13 July 2023, 4:18 PM UTC
Chief Investment Office GWM
Investment Research

Fixed Income Strategist

Monthly July 2023

Midyear outlook: Anticipation

Our review of key topics influencing the taxable fixed income landscape, with an assessment of relative value trends at the sector and individual security level.

Contents

Authors

Leslie Falconio
leslie.falconio@ubs.com
212.713.8496

Barry McAlinden, CFA
barry.mcalinden@ubs.com
212.713.3261

Kathleen McNamara, CFA, CFP
kathleen.mcnamara@ubs.com
212.713.3310

Frank Sileo, CFA
frank.sileo@ubs.com
212.713.4824

Alina Golant, CFA
alina.golant@ubs.com
212.882.5585

John Murtagh, MBA
john.murtagh@ubs.com
212.713.2642

Editor

Thomas McLoughlin
thomas.mcloughlin@ubs.com
212.713.3914

Dear readers,

In this month's *Fixed Income Strategist,* "Midyear outlook: Anticipation," we discuss the market's convergence toward the Fed's guidance—with a higher terminal rate, a higher-for-longer Fed policy, alongside a later and lower policy pivot.

We review year-to-date fixed income performance, alongside the highlights and disappointments that have resulted from the early anticipation of a US recession.

We reiterate our preference for high-quality fixed income and discuss why the second half will be dominated by locking in yields, not spread compression, particularly in corporate credit.

We review our current positioning preferences and analyze projected returns based on tight spreads but higher yields. We review our year-end interest rate expectations, where we would be positioned on the yield curve, and why TIPS are gaining more traction.

As always, thoughts and comments are welcome.

Leslie Falconio
Senior Fixed Income Strategist
UBS CIO

UBS Trending: Breakdown of the Fixed Income Strategy report
For more on our midyear outlook watch this short video.

FEATURE

Fixed Income Strategist: Midyear Outlook: Anticipation

This may be the most widely anticipated and elusive economic recession in history. Now that fixed income markets have recalibrated to celebrate the persistent strength of the US economy, is the risk within fixed income higher? In this issue of *Fixed Income Strategist*, we will highlight what we are seeing, what we are doing, and what we are watching for the second half of the year.

Whatever happened to the year of fixed income?

2023 was supposed to be the year of fixed income. The destruction of last year's spike in interest rates and volatility fueled the long-awaited appetite for the asset class as lower prices and higher yields became a large tailwind to total return performance. As the year went on, heightened expectations of a recession left investors waiting for that next shoe to drop and thus piled into money market funds, which now total over USD 5.2tr. They are still waiting. With the consumer remaining impervious to rising rates and higher borrowing costs, the market has once again adopted a "not now, but later" recession mantra. All signs of a dovish Federal Reserve in 2023 have been removed in place of a higher-for-longer outlook, pushing forward the need for a Fed easing well into the second quarter of 2024. The market has repriced for a higher terminal rate of 5.6% and staying there for six to eight months, alongside a lesser amount of Fed easing in 2024—now assumed to be 120 basis points compared to 165bps in May, leading the 10-year yield to trend toward the year-to-date high of 4.08%. In that context, where do we go from here? And what will be the tipping points going forward?

Where do we see interest rates in 2H23?

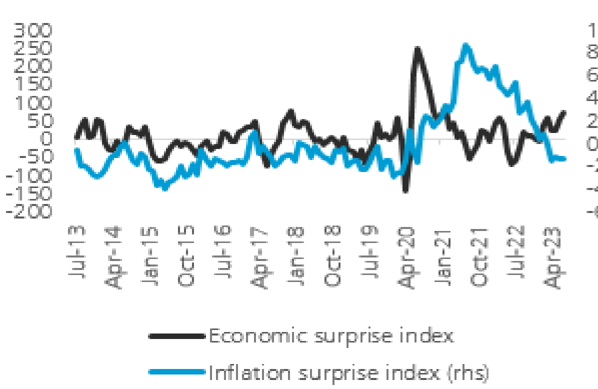
With the market now embracing the unexpectedly strong economic performance, we are in a bit of a "no man's land" where there is not a significant positive or negative outcome priced into the market. Over the near term, we see range-bound Treasury yields between 3.5% and 4%, ending the year between 3.25% and 3.5%. Our expectation is that the US economy will remain in a growth recession—i.e., growing below trend—and we put a high probability of revisiting a 3.25% 10-year yield, last reached during the regional banking crisis, at some point in 2H23.

Higher-for-longer interest rates are restrictive to both the US consumer and corporate balance sheets, and we anticipate inflation pressures to continue to decline during the rest of the year. Nonetheless, we, too, have been surprised with the underlying momentum of the economy. Below we looked at the economic and inflation surprise indexes. When the economic surprise index rises, the economy is showing greater strength than anticipated, and when the inflation surprise index trends negative, the actual inflation print is coming in lower than what the market was anticipating. Both indicators have been trending in the right direction over the past two months, which has contributed to the elevated fears of an early onset recession.

However, these numbers and the economic indicators they represent, such as nonfarm payrolls, are backward-looking. What lies ahead will be dependent on consumer optimism and the highly debated excess savings cushion. As this cushion depletes, the consumer may not find themselves as isolated from higher interest rates as they have over the past year. As excess savings dwindle in 4Q23 or 1Q24, alongside the rolling over of the fiscal impulse, the impact of a higher fed funds rate will weigh on service spending and affect employment growth.

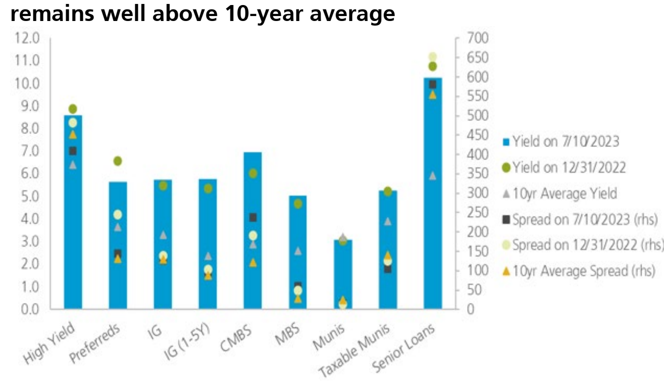
The depletion of savings is therefore one of the tipping points to watch in 2H23. The second is liquidity. Large declines in money supply, rising Treasury issuance, tighter lending standards, and continued quantitative tightening (QT) are all headwinds to liquidity. Today, liquidity remains ample, but the impact of the higher cost of capital needs to be monitored. We anticipate a Fed that is nearing

Economic data have surprised on the upside while actual inflation has printed below expectations



Source: Citi, UBS, as of 10 July 2023

Yield earned on fixed income has surpassed end of year and remains well above 10-year average



Source: FactSet, ICE BofA , UBS, as of 10 July 2023 the end of the tightening cycle, but a pause is not a pivot. The large decline in Treasury yields often witnessed in the past after the Fed pauses—around 70bps in 3 months—may not be as dramatic in this cycle. For over a decade, the market has relied on Fed buying. But the Fed is a price-insensitive buyer and seller of fixed income, so as it continues QT and becomes more of a spectator than a participant, market participants will shift from being price-insensitive to price-sensitive buyers. The private market will need to pick up the slack as the Treasury floats USD 600bn coupon issuances in 2H23. Although we expect a decline in yields into year-end, it may not be as dramatic post-Fed pause in the current environment.

We maintain a preference for a barbell strategy that results in a duration of roughly five years. While the belly of the curve has underperformed as the market reprices the terminal rate, we believe it will lead the way in 2H23 and especially into 2024. Given our expectation that the yield curve will remain inverted into 2H24 (the one-year forward 2y/10y spread sits at –30bps), we maintain the barbell over the bullet strategy.

Fixed Income risk assets

Credit markets have proven surprisingly resilient to higher interest rates and a hawkish Fed. Lower credit quality sector such as high yield (HY) has reopened following the financial instability witnessed in March. New issuance was up 38% in the first half of the year, and the new issuance of USD 28.6bn in May was the highest monthly total since November 2021.

While we maintain a barbell strategy in investment grade (IG) corporates, overall, the sector is not cheap. At 128bps in spread, the IG corporate index sits at the 42nd percentile over the past 20 years; however, the yield of 5.8% sits near the 80th percentile. Therefore, it will be yield and not spread that becomes the tailwind to total return over the next six months (below left). The recent rise in US Treasury yields has pushed most fixed income yields above their start-of-the-year levels. The higher income will be the principal driver of total returns and a cushion to potential spread widening (35bps) later in the year.

