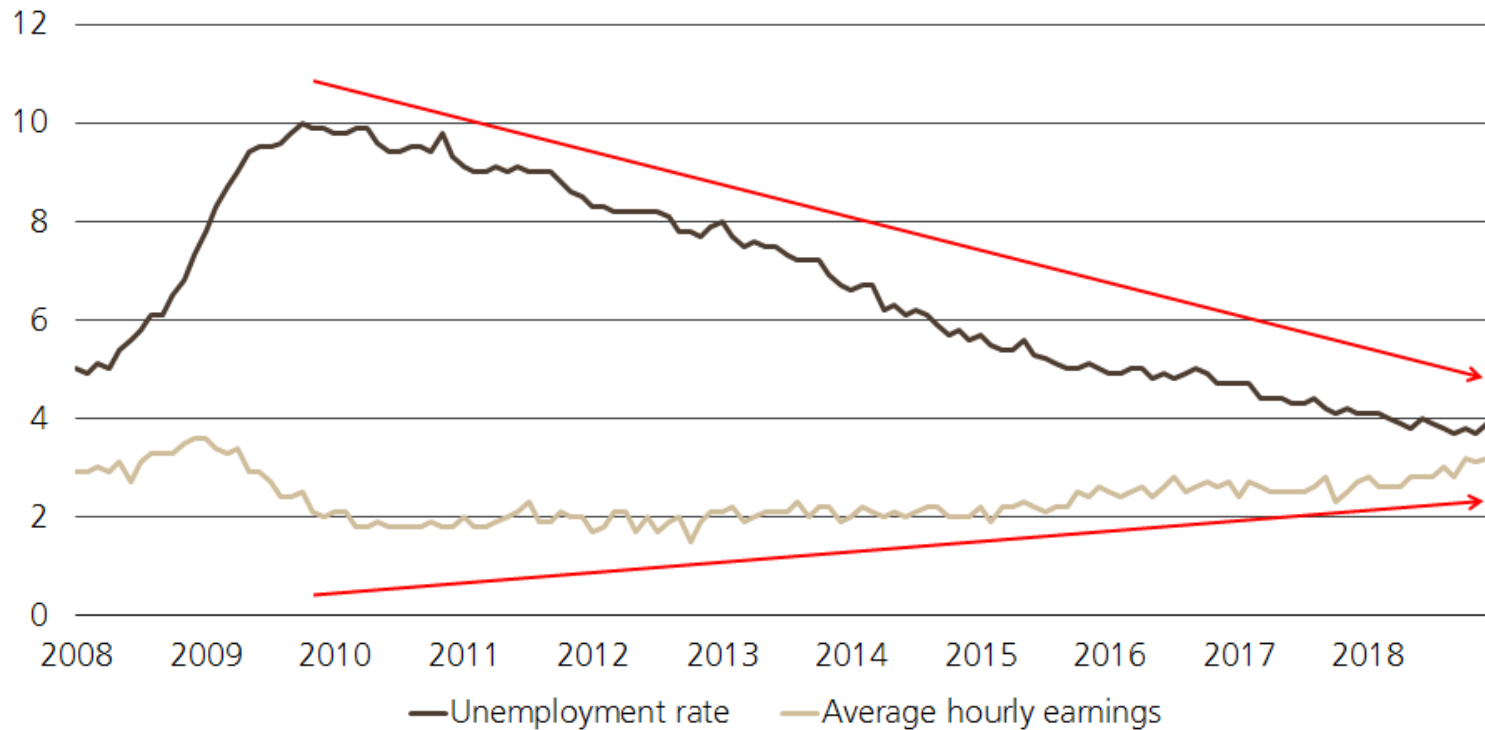
Source: UBS, as of 1 November 2018

We surveyed 502 HNW Investors with at least \$1M in investable assets, from October 26–29 2018, as well as professional investors who contribute to our UBS Investor Forum and Research Advisory Board



US consumption to stay an economic pillar in 2019

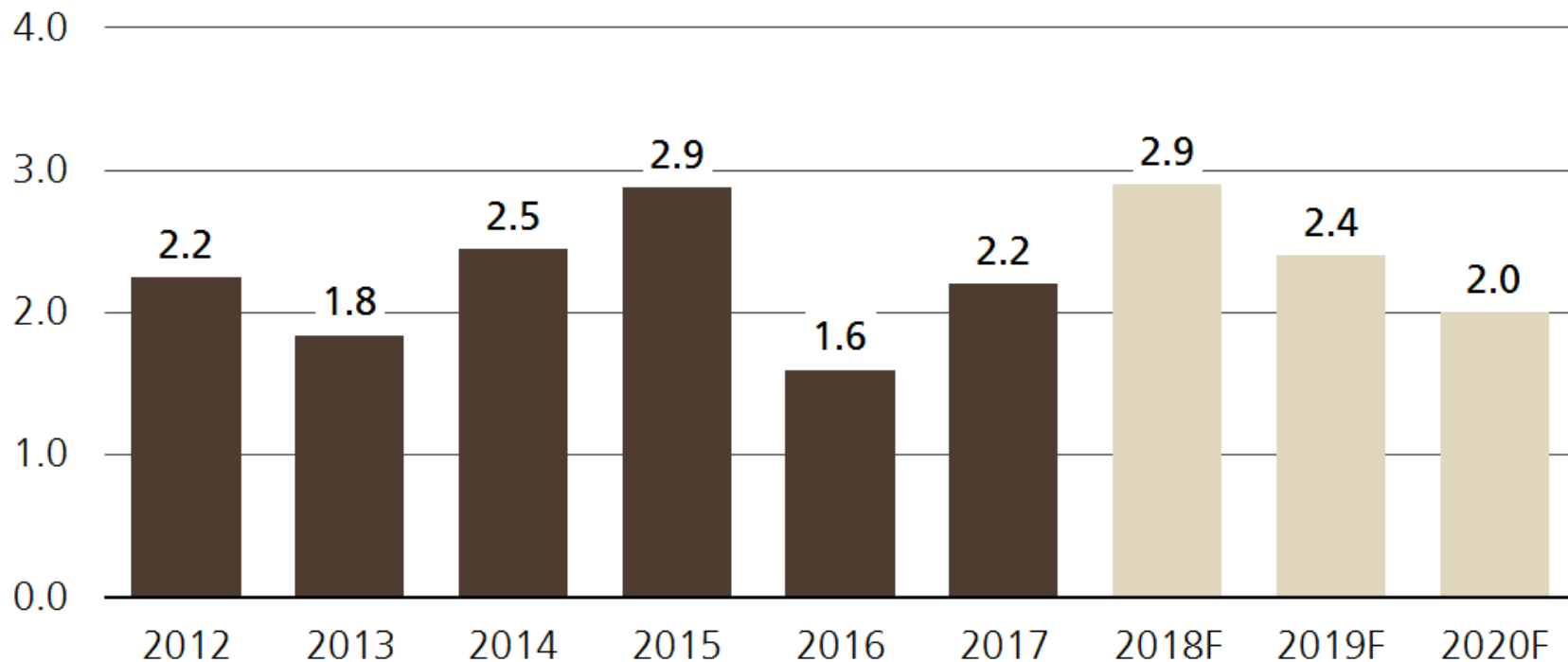
US unemployment rate and average hourly earnings, year-on-year, in %