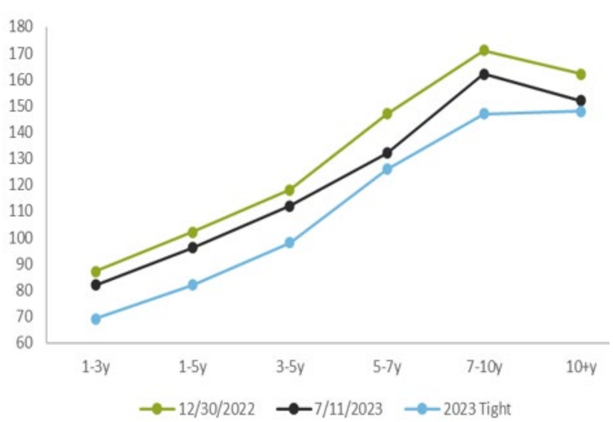
With the 1–3-year IG index at a 5.8% yield, we continue to view this level as attractive (thanks to the current yield curve inversion). However, given the lower embedded interest rate risk, the total return potential may be limited to the income earned, not price appreciation. Given our higher-for-longer view on the federal funds rate, we do not believe short-end yields will begin to materially decline until 2024. With the market's expectation of the longer-term fed funds rate currently at 3.25%, it is likely that 2-year yields will trend toward that level. But not in the near term. The 7–10-year remains the cheapest area of the IG curve, and at 5.68% yield, investors can earn both yield and price appreciation as we anticipate lower yields into the end of the year alongside slower growth.

Preferred securities have started to recover since the March-to-May underperformance, and we maintain our preference for the sector. Adding to risk within our fixed income portfolio (versus solely higher quality) has boded well as preferreds have returned over 4% since our 30 May inception. We remain selective but positive on the sector in 2H23.

As the market pushes recession risks further out, risk assets have benefited. However, spreads are far from cheap. Below we show the 3-month and 12-month forward total returns at various starting spread and yield levels. We have run this in 50bps increments. With HY spread at 410bps, the historical average returns over 3m and 12m going back to 2003 are 1.3 and 2.4%, respectively. However, with HY yield between 8% and 8.5%, the average 3m and 12m return is 1.7% and 8.7%. As discussed, it is yield that will drive returns. We ran this exercise for IG corporates and preferred securities as well dating back to 2003. Across the board, current spreads are not offering much to investors, but yields are expected to produce near double-digit total returns over the next 12 months. With 10-year yields not materially declining into year-end, carry remains king.

Spreads along the IG curve continue to show barbell as the best strategy

In bps



Source: ICE BofA, UBS, as of 11 July 2023

Average forward returns for given spread and yield since 2003; today, yield is a main driver

Sector colors match circle colors

	IG		High Yield		Preferreds			IG		High Yield		Preferreds	
Spread	3m TR	12m TR	3m TR	12m TR	3m TR	12m TR	YTW	3m TR	12m TR	3m TR	12m TR	3m TR	12m TR
< 100	0.41	2.41	-	-	1.79	6.51	< 3.5%	0.9	3.6	1.7	7.0	2.0	3.3
100-150	0.80	3.11	-	-	2.23	7.48	3.5-4%	1.3	5.9	1.5	3.6	2.8	4.9
150-200	1.91	6.64	-	-	1.53	7.43	4-4.5%	0.8	4.9	1.3	4.6	1.9	7.5
200-250	2.36	8.55	0.15	4.88	1.11	8.48	4.5-5%	1.3	6.0	0.7	3.1	1.7	8.4
250-300	-0.54	0.71	0.99	4.25	-0.49	3.27	5-5.5%	1.1	1.9	0.9	5.7	1.4	5.1
300-350	2.99	10.54	1.01	5.45	2.89	0.52	5.5-6%	1.2	2.8	1.5	5.8	1.3	5.4
350-400	0.25	8.02	1.60	6.57	10.22	-10.82	6-6.5%	0.5	2.6	1.4	5.6	1.3	7.1
400-450	4.06	11.99	1.15	4.30	14.68	-18.07	6.5-7%	0.5	5.5	1.9	7.6	-0.3	9.8
450-500	1.90	9.88	1.54	5.55	4.00	-19.85	7-7.5%	2.2	9.0	1.5	8.3	0.3	4.4
500-550	1.53	8.43	1.28	6.87	24.48	-30.18	7.5-8%	2.0	8.7	2.2	7.3	5.0	-6.8
550-600	1.52	5.99	2.59	10.05	-10.91	-30.89	8-8.5%	2.4	6.0	2.0	7.9	18.3	-15.4
600-650	4.57	4.79	3.18	9.74	-7.00	-32.67	8.5-9%	-1.9	1.5	1.6	6.7	18.1	-20.9
650-700	-	-	2.85	10.42	-8.46	-34.70	9-9.5%	-2.0	1.4	1.5	11.2	10.0	-25.2
700-750	-	-	2.44	11.19	-8.82	-38.70	9.5-10%	-	-	1.4	7.1	-6.7	-30.2
750+	-	-	2.82	12.57	-21.27	-42.90	10%+	-	-	2.6	9.2	-20.0	-40.9

Source: Bloomberg, ICE BofA, UBS, as of 10 July 2023

US Fixed Income Preferences

	Least preferred		Most preferred
Fixed Income		=	
US Gov't FI	−		
TIPS		=	
Agency debt		=	
MBS			+
MBS securitized		=	
IG corporates			+
High yield		=	
Taxable muni		=	
Preferred			+
Senior loan		=	

Taxable allocations & recommendations

We updated our taxable fixed income asset allocation table to reflect the changes in the strategic asset allocation in *UBS House View* and the updated capital market assumptions. Our goal with this table is to provide investors with a road map of *UBS House View*.

	Least preferred		Most preferred
Fixed Income		=	
US Gov't FI	–		
TIPS		=	
Agency debt		=	
MBS			+
MBS securitized		=	
IG corporates			+
High yield		=	
Taxable muni		=	
Preferred			+
Senior loan		=	

US taxable fixed income allocation

US Treasuries	**Our least preferred allocation is due to the preferred weighting in agency MBS**. With the market pricing in higher-for-longer rates alongside another 25bps rate hike in July, we anticipate 10-year yields to trend toward 3.25–3.5% by year-end. Investors should add interest rate risk selectively toward 3.95%, as a move over 4% will not be sustained.
TIPS	We remain **neutral** on TIPS but believe real yields have moved too high over the past two weeks. With 5-year real yields reaching 2.25%, we do believe an entry point at 2% or above Is attractive and will be in-the-money in the long term as growth slows. Fund flows are still negative, however, so we want to see a sustained reversal.
Agency debt	**Neutral** with a preference for agency MBS.
Agency mortgage-backed securities	**Preferred.** This AAA sector is one of the cheapest in fixed income. With AAA current coupon at 165bps to the curve and BBB corporates around 155bps, we look for agency MBS to outperform in 2H23.
MBS/Securitized products	The opportunities in non-agency MBS and CMBS will be greater during 2H23, particularly compared to the corporate market. We remain **neutral** now and wait for a slightly better entry point.
Investment grade corporates	We hold a **most preferred** view on IG corporate bonds. The higher level of yields is appealing and should provide a reasonable buffer against fundamental deterioration, which is not being priced into credit spreads. We see opportunities in both short and intermediate maturities where investors can lock in historically attractive absolute yields in bonds with 7- to 10-year maturities.
High yield corporates	HY has performed well year-to-date and spreads are below historical average levels. We maintain our **neutral** view due to our opinion that spreads are not reflecting an economic slowdown and could move wider, somewhat offset by the outright level of yields, which provide a buffer to total returns. We think HY default rates could rise to mid-single-digits, which would be lower than in past default cycles. However, as the last downturn was relatively recent, we have not seen the classic buildup of financial excess or leverage as in previous cycles.
Taxable municipals	We have a **neutral** view on taxable municipals but see room for positioning these as a carve-out exposure within an investor's government fixed income allocation.
Preferred securities	We have a **most preferred** allocation to the preferred sector based on the sector's valuation and our rate outlook. Current valuation should support the preferred sector even in a somewhat recessionary scenario, and a more favorable inflation outlook and less hawkish Fed should produce a more benign rate backdrop and lend support for the sector. Increased regulatory measures may provide a longer-term catalyst for meaningful price recovery among regional bank preferreds. There are attractive yield opportunities to be found currently among larger banks preferreds. Most preferreds trade at a discount to par and gaining sector exposure with a combination of fixed- and variable-rate coupons may provide better resilience and enhanced return potential.
Bank loans	We move from a least preferred to a **neutral** on senior loans. Although we anticipate wider spreads and prefer locking in fixed over floating, the economy has proved more resilient than expected and we look to revisit our allocation in the latter part of 2023.