US GDP growth close to trend

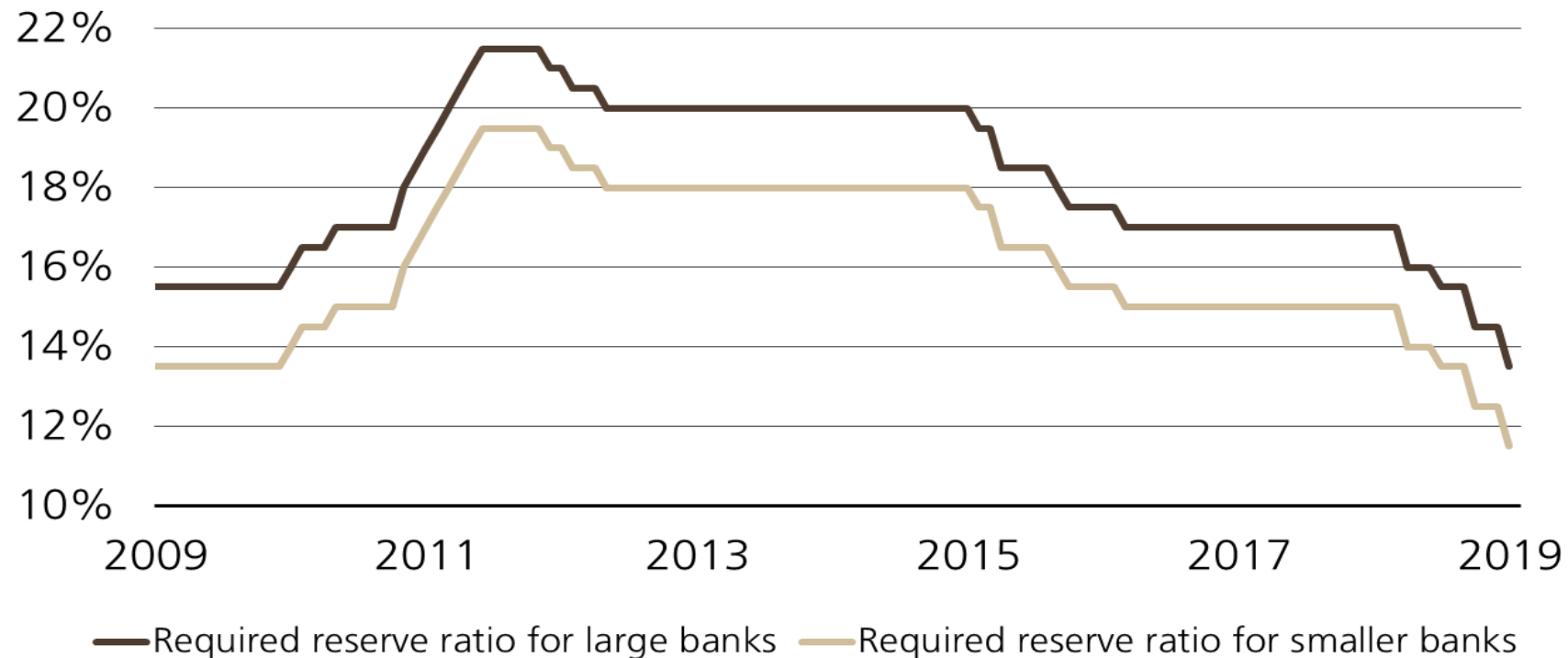
US real GDP growth and UBS forecasts, in %



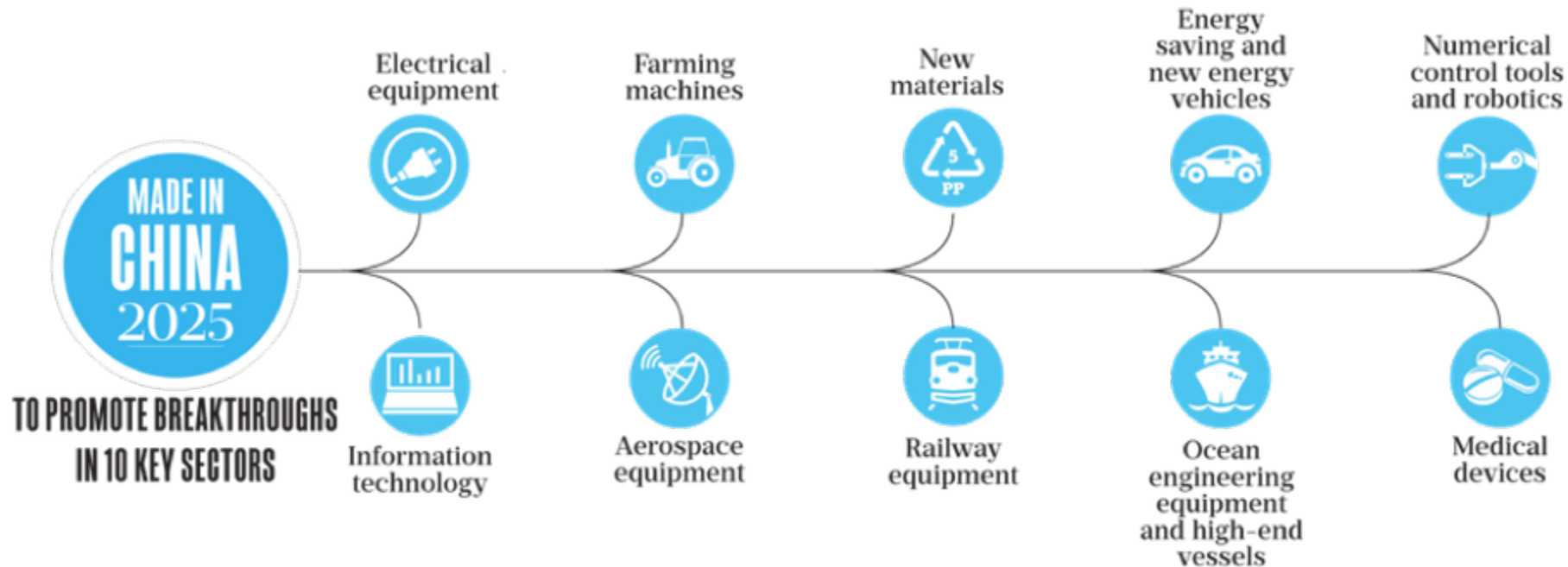


Chinese credit easing

China required deposit reserve ratio for larger and smaller banks



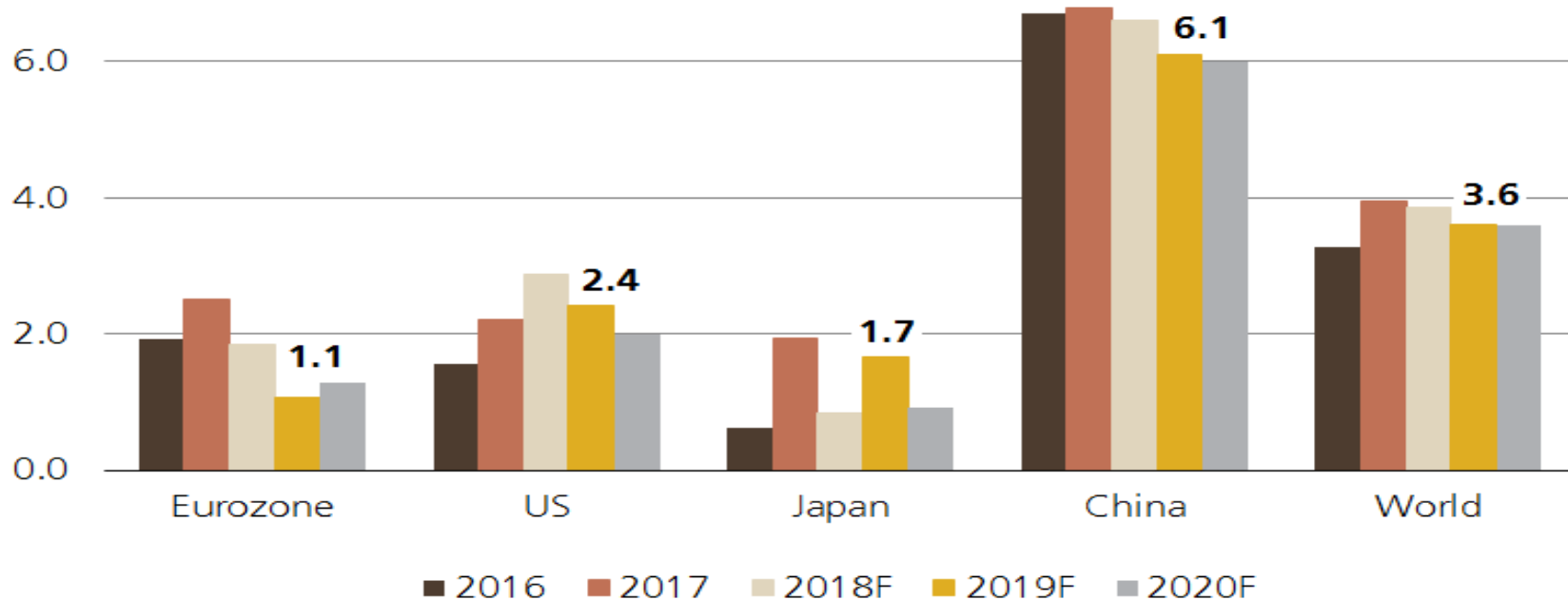
“Made in China 2025” – not what you would expect