Source: UBS, WMA AAC, as of 12 July 2023

US Treasury

Rates outlook

A strong labor report and continued economic resilience sent 10-year US Treasury yields above 4% in the first week of July, breaching that level for just the third time since November and the second since the regional banking stress in March. During the second quarter, we revised our 10-year yield range to 3.4–3.95%, and this has held remarkably well. Those movements above 4% have not held for any sustained period, and even then, just barely, at 4.02% on 6 July and 4.06% on 7 July. While upside risks persist—such as more rate hikes, the Fed's higher-for-longer rhetoric, increased Treasury issuance to rebuild the Treasury balance, and continued quantitative tightening—our view is that slowing growth in the second half of the year will drive yields into the 3.25–3.5% range as investors seek higher-quality investments. For those that missed locking in the 4% yields seen at the end of 2022, current levels are a good second chance to lock in rates for longer with our expectation of declining yields into year-end.

Real yields: Getting TIPSy

We remain neutral on TIPS and have been comfortable sitting on the sidelines as the market reprices Fed expectations alongside the continued strength in the US economy. However, real yields, particularly in the 5-year area (our preferred point on the yield curve) are looking increasingly more attractive, with 5-year real yields recently reaching 2.25%, the highest since 2007 and up 80bps from their trough in March and 20bps year-to-date.

We continue to monitor our point of entry for TIPS given the rise above our recent target of 2%. While we do not foresee a large rise from today's level in real yields—and while we think over the longer term that a 5-year real yield above 2% will be a profitable entry point, as economic activity slows in 2H23 and breakeven inflation rates trend well below what the swaption market indicates (discussed below). Without a material increase in real yields, we don't believe we will have a meaningful and sustained increase in nominal yields, which is a tailwind to our 10-year yield expectation of 3.25–3.5% in 4Q23.

Currently, the market is pricing in too low of inflation expectations via the breakeven inflation (BEI) rate, particularly versus forward inflation swaps (below). A hawkish Fed and declining oil prices have pushed the 1-year and 2-year BEI rate to 1.5% and 1.99%, respectively (below the Fed target rate). As we have discussed, the short end of the TIPS curve remains very cheap, with real yields between 3.5% and 4%. However, our curve preference remains in the 5-year area, where the BEI rate of 2.15% is well below both the 2.6% priced into the swaps market and the 1-year forward CPI expectation of 2.35%. CIO remains bullish on crude oil prices, currently anticipating USD 90/bbl by year-end; however the recent decline in Brent and WTI crude has proven a headwind to short-end breakevens, while the rising Fed terminal rate has been a dominant driver for the higher 5-year real yields.

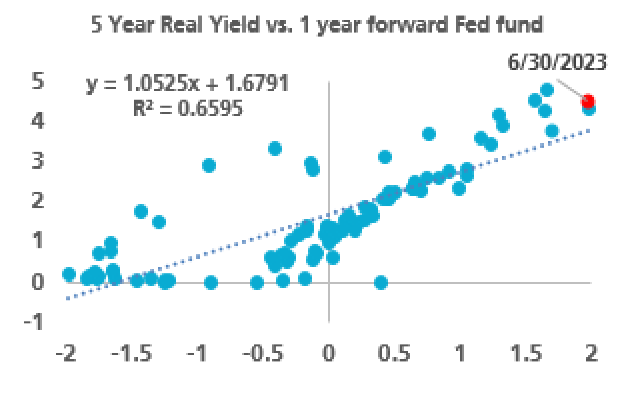
We show the correlation of the market's expectation of future fed funds rate and the 5-year real yield. As the Fed moves closer to the end of the tightening cycle, the terminal rate may stand pat for several months; however, the market is pricing this in. Since the BEI rates have already fallen near the Fed target, the impact to higher real yields has mostly occurred. Again, the data will lead the way, and we wait for volatility to settle before potentially becoming more bullish on TIPS.

The TIPS breakeven inflation rate appears too low relative to forecast

In %

Source: ICE BofA, UBS, as of 10 July 2023

The 5-year real yield correlates to future fed funds and now appears cheap



Source: Bloomberg, UBS, as of 10 July 2023

Mortgage-backed securities

Their time has come. We remain with a preferred weighting in agency MBS and look to 2H23 for the sector to materially outperform. While one risk to the sector is a Fed that views a terminal rate closer to 6%, and thereby increasing the amount of rate hikes over the second half of the year, a second risk is a resurgence of bank stresses, which may force additional selling into the market. Currently, we do not believe either of these risks is high-probability, but as always, it depends on the data.

That said, the cushion within agency MBS remains ample, particularly when compared to the corporate market. As shown, at present, the current coupon MBS spread is about 165bps to the Treasury curve versus the BBB corporate spread of 155bps. While the consensus for a later recession has kept investors leaning toward corporate versus mortgage credit, we think this will begin to shift given the relative value within the mortgage sector. In fact, the market has started to see some shift in allocation and an increase in demand from money managers and hedge funds. We look for volatility to decline in 2H23 as the higher-for-longer narrative has now been priced in, and the reaction function of the market to the Fed's outlook is more closely aligned.

Higher mortgage rates have not turned into the impediment originally anticipated. While mortgage rates have risen to a 20-year high (7–7.3%), the issue of affordability or lack thereof has been the headline of the year. With rebounding home prices, we anticipate this will continue to be a headwind to relocations and refinancings, given that over 65% of mortgage holders currently hold a mortgage rate of 4% or below. The combination of limited inventory, strong labor market, and unprecedented buildup in homeowner equity currently trumps the issue of affordability, in our view.

We remain with the most preferred allocation in agency MBS, with a bias toward higher coupon.

Non-agency and CMBS

We await better entry points to the non-agency and CMBS markets, with the expectation that slower growth into 2H23 may cause some spread volatility. Although corporate credit spread, such as high yield, is now a paltry 397bps, and both high yield and IG corporates are rich relative to non-agency MBS and CMBS, for now we are sticking with the higher-quality AAA MBS sector.

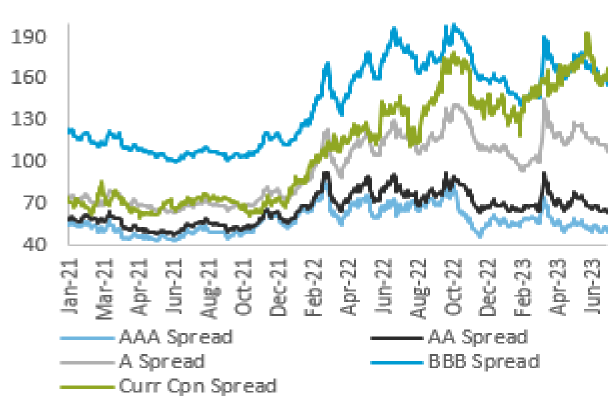
While headwinds are priced in, particularly with lower-rated CMBS in the 900bps spread area, the credit crunch in commercial real estate is not fully behind us as banks pull back on lending. With office space representing roughly 30% of private label CMBS, not all will encounter refinancing issues, as only 20% of those are backed by floating-rate loans which are currently feeling the rise of incremental defaults, while the remaining 80% continue to have high debt service coverage ratios. Most of the private label CMBS market (70%) consists of multifamily, lodging, industrial, and retail, which are not poised to experience a credit crunch as the economy slows.

However, headline risk remains a greater issue, particularly highlighting the growth in interest-only loans. These are loans where borrowers make only interest payments during the life of the loan, with the entire principal due at the end. Typically, owners pay off the debt by obtaining a new loan or selling the building. With borrowing costs on the rise and lending standards tightening, it has become a point of concern.

If interest rates stay at these heightened levels for an extended period, certain sectors of the CMBS market will face continued headwinds, which may trickle over to other CMBS sectors that have strong fundamentals. Due to these potential risks, we await a better opportunity in the second half to adjust our neutral allocation.