World economic growth is moderating

Real GDP growth (in %), including forecasts (2018-2020)





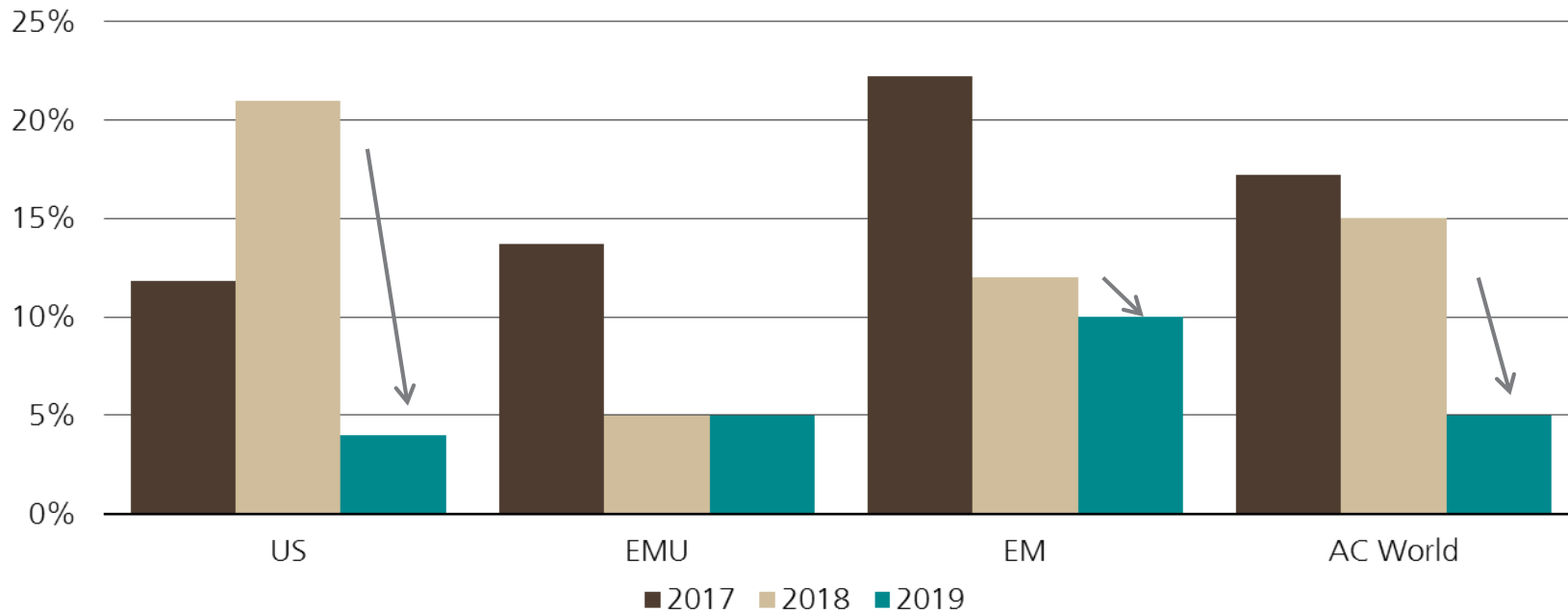
The environment is **navigable**





Lower earnings growth ahead...