Current coupon agency MBS (AAA) spreads are similar to BBB IG corporates

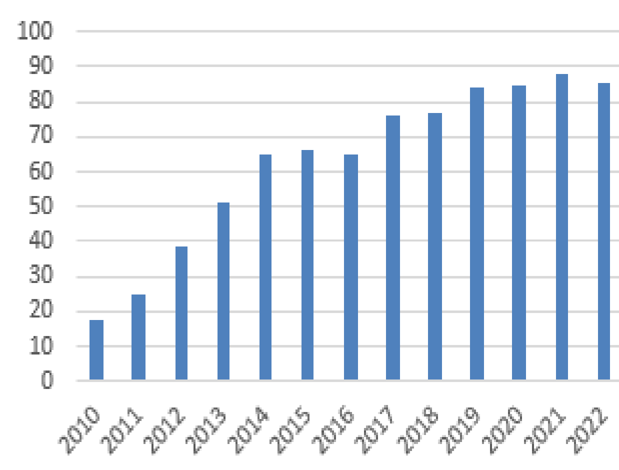
In bps



Source: Bloomberg, UBS, as of 30 June 2023

Share of CMBS IO loans by year of issuance

In %



Source: Bloomberg, UBS, as of 10 July 2023

Investment grade bonds

Yields start higher in 2H23

IG corporate bond yields stand near their highest points of the year, as of 10 July. This primarily stems from the recent move in Treasuries, which reflects a more optimistic outlook for the US economy. When comparing the IG and Treasury curves to their October 2022 cycle high, we find that Treasury yields presently stand around 20–25bps below last year's peak but IG corporate bond yields are 45–70bps lower. The difference is that IG spreads are about 40bps tighter than they were last fall, as fundamentals are generally healthy for IG companies, banking stresses appear contained, and the market anticipates that the end of the Fed hiking cycle could be near.

But with IG spreads having reverted toward the pre-banking crisis lows of March, they are not pricing in a more fundamentally challenged environment. The good news is that IG corporate bond returns stand to perform decently in either a benign or more pessimistic economic scenario. In a soft landing, coupon-clipping returns should prevail. In a recession, with more pronounced spread widening, higher level Treasury yields help to provide a cushion for IG corporate bond prices. We find opportunities in IG corporate bonds with both short and intermediate maturities.

US bank stress test results

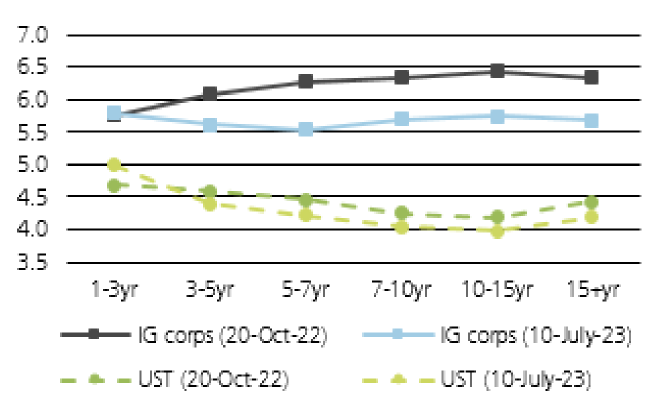
On 28 June, the Federal Reserve Board announced the results of the annual stress test where all 23 banks participating in the process were able to demonstrate adequate stressed capital. The Big 6 US banks generally fared well due to the assumption that losses in their securities portfolios improve as interest rates decline in the severely adverse scenario.

Rather than just achieving a passing grade, the stress test has implications for each participating bank's common equity Tier 1 (CET1) capital levels. The stressed capital buffer (SCB) is the difference between a bank's starting and minimum projected CET1 capital ratios under the severely adverse scenario, plus four quarters of dividends, expressed as a ratio of RWAs. The SCB has a minimum value of 2.5% and is a determinant of each bank's minimum CET1 ratio. The SCB declined for all Big 6 US banks, except Citigroup. For US regional banks, SCB increased for Citizens and Truist; it was unchanged for US Bancorp and decreased for M&T and PNC.

The results show that the test banks have adequate capital to withstand this type of extreme shock and still be able to act as a lender to consumers and businesses. However, credit investors should know that the stress test is not a silver bullet in mitigating all risks. As the Fed stated in its release of this year's results, the "stress test is one of many supervisor tools," and "recent events have highlighted the need for humility when assessing large bank resilience." Beyond annual stress testing, other regulatory steps currently in motion include the implementation of the Basel III endgame rules, use of multiple scenarios in stress testing, and a long-term debt rule to improve the resolvability of midsize banks, similar to what is applied to the G-SIBs. We view these steps positively from the fixed income perspective, as most banks will continue to build capital levels and use further discretion as it relates to share repurchases until there is more clarity on longer-term capital requirements and the macro outlook.

IG and Treasury yield curves versus October 2022 cycle highs

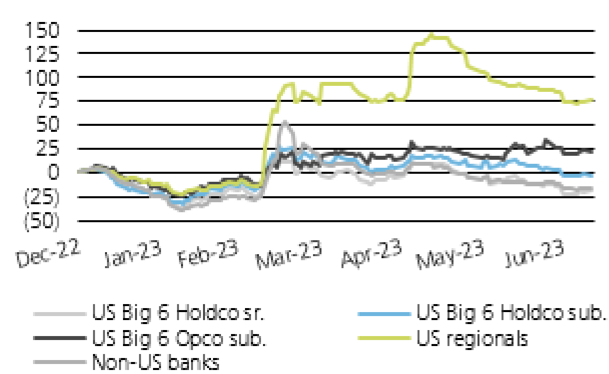
Yield, in %



Source: ICE BofA, UBS, as of 10 July 2023

IG bank spreads by type, year-to-date

Cumulative spread movement, in bps



Source: JPM, UBS, as of 10 July 2023

High yield corporate bonds

Yields back up but spreads narrow

The ICE BofA high yield index is currently yielding 8.8%, up from 8.5% in mid-June and close to the highs of the year. Most of the recent widening in yields is explained by the back-up in rates. The 10-year Treasury rate widened from 3.6% at the beginning of June to 4% currently, while the 5-year rate widened from 3.7% to 4.24% at the time of writing. Spreads, on the other hand, have maintained their strength and have been on a downward trajectory since the banking stress issues in March. HY spreads narrowed from 471bps at the end of May to 401bps in early July, but gave up some of the gains recently and currently stand at 415bps, not far from the year-to-date lows of 396bps reached on 1 February.

With the resiliency in spreads, HY returned 1.3% in June, but is down 0.4% so far in July. The year-to-date total return is now 5%, with HY experiencing only two down months (February and May). Importantly, investment grade total returns are also positive this year at 2.2%, providing 1.7% of excess returns.

CCCs are outperforming so far this year, posting a total return of 9.6%, versus 3.6% for BBs and 5.4% for Bs. In June, total returns were 1.2% for BBs, 1.6% for Bs, and 3.3% for CCCs. CCC spreads have fallen by 217bps this year to 951bps.

Maintain neutral on HY

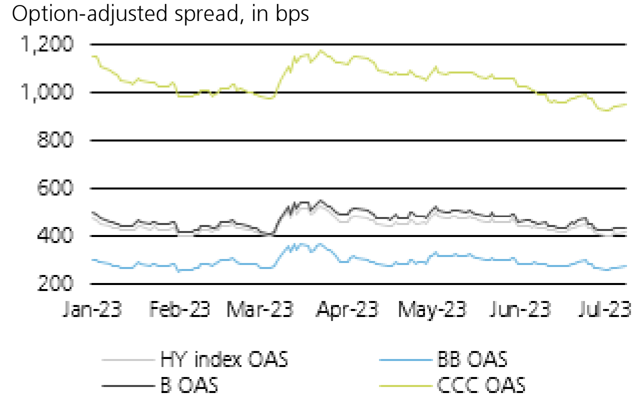
We maintain a neutral recommendation on high yield, as we wait to see the full impact of the hiking cycle and tighter lending conditions on high yield corporates. The spread level in the low-400s is not wide by historical standards and is below average levels. Yields, on the other hand, which have hovered around 8.5–9% for most of this year, are wide and provide carry. Fundamentally, the HY sector is coming off a very strong peak, with low leverage and high interest coverage levels. However, these metrics are beginning to decline. Additionally, defaults are rising, downgrades are now exceeding upgrades, and debt maturity schedules are due to increase in 2024–25. We are cognizant that in a material economic slowdown, spreads could widen from here, but at the same time we feel that the wide yield and strong fundamental starting point provide carry and support for high yield investors.

Short-dated HY provides opportunities

We continue to believe that investors should be cautious on HY going into a potentially weaker economic environment, particularly because the current levels of spread are not pricing in much economic weakness. However, for those investors that are interested in HY opportunities, we believe that short-dated HY bonds of select companies can offer a resilient way to pick up yield. Please see our recently published report "Short-dated HY bonds – a resilient way to pick up yield." Short-duration bonds with 1–3 years in maturity are frequently the first maturity in a company's capital stack. If the company has a relatively stable business and sufficient liquidity, there is high visibility toward repayment of these bonds. Currently, the Bloomberg Barclays BB 1–3-year index yields 7.1%, or 117bps wider than the BBB 1–3-year index. We identified a basket of six HY companies with bonds maturing in 2025–26 that provide a combination of attractive valuation, healthy credit metrics, and bonds that are priced below par, allowing for price appreciation.

Spreads are near year-to-date lows

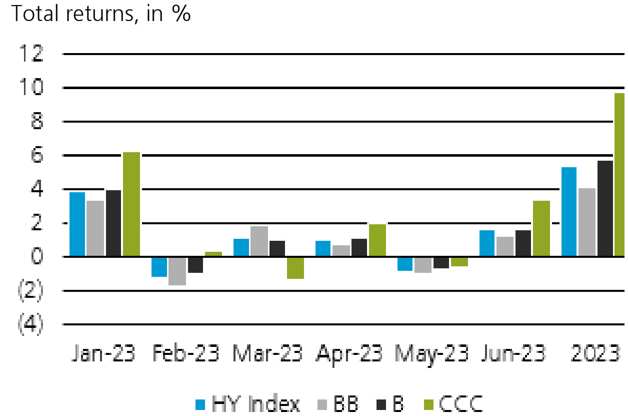
Option-adjusted spread, in bps



Source: ICE BofA, UBS, as of 10 July 2023

Monthly and year-to-date HY returns

Total returns, in %



Source: ICE BofA, UBS, as of 30 June 2023

Preferred securities

Stress tests ease some preferred investor concerns

After emerging in March and resurfacing in May, concerns over regional banking sector stress have now dissipated. Nonetheless, while preferreds (which predominantly consist of bank securities) have gained 2.9% YTD through 11 July (4.8% for USD 25 pars and 1% for USD 1,000 pars), the sector is still down 4% since 28 February. This has led to somewhat better valuations, which is part of our rationale for a favorable view. Furthermore, the results of the Federal Reserve's annual stress tests helped to ease concerns among investors.

All stress tested banks were able to demonstrate adequate capital in a severely adverse scenario. Banks' capital adequacy was tested by shocking multiple variables related to economic activity, asset prices, and interest rates. For example, GDP was assumed to contract sharply for four consecutive quarters, with US unemployment rate rising 10%, and commercial real estate prices dropping 40%. The adverse scenario also assumed that credit spreads would widen sharply while interest rates fall. Test results illustrate that participating banks have adequate capital to withstand an extreme shock and be able to lend to consumers and businesses.

All of the tested banks "passed," meaning minimum equity levels during the stress period exceeded their regulatory minimums. The Big 6 US banks generally fared better than a year ago, as there was a smaller decline between the starting and minimum common equity Tier 1 (CET1) ratio than last year. This was largely because the assumption of lower interest rates led to a reduction in current losses in the banks' securities portfolios.

Withstanding the stress test's severe assumptions signals significant capital strength in the US banking system, and the Fed stated in its release of this year's results that even under the assumed recessionary conditions, banks demonstrated robust capital positions. However, credit investors should know that the stress test is not a silver bullet in mitigating all possible risks. As the Fed statement noted, the "stress test is one of many supervisor tools," and "recent events have highlighted the need for humility when assessing large bank resilience."

Beyond the annual testing, other regulatory steps currently in motion include a long-term debt rule to improve resolvability of midsize banks, like what is applied to the G-SIBs. We view these steps positively from the preferred investor perspective, as most banks will continue to build capital levels and use further discretion as it relates to share repurchases until there is more clarity on longer-term capital requirements and the macro outlook.

Appreciation potential for select fixed-rate resets

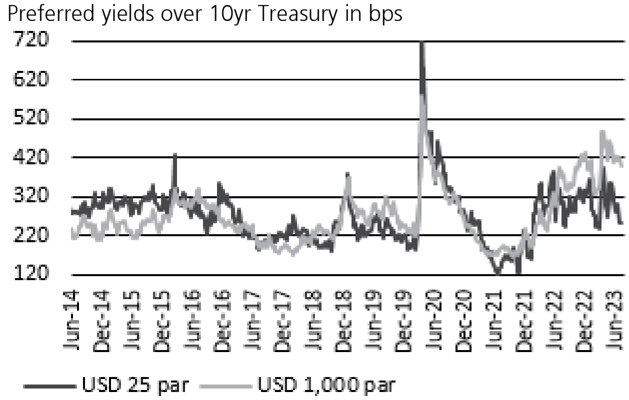
In recent years, the structure of choice among issuers of USD 1,000 par preferreds has been the fixed-rate reset (FRR). These are a type of variable rate preferred in which the coupon resets, unless and until called, every five years (or more) based on a Treasury rate. We generally favor higher reset spreads for FRRs relative to fixed-to-floats, as they may retain more duration exposure.

However, given the current rates levels along the Treasury curve and the recent rebound in rate expectations, we view FRRs more favorably, especially those with call/reset dates in roughly 12 to 24 months. Many of these trade at discounts and with reset dates in late 2024 and early 2025, there is a lower likelihood of their coupons resetting at low rates against a rising market yield backdrop.

Broadly speaking, USD 1,000 par preferreds currently offer better relative value compared to USD 25 preferreds (which predominantly pay fixed coupons). Discounts on some FRRs coupled with "higher for longer" rate expectations provide price appreciation potential, in our view. On the other hand, if coupons were to reset at lower rates, the currently discounted prices on many FRRs are still likely to produce yields of over 5% which may also support price appreciation in a lower yield environment.

Yield premiums are historically wide especially for USD 1,000 par preferreds

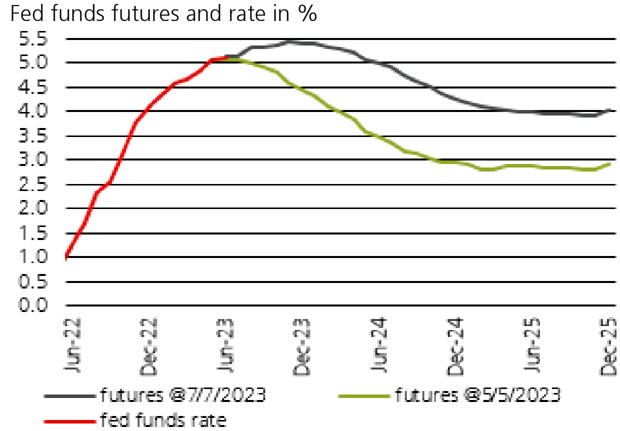
Preferred yields over 10yr Treasury in bps



Source: Bloomberg, UBS, as of 11 July 2023

Investors' rate expectations have risen

Fed funds futures and rate in %



Source: Bloomberg, UBS, as of 11 July 2023

Taxable municipal bonds

Taxable munis outperform corporate debt YTD
Thus far in 2023, taxable munis have registered gains of 3.4% despite witnessing some price losses in February (–2.1%) and again in May amid bouts of volatility (–1.3%). By comparison, an index of investment grade corporate debt has also posted gains, but to a lesser extent (+2.5%) over the same period (see chart).

Issuance fell in 1H23
For the first six months of the year, taxable muni issuance witnessed a steep decline. As a point of reference, on a year-to-date basis, new taxable municipal bond sales totaled only USD 19.3bn. By comparison, that is down by 44% from the par amount of new taxable muni issues sold at the same time last year (USD 34.2bn). At the same time, the pace of new tax-exempt bond sales declined by 13% (to USD 151.4bn from USD 174bn). In this early part of 2H23, the 30-day forward calendar of taxable muni deals has increased to constitute roughly 13% of total expected issuance, up from only 6% one month earlier. By comparison, taxable munis accounted for 14% of total issuance in 2022.