Earnings per share for select MSCI Indexes, with UBS forecasts

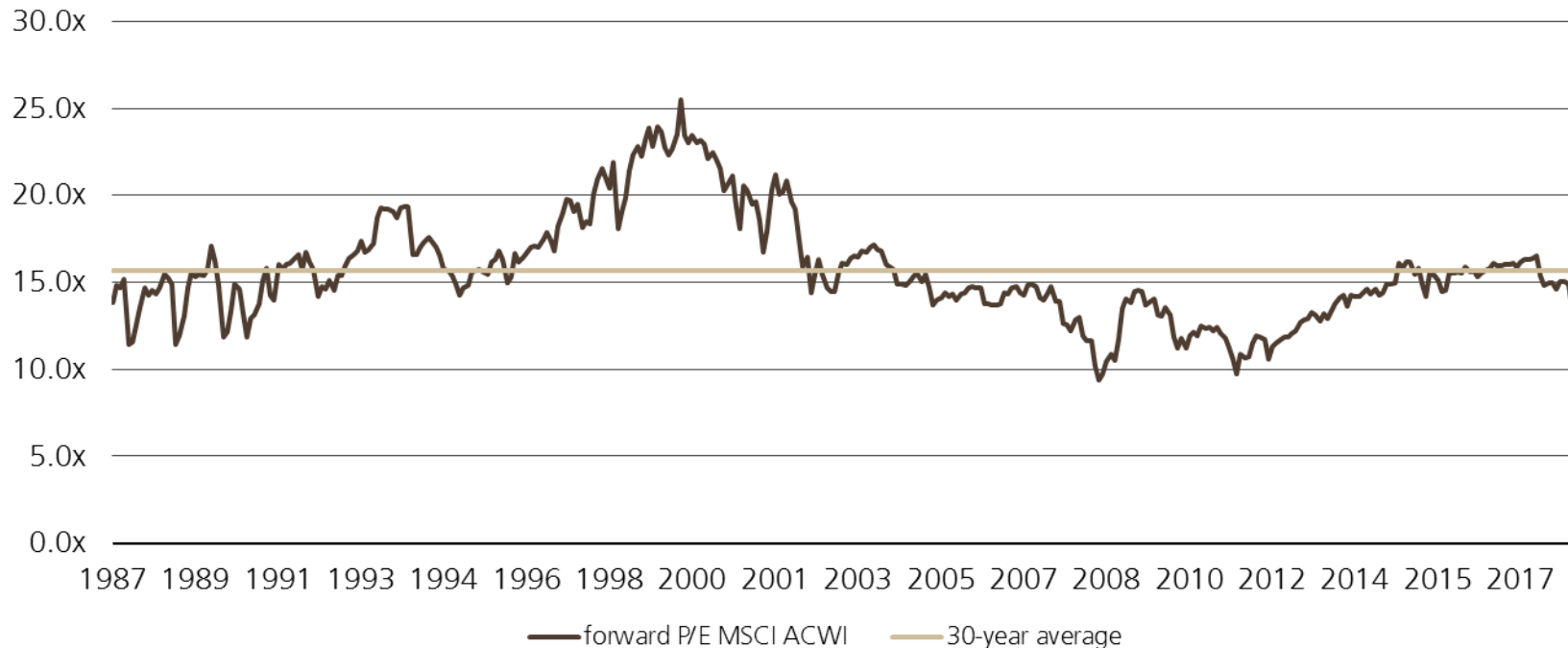


Source: UBS as of 7 November 2018



Equities: **Valuations** are **attractive** relative to historical averages

MSCI All Country World Index forward 12-month P/E and 30-year average

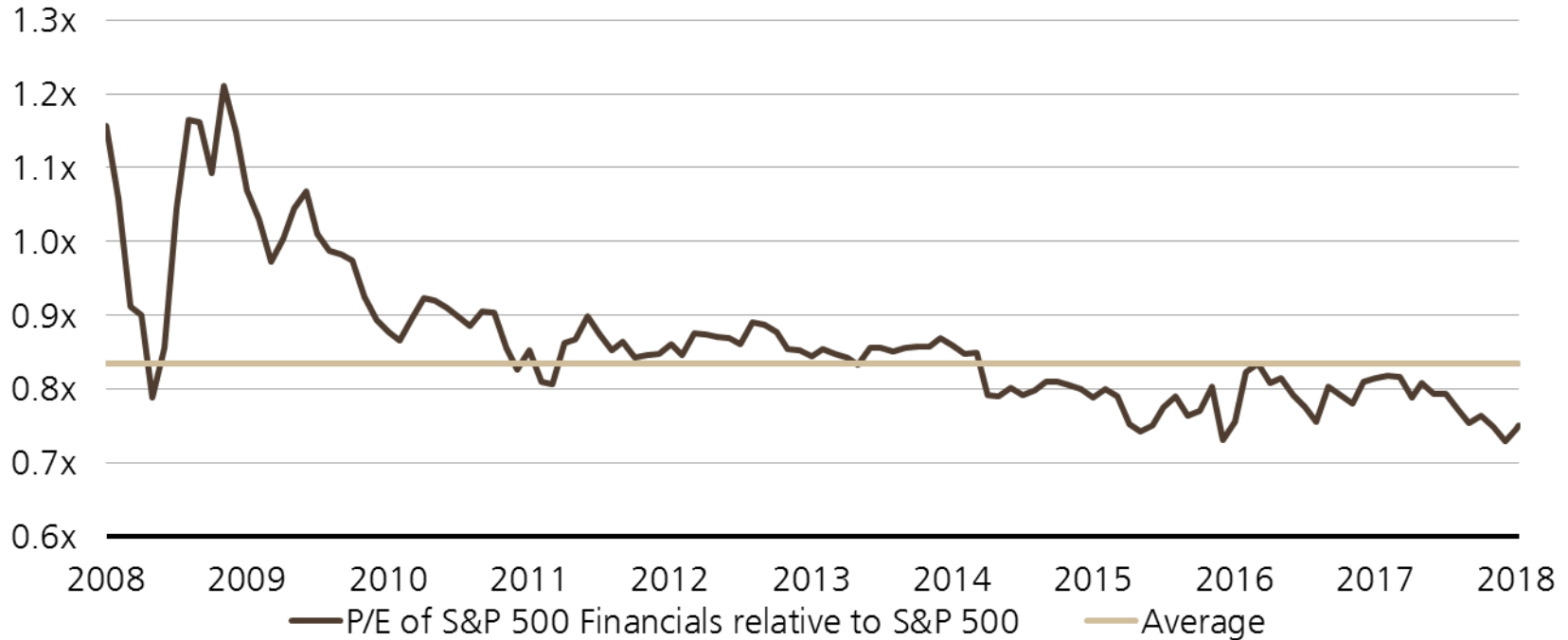


Source: UBS, as of 7 November 2018



Equities: **US financials** valuations look favorable

Price-to-earnings ratio of the S&P 500 financials versus the wider S&P 500 index

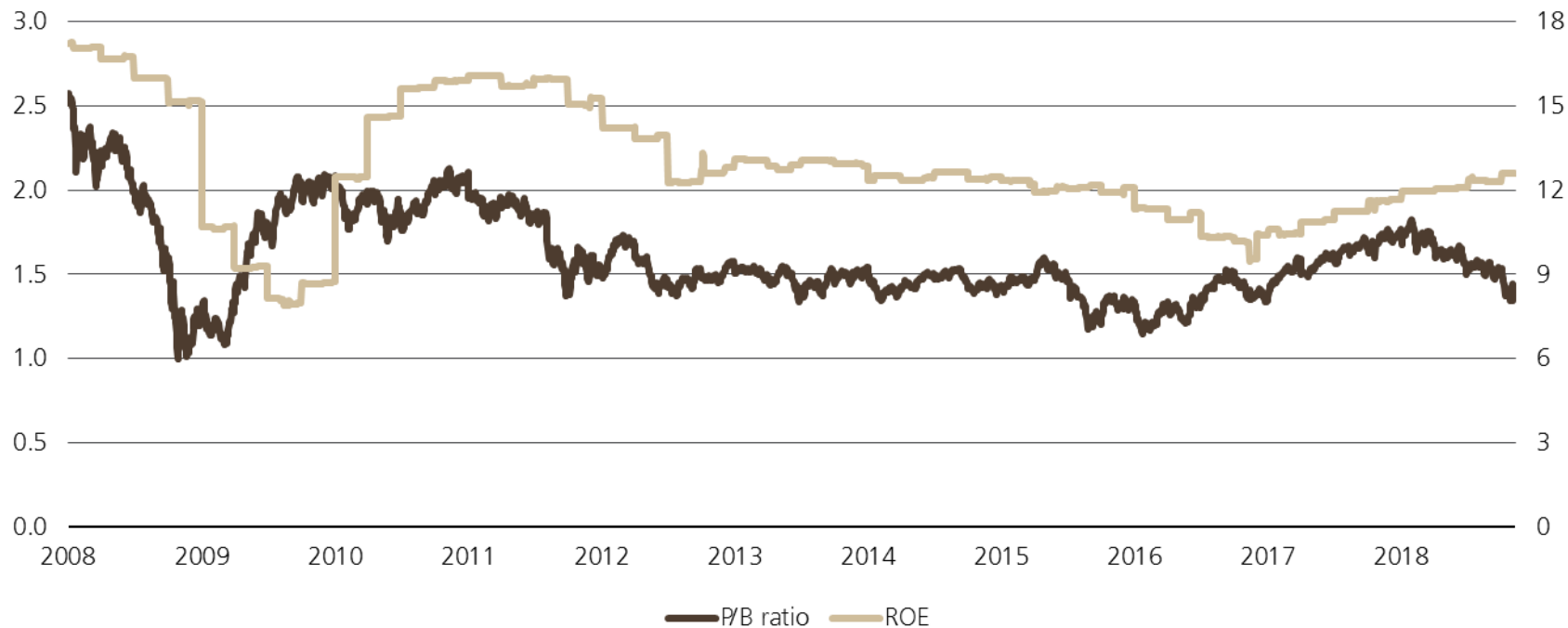


Source: FactSet, UBS, as of 7 November 2018



Equities: Valuation support for Asian equities

The MSCI Asia ex-Japan Index's P/B valuation unduly discounts a sharp decline in R/E



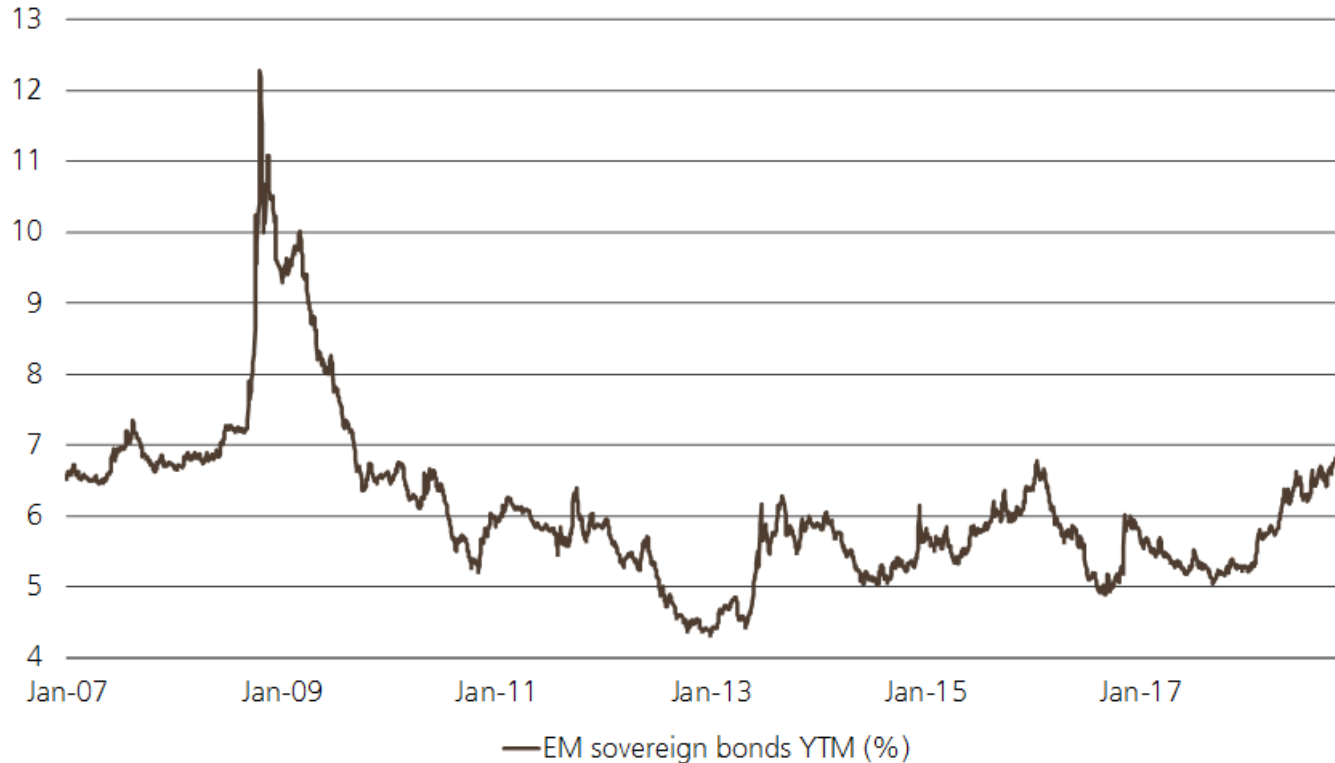
Source: Bloomberg, FactSet, as of 7 November 2018