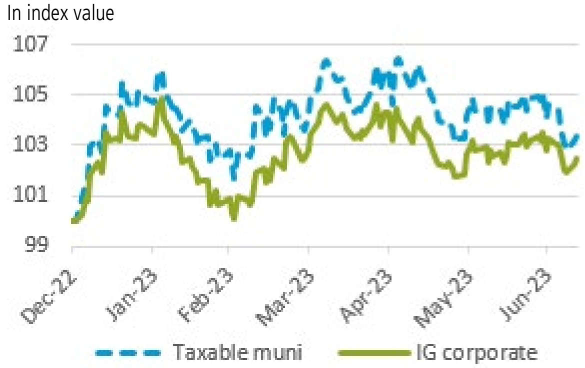
Taxable munis offer yield pickup
The taxable muni market remains attractive vis-à-vis corporate debt despite tight new issue supply. As a point of reference, the yield on long-dated AA taxable munis now sits near the highest levels seen over the past decade (5.45%). At the same time, the spread on AA 30-year taxable munis to corporate debt with comparable ratings and structure rests at 42bps, suggesting that an opportunity to pick up incremental yield in high-quality bonds persists (see table).

Infrastructure spending and munis
Over the last three years, the US Congress has successfully passed three acts aiming to upgrade US infrastructure and boost domestic manufacturing of critical resources: the CHIPS and Science Act, the Infrastructure Investment and Jobs Act, and the Inflation Reduction Act. Together, these pieces of legislation set the nation up to embark on one of the most significant government investment spending plans we have seen in years.

An estimated USD 1.2tr in combined new spending from the IIJA, IRA, and the CHIPS Act will help municipal governments finance investment in public works, either directly or indirectly. In the absence of these federal monies, municipal issuers would either need to issue debt, substantially increase their rates to directly pay for capital improvements or defer costly infrastructure projects and improvements. The significant boost in federal funding may help change the overall landscape of US infrastructure funding, given that state and local governments have historically shouldered an increasing share of these costs.

The benefits of each infrastructure package will vary by municipal sector, with the IIJA largely bolstering transportation-related sectors, and the IRA and CHIPS Act principally advancing the utility sector. Increased investment in public infrastructure often spurs job creation and boosts economic activity. States and local governments will benefit from a positive economic environment, in addition to freeing up monies that otherwise would have been directed toward debt service (see "Made in America, Protecting US infrastructure and independence," 27 June 2023).

Taxable munis outperform investment grade corporate debt YTD
In index value



Source: ICE BofA, UBS, as of 11 July 2023

AA taxable muni and AA corporate yields
Yield, in %; spread, in bps

Maturity	Taxable muni	Corporate	Spread
2 yr	5.16	4.93	22
5 yr	4.82	4.52	30
10 yr	4.89	4.59	30
20 yr	5.17	5.00	17
30 yr	5.38	4.95	43

Source: Bloomberg, UBS, as of 13 July 2023

Credit chartbook and key metrics

Fig A1: Investment grade financial and non-financial credit recommendations

Non-financial issues

Issuer	CUSIP	Ticker	Coupon	Maturity	Issue Date	YTW %	Spread bps	Duration yrs	Price	S&P	Amt Out	Sector
Intermediate maturities												
APPLE INC	037833DF4	AAPL	2.750	1/13/2025	11/13/2017	5.18	5	1.46	96.5	AA+	1,500	Technology
ALTRIA GROUP INC	02209SAS2	MO	4.000	1/31/2024	10/31/2013	5.76	34	0.54	99.1	BBB	776	Consumer, Non-cyclical
BOARDWALK PIPELINES LP	096630AD0	BWP	4.950	12/15/2024	11/26/2014	6.10	93	1.39	98.4	BBB-	600	Energy
BOEING CO	097023BR5	BA	2.250	6/15/2026	5/18/2016	5.68	101	2.84	90.9	BBB-	400	Industrial
CVS HEALTH CORP	126650CC2	CVS	4.000	12/5/2023	12/5/2013	4.99	-40	0.40	99.6	BBB	414	Consumer, Non-cyclical
EBAY INC	278642AL7	EBAY	3.450	8/1/2024	7/28/2014	5.55	22	1.03	97.9	BBB+	750	Communications
EXELON CORP	30161NAU5	EXC	3.400	4/15/2026	4/7/2016	5.43	72	2.63	94.8	BBB	750	Utilities
FORD MOTOR CREDIT CO LLC	345397WW9	F	3.664	9/8/2024	9/8/2014	6.54	125	1.13	96.8	BB+	750	Consumer, Cyclical
GENERAL ELECTRIC CO	369604BG7	GE	3.375	3/11/2024	3/11/2014	5.73	32	0.66	98.5	BBB+	132	Industrial
GENERAL MOTORS FINL CO	37045XCD6	GM	3.500	11/7/2024	11/7/2017	6.04	82	1.29	96.8	BBB	750	Consumer, Cyclical
HOME DEPOT INC	437076BC5	HD	3.750	2/15/2024	9/10/2013	5.49	8	0.58	99.0	A	1,100	Consumer, Cyclical
KINDER MORGAN ENER PART	494550BS4	KMI	4.150	2/1/2024	8/5/2013	5.87	45	0.54	99.1	BBB	650	Energy
MICROSOFT CORP	594918BB9	MSFT	2.700	2/12/2025	2/12/2015	4.98	-12	1.54	96.6	AAA	2,250	Technology
MPLX LP	55336VAG5	MPLX	4.875	12/1/2024	9/27/2016	5.91	73	1.35	98.6	BBB	1,149	Energy
ORACLE CORP	68389XBS3	ORCL	2.950	11/15/2024	11/9/2017	5.62	41	1.32	96.6	BBB	2,000	Technology
PEPSICO INC	713448CT3	PEP	2.750	4/30/2025	4/30/2015	5.13	11	1.76	96.0	A+	1,000	Consumer, Non-cyclical
PHILIP MORRIS INTL INC	718172BM0	PM	3.250	11/10/2024	11/10/2014	5.36	15	1.30	97.3	A-	750	Consumer, Non-cyclical
PLAINS ALL AMER PIPELINE	72650RBF8	PAA	3.600	11/1/2024	9/9/2014	6.07	85	1.28	96.9	BBB-	750	Energy
VERIZON COMMUNICATIONS	92343VCR3	VZ	3.500	11/1/2024	10/29/2014	5.63	41	1.28	97.4	BBB+	1,161	Communications

Financial issues

Issuer	CUSIP	Ticker	Coupon	Maturity	Issue Date	YTW %	Spread bps	Duration yrs	Price	S&P	Amt Out	Sector
Senior Notes												
BANK OF AMERICA CORP	06051GFS3	BAC	3.875	8/1/2025	7/30/2015	5.30	38	1.96	97.3	A-	1,793	US banks
CITIGROUP INC	172967JP7	C	3.300	4/27/2025	4/27/2015	5.52	50	1.74	96.3	BBB+	1,500	US banks
GOLDMAN SACHS GROUP INC	38148LAE6	GS	3.750	5/22/2025	5/22/2015	5.67	68	1.81	96.6	BBB+	2,250	US banks
JPMORGAN CHASE & CO	46625HMN7	JPM	3.900	7/15/2025	7/21/2015	5.24	31	1.91	97.5	A-	2,500	US banks
MORGAN STANLEY	6174468C6	MS	4.000	7/23/2025	7/23/2015	5.57	64	1.93	97.0	A-	3,000	US banks
WELLS FARGO & COMPANY	94974BGP9	WFC	3.550	9/29/2025	9/28/2015	5.56	69	2.13	95.9	BBB+	2,500	US banks
Subordinated Notes												
BANK OF AMERICA CORP	06051GFP9	BAC	3.950	4/21/2025	4/21/2015	5.77	74	1.72	97.0	BBB+	2,500	US banks
CITIGROUP INC	172967HB0	C	5.500	9/13/2025	9/13/2013	5.74	86	2.04	99.5	BBB	1,420	US banks
GOLDMAN SACHS GROUP INC	38141GVR2	GS	4.250	10/21/2025	10/21/2015	5.94	108	2.17	96.4	BBB	2,000	US banks
JPMORGAN CHASE & CO	46625HJY7	JPM	3.875	9/10/2024	9/10/2014	5.93	65	1.13	97.7	BBB+	3,000	US banks
MORGAN STANLEY	6174467X1	MS	5.000	11/24/2025	11/22/2013	5.73	91	2.25	98.4	BBB+	2,000	US banks
US BANCORP	91159HHM5	USB	3.100	4/27/2026	4/26/2016	5.68	97	2.67	93.4	A-	1,000	US banks
WELLS FARGO & COMPANY	94974BFY1	WFC	4.100	6/3/2026	6/3/2014	5.78	111	2.74	95.6	BBB	2,437	US banks