Source: UBS



Bonds: EM sovereign bonds in USD an attractive 6.9% yield

EM sovereign bonds in USD, yield-to-maturity (YTM), in %





Bonds: **Asia High Yield** competitively priced as yields approach 9%

JACI High Yield Index yield-to-maturity (YTM), in %



Source: Bloomberg, UBS, as of 6 November 2018



Source: UBS



Oil: Low spare capacity to bring prices higher

Brent oil prices, USD per barrell

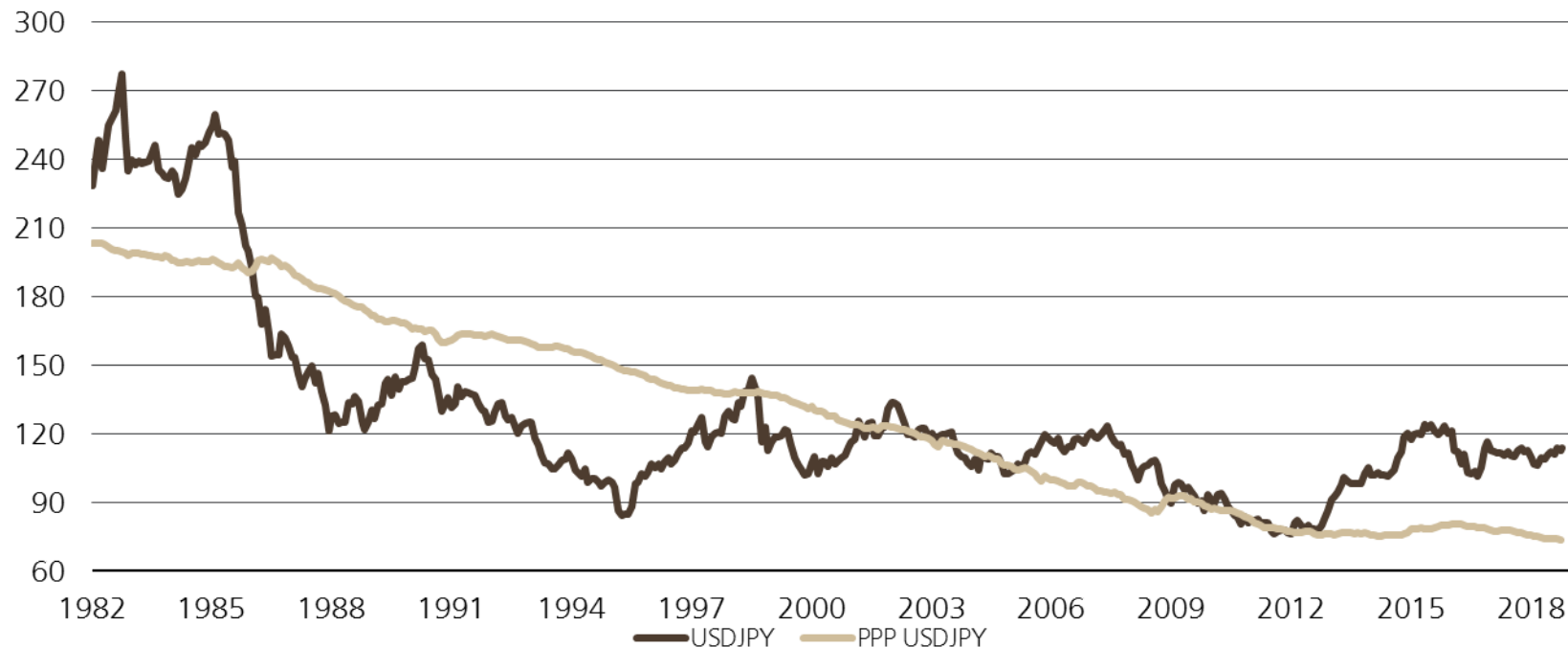


Source: IEA, as of 1 October 2018



Currencies: The yen is undervalued

USDJPY and purchasing power parity value since 1982

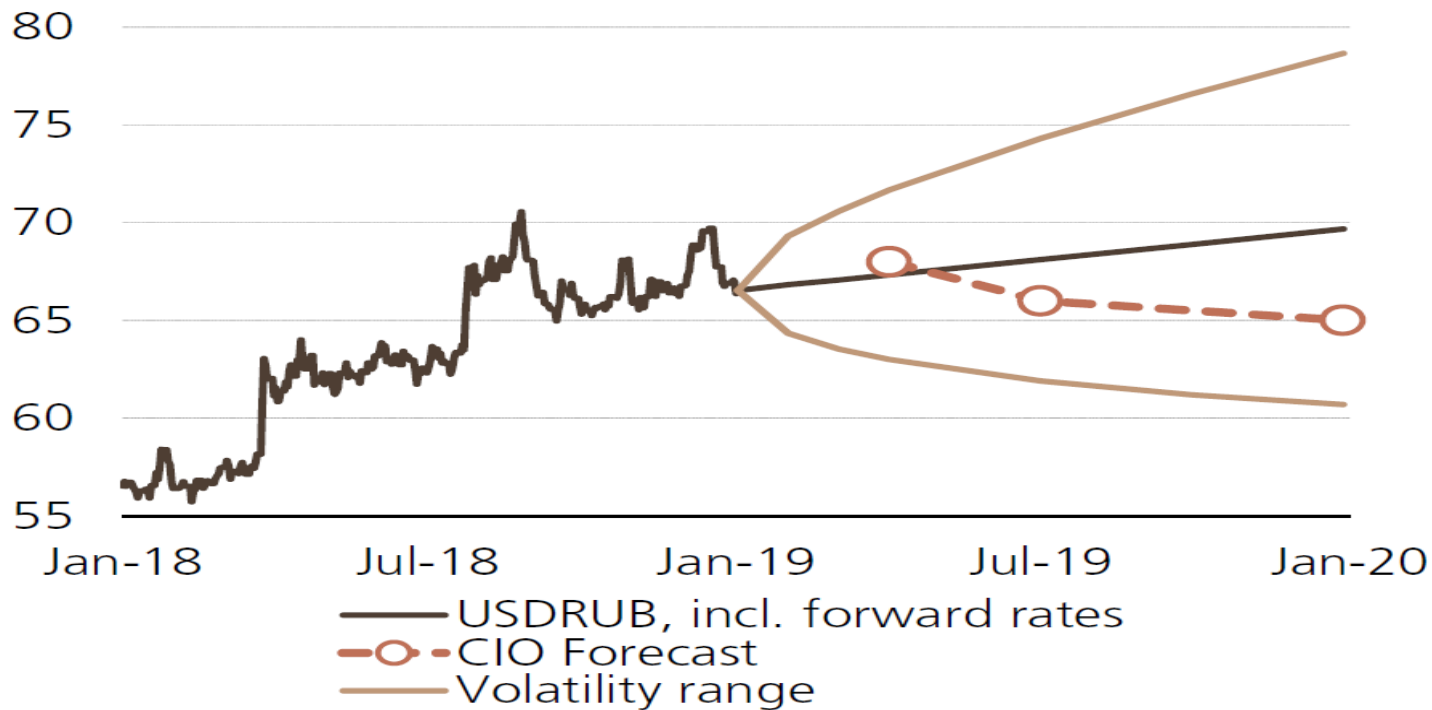


Source: UBS, as of 19 October 2018



USDRUB: Forecast for 65 in 12months

USDRUB spot rate





EURUSD to mover higher over 2019

EURUSD spot rate



Summary

Equities: Like global equities. Look for value in US and EM, consider financials in US and China, global energy, and sustainable equity strategies.

Bonds: Difficult stage in the cycle for credit and loans, but rate risks well priced into government bonds. Like Asian high yield, and look to MDBs.

Currencies: Dollar strength near-term, but depreciation medium-term. Prefer yen.

Commodities: Oil price to recover in H1 2019.