Source: UBS, Bloomberg, as of 7 July 2023

Fig A2: Select preferred securities

Security Name	Symbol/ CUSIP	Last Price	Call Date	YTW (%)[1]	YTC (%)	YTP (%)[2]	CY (%)
USD 1,000 par							
Goldman Sachs 5.50% fixed to first call date; then 5yrCMT +362.3bps	38148BAE8	97.76	Aug-24	7.50	7.50	7.60	5.60
Truist Fin Corp (fka BB&T Corp) 4.80% fixed to call date; then 5yrCMT +300.3bps	89832QAD1	86.68	Sep-24	7.90	18.30	7.90	5.60
Goldman Sachs 4.95% fixed to first call date; then 5yrCMT +322.4bps	38144GAB7	93.75	Feb-25	7.30	9.50	7.30	5.30
Charles Schwab Corp 5.375% fixed to first call date; then 5yrCMT +497bps	808513BD6	96.63	Jun-25	7.40	7.40	8.70	5.60

Source: FactSet UBS, as of 11 July 2023

[1]YTW = "yield to worst" is the lowest estimated yield among possible redemption date scenarios.
[2]YTP calculation for variable rate cpn uses assumed rates based on the forward curve

Mortgage securitized product metrics

Fig A3: Spreads for various securitized products (2023 YTD min/max)

Non agency spreads	Current level	YTD min	YTD max
Legacy spreads			
Jumbo fixed	220	120	260
Alt A floater	220	120	260
Option ARM	220	120	260
Current pay subprime	220	120	260
LCF subprime	230	140	295
New issue spreads			
Jumbo 2.0	190	70	205
NPL A1	310	155	330
NPL A2	650	400	650
CMBS spreads	Current level	YTD min	YTD max
New issue on the run spreads			
3yr AAA	135	90	145
5yr AAA	200	105	200
7yr AAA	135	100	150
10yr AAA	145	110	170
AA	260	210	300
A	420	330	450
BBB-	925	695	950
CLO spreads	Current level	YTD min	YTD max
CLO 2.0			
AAA	160	100	230
AA	210	155	295
A	285	190	385
BBB	485	300	585
BB	915	650	1075
B	1475	1000	1600

Source: ICE, UBS, as of 10 July 2023

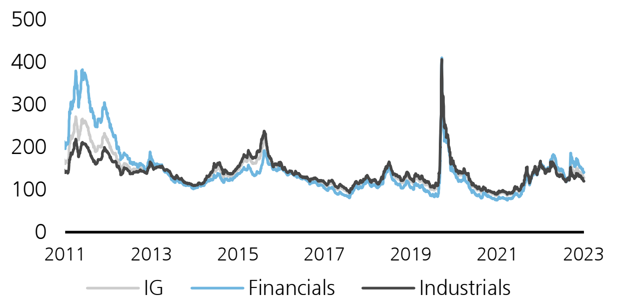
Fig A4: Year to date total return

Non agency	Duration	2023
Prime fixed	3-5yr	4.4
Alt-A ARM	0-1yr	4.1
Option ARM	0-1yr	5.6
Subprime ARM	0-1yr	3.0
CMBS	3.9	0.9
AAA	4.0	1.2
AA-BBB	3.5	-0.2
BBB	3.3	-3.3
Agency	4.5	1.7
ABS fixed	2.2	2.3
Auto	1.5	2.0
Cards	2.1	1.2
HEL	4.7	1.7
MH	3.1	3.1
ABS floating	2.4	3.5
Cards	1.6	2.7
HEL	3.1	2.7
Student loans	2.9	3.7

Source: ICE, UBS, as of 10 July 2023

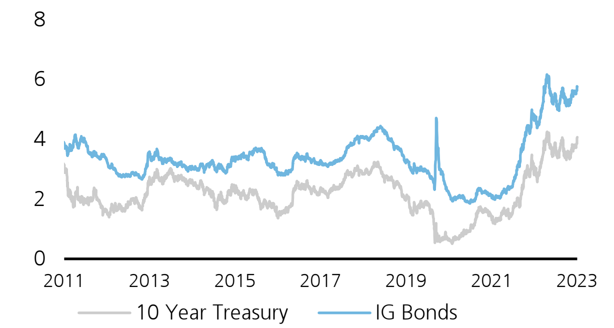
Credit chartbook and key metrics

Fig. A5: IG Financials versus IG Industrials spreads
Spreads in basis points



Source: ICE BofA, UBS as of 7 July 2023

Fig. A6: IG Corporate and Treasury yields
yield to maturity, in %



Source: Bloomberg, ICE BofA, UBS as of 7 July 2023

Fig A7: IG corporate total return by maturity
In %

Maturity	YTD	3-month	6-month	12-month
1-3 yrs	1.54	-0.26	1.20	1.67
3-5 yrs	1.43	-1.57	0.56	0.98
5-7 yrs	1.59	-2.60	0.26	0.81
7-10 yrs	1.91	-3.09	0.00	0.13
10+ yrs	2.35	-4.52	-1.18	-1.60

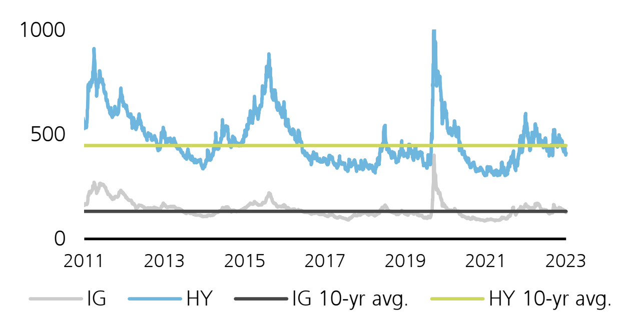
Source: ICE BofA, UBS as of 7 July 2023

Fig A8: IG corporate yield table by sector and rating
Fixed income yield table (%)

Sector	AAA	AA	A	BBB
All corporates	4.89	5.14	5.56	6.03
Industrials	4.78	5.01	5.25	5.90
Utilities	NA	NA	5.54	NA
Financials	5.45	5.40	5.85	6.53