Alternatives: Focus on strategies with low market beta

Real estate: Limited scope for capital appreciation, focus on income

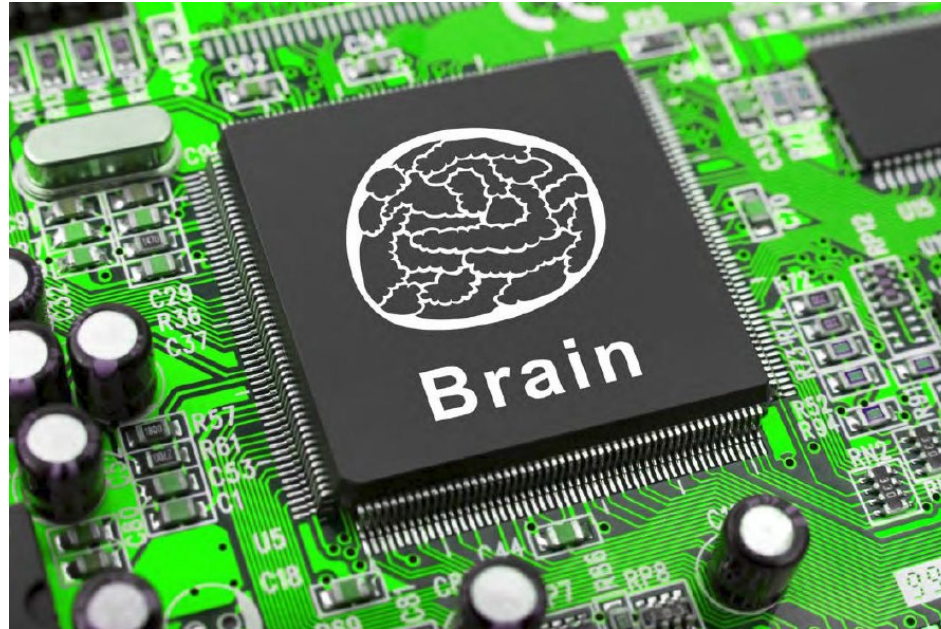


What does the **future** bring?





Technology: Computing power takes off



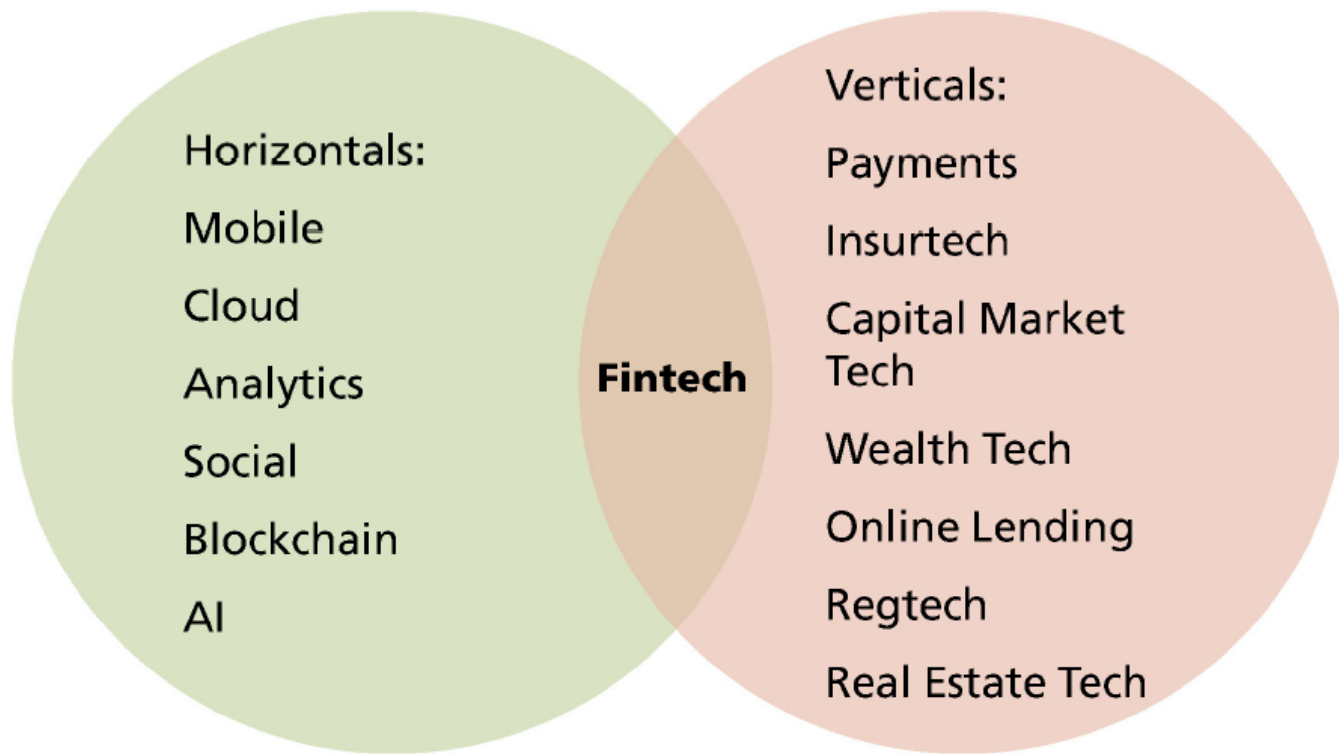


FinTech: A challenge for banks?





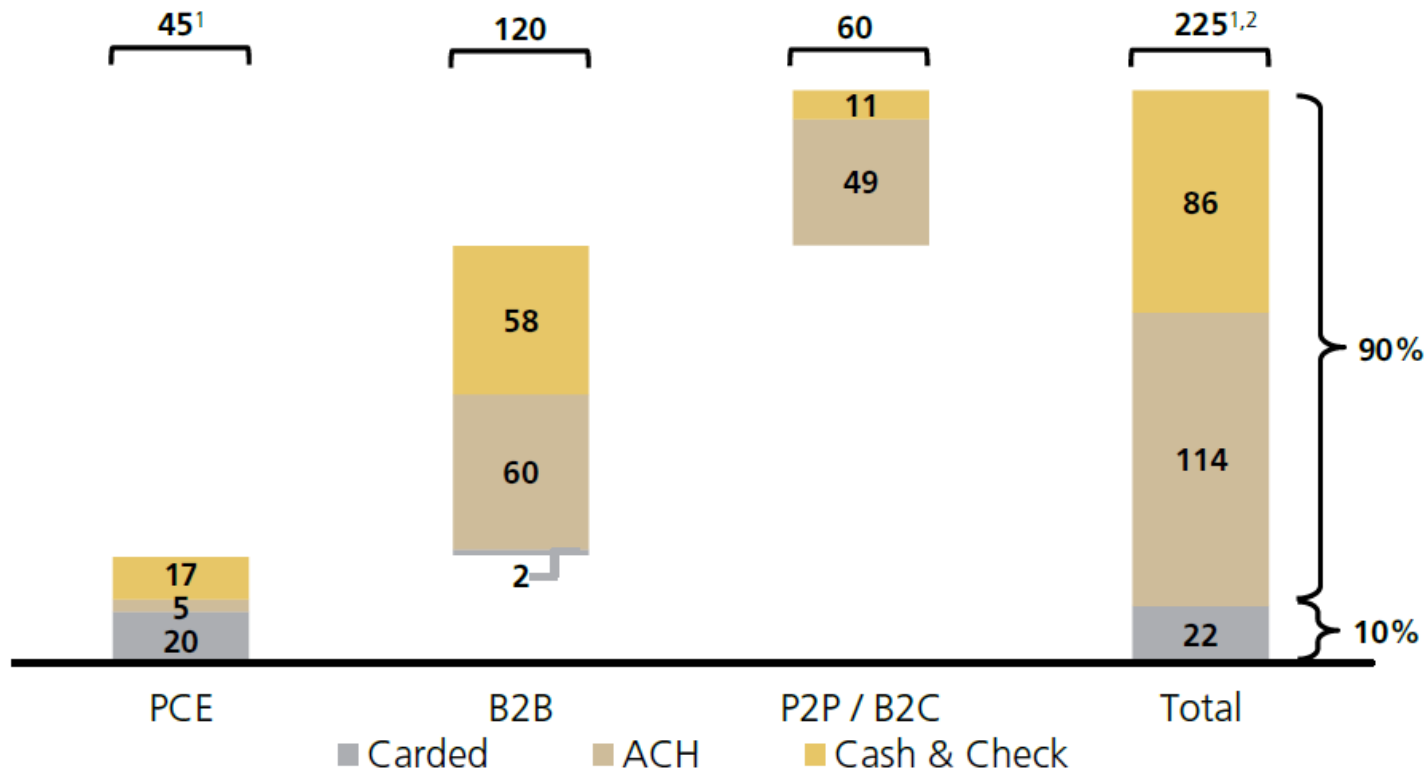
FinTech: The ecosystem





Payment: There is a reason for the interest

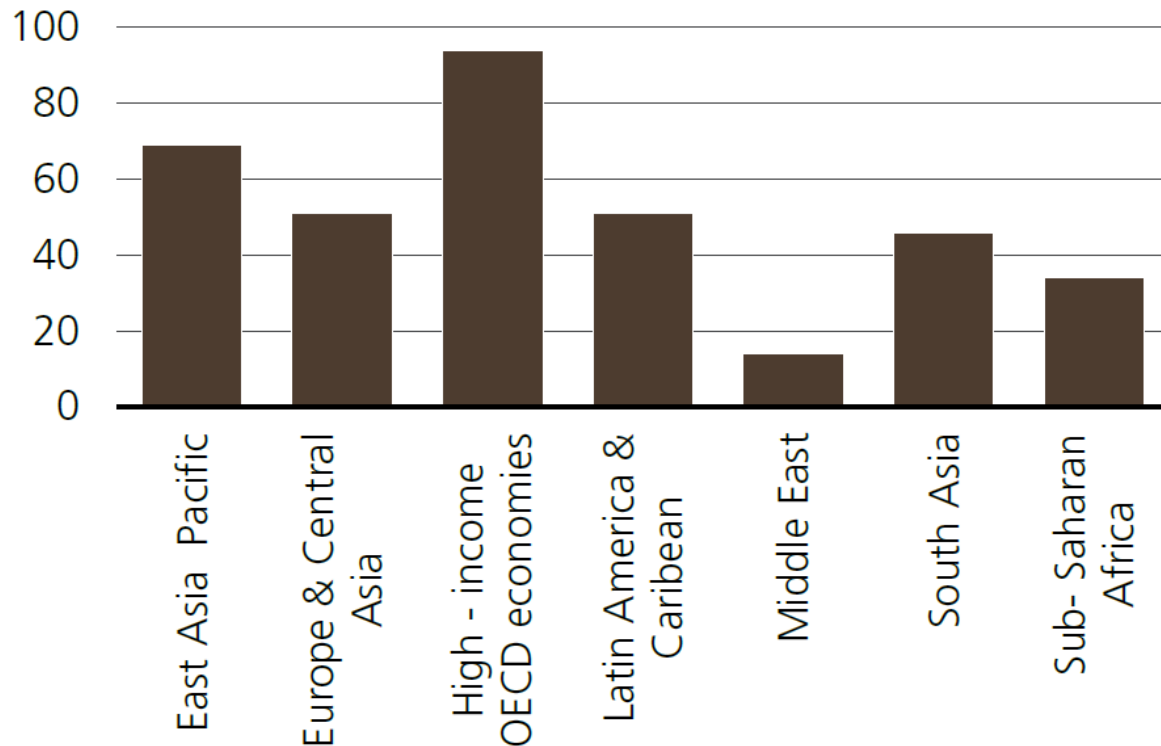
Market size by payment flow, in USD trn.





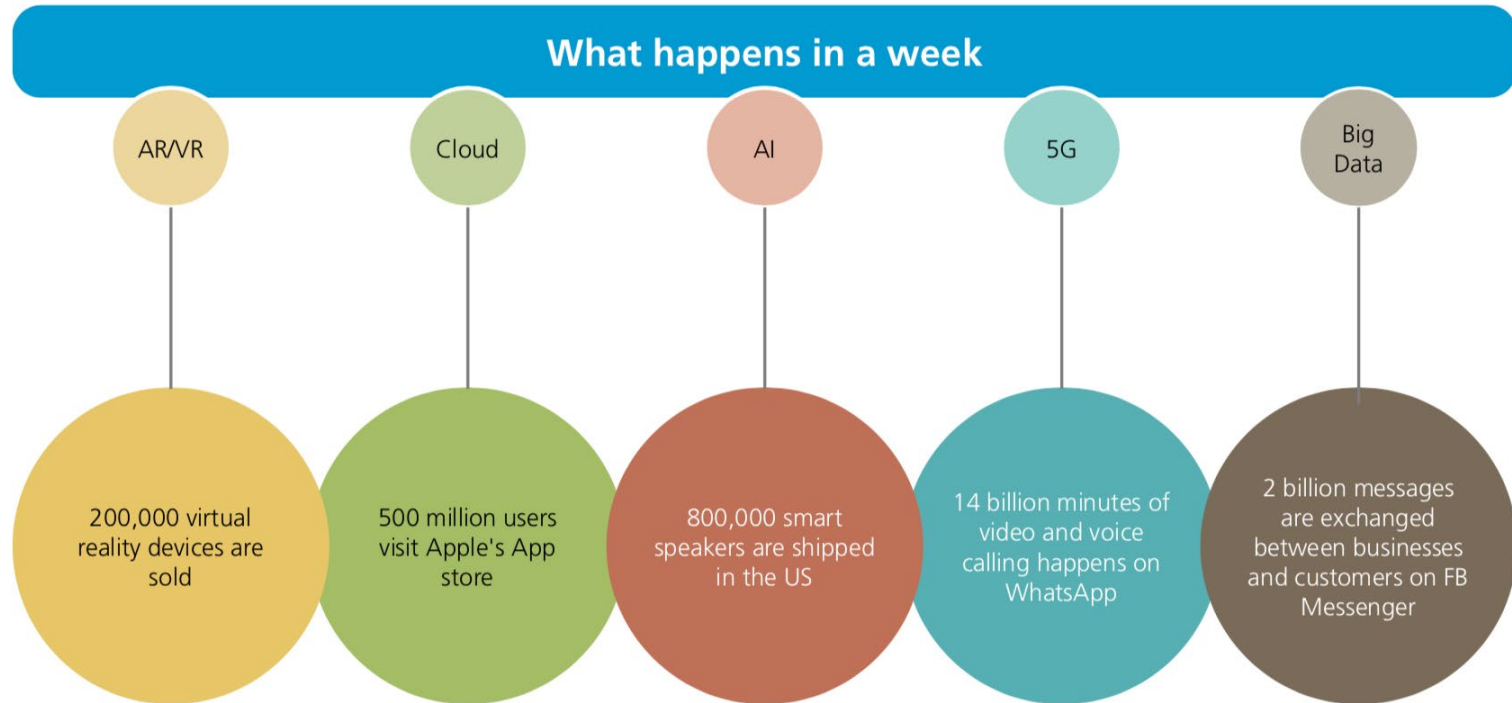
FinTech: Financial inclusion still has a long way to go

Adults with a banking account in 2014, in %





Enabling technologies: What happens in a week?

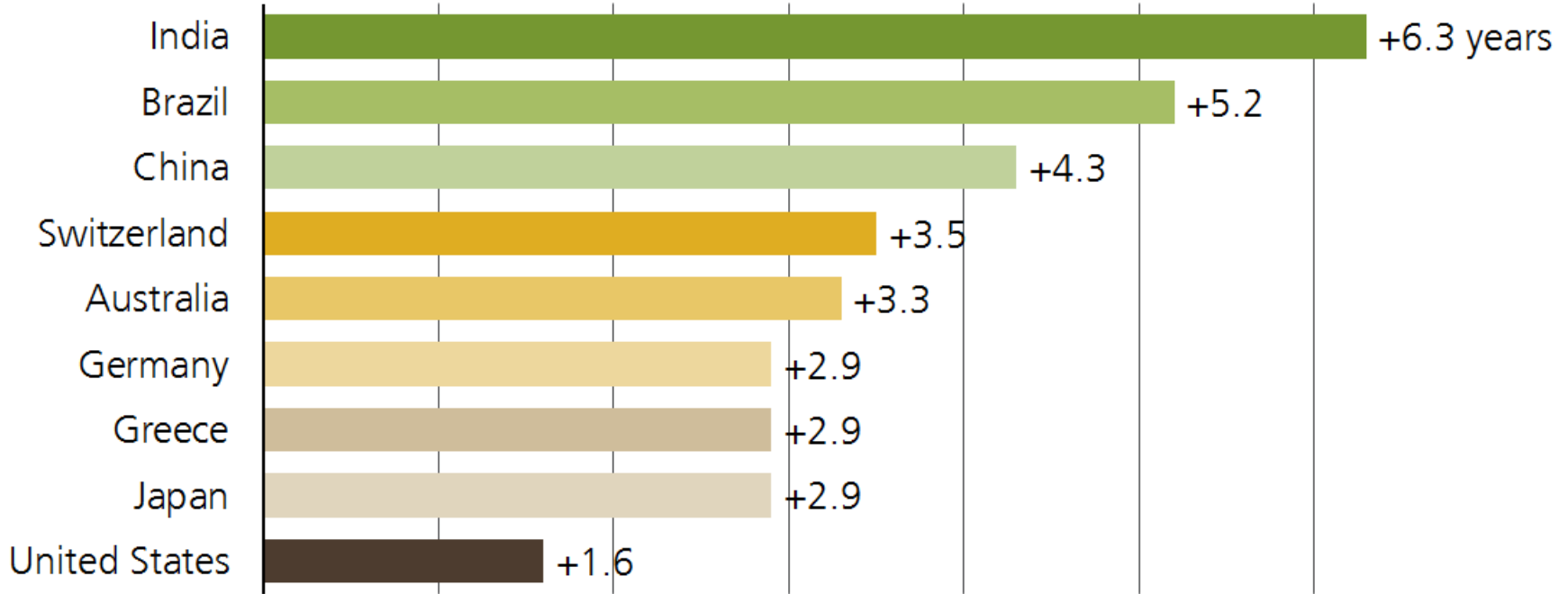


Source: Company reports, Facebook, Apple, eMarketer, IDC, Bloomberg Intelligence, UBS, as of May 2018



Longevity: The difference between being born in 2000 and 2016

Increase in life expectancy at birth, in years, between 2000 and 2016

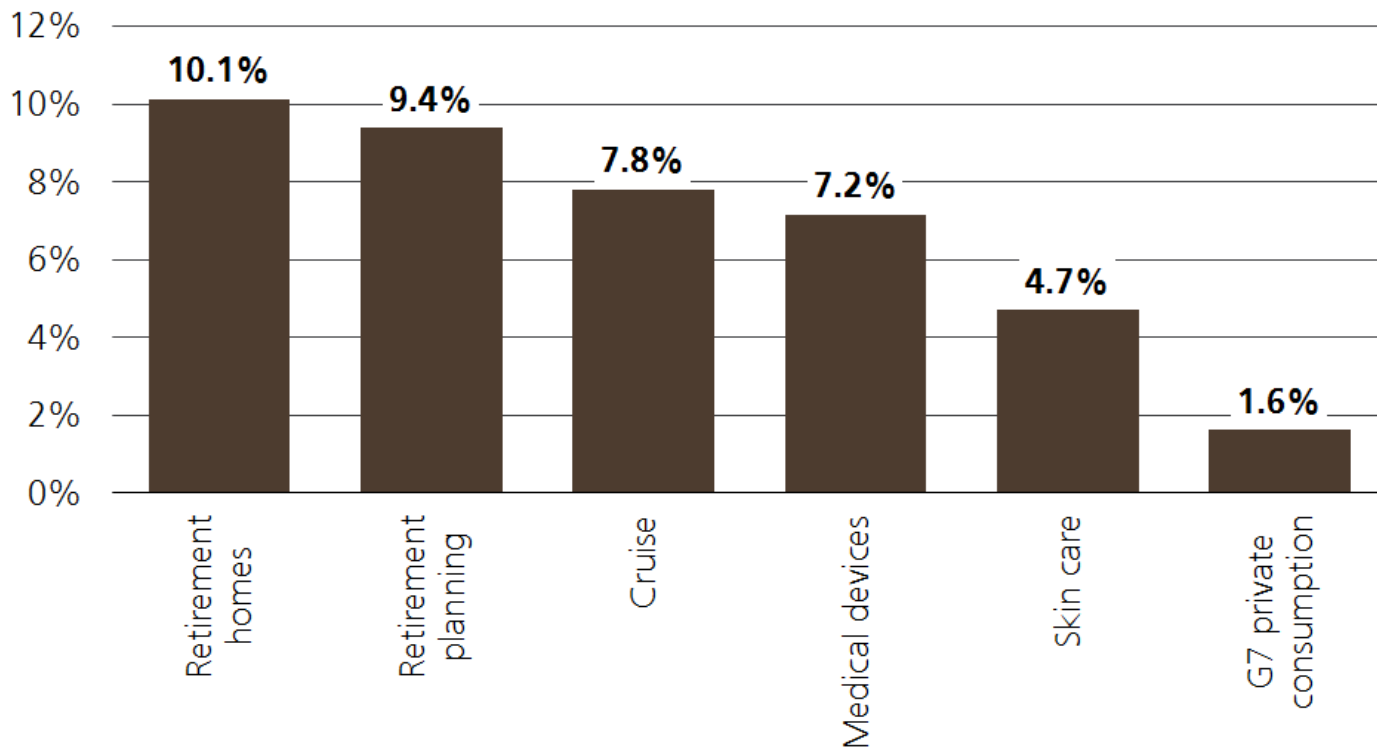


Source: Bloomberg, UBS, as of 6 November 2018



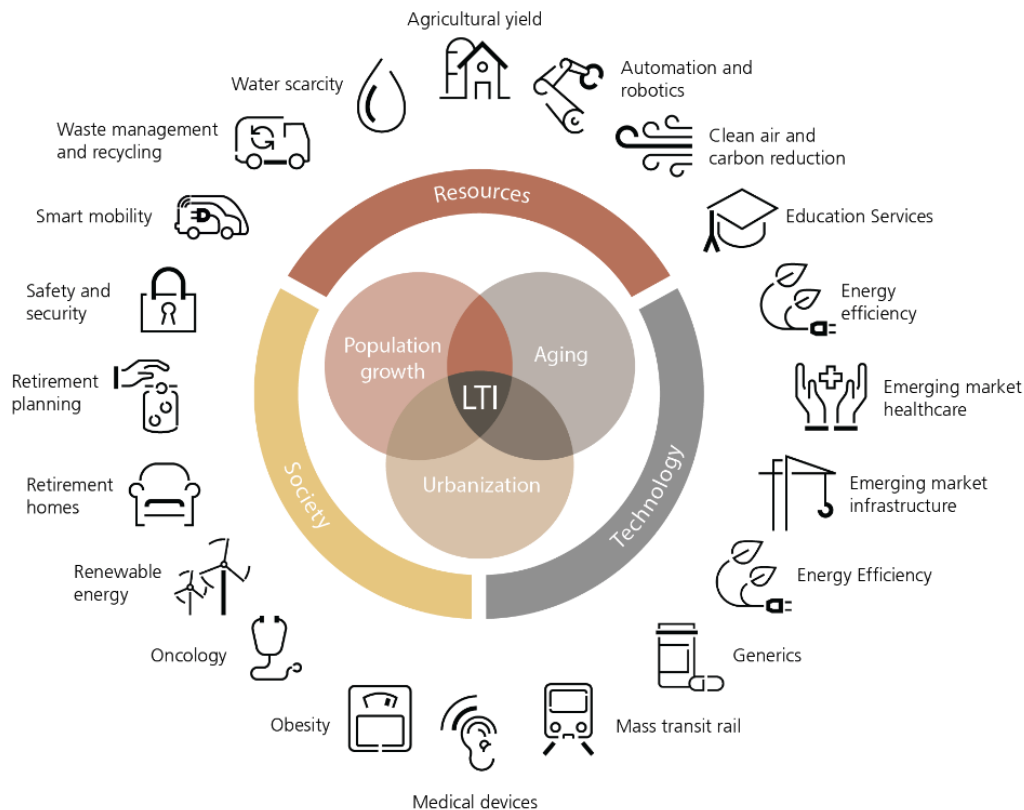
Longevity: How do elder people spend their money?

Average growth in spending expected p.a. from 2017-2021





CIO Investment Themes



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