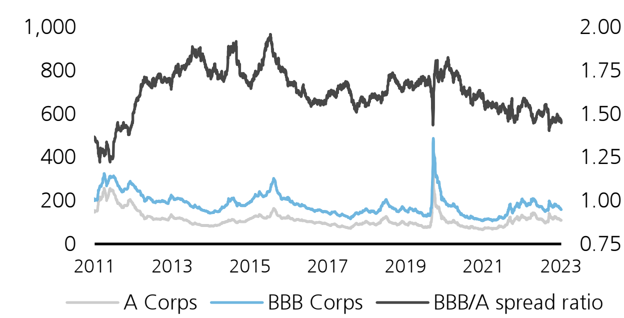
Source: ICE BofA, UBS as of 7 July 2023

Fig. A9: IG versus HY corporate bond spreads
Spreads in basis points



Source: ICE BofA, UBS as of 7 July 2023

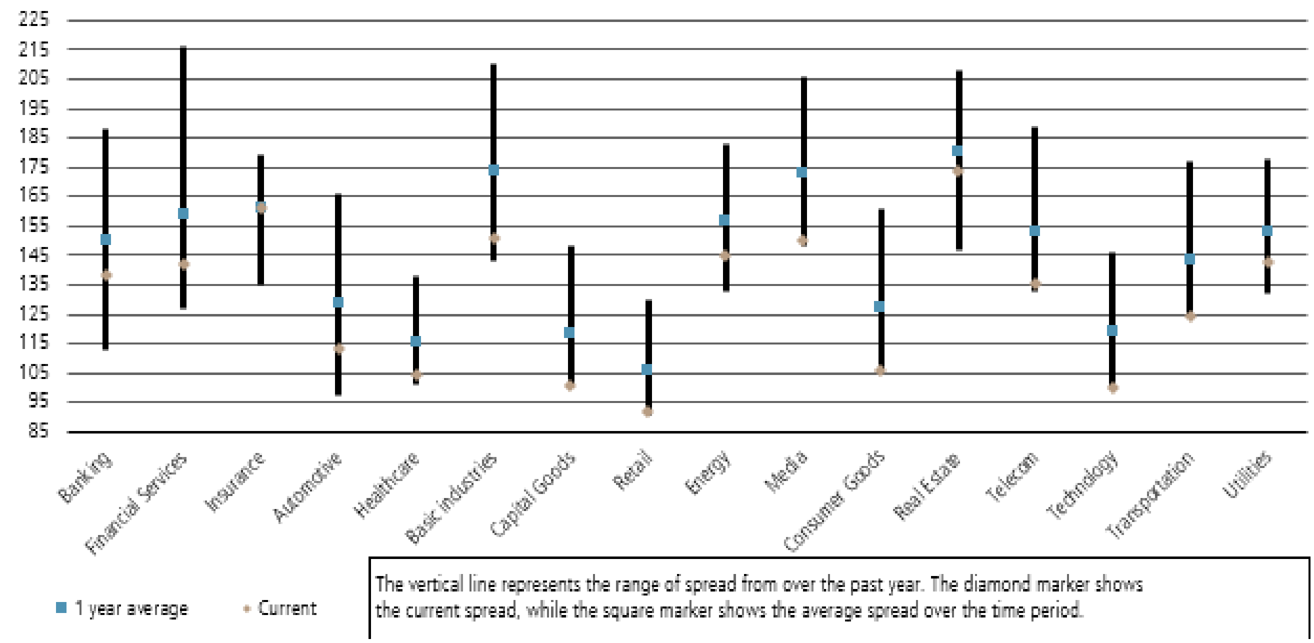
Fig. A10: A-rated & BBB-rated spreads and spread ratios
Spreads in basis points (left hand axis), Ratio in % (right hand axis)



Source: ICE BofA, UBS as of 7 July 2023

Credit chartbook and key metrics

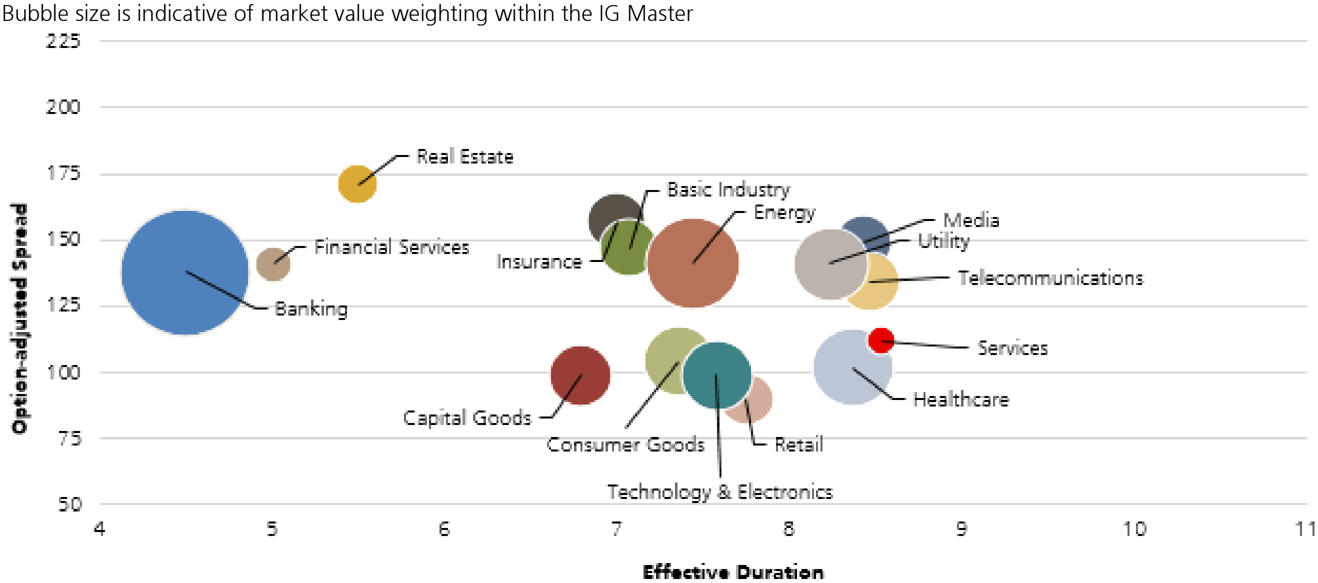
Fig. A12: Individual sector spread changes over the past year



Source: ICE BofA, UBS, as of 10 July 2023

Fig. A13: IG corporate sector spreads vs. duration

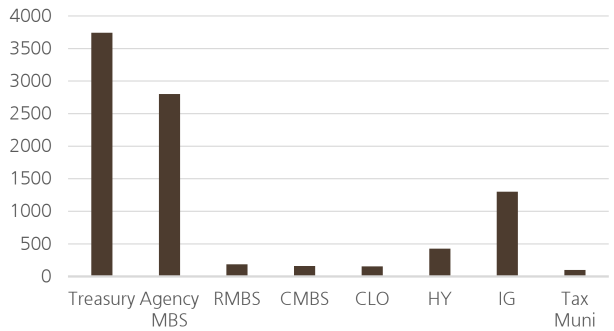
Bubble size is indicative of market value weighting within the IG Master



Source: ICE BofA, UBS, as of 10 July 2023

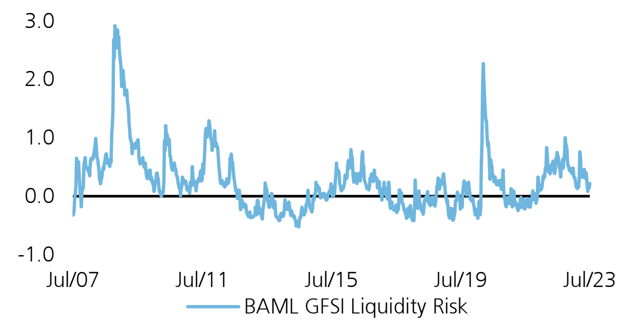
Liquidity chartbook and key metrics

Fig. B1: Bond market supply projections for 2022
Historical and projected gross supply, in USD bn



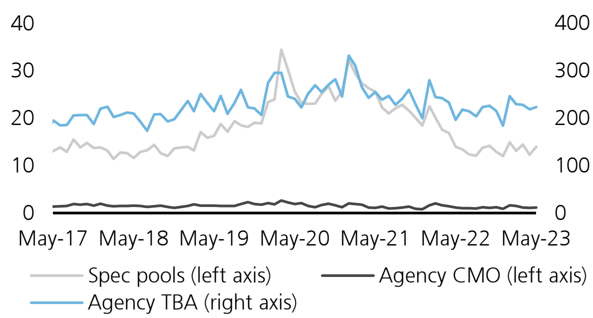
Source: JPM, UBS, as of 4 February 2022

Fig. B2: Bond market funding stress
(above zero greater, below zero less)



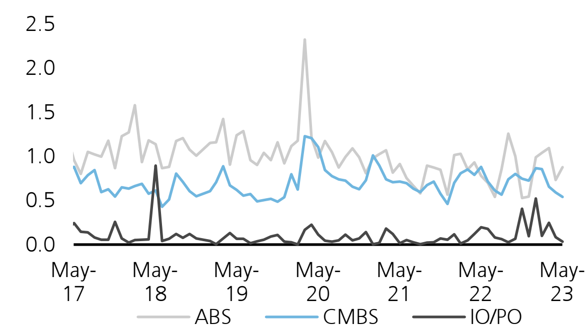
Source: Bloomberg, UBS, as of 7 July 2023

Fig. B3: Trading volume – mortgages
Trading volume in USD bn



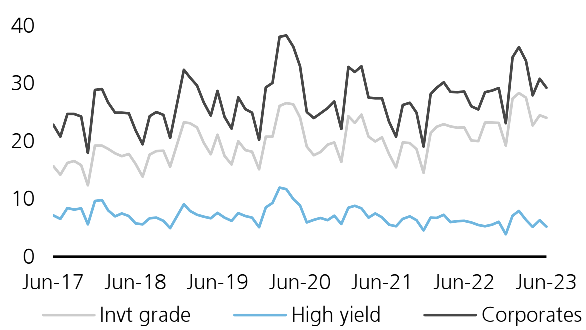
Source: SIFMA, UBS, as of 7 July 2023

Fig. B4: Trading volume – securitized products
Trading volume, in USD bn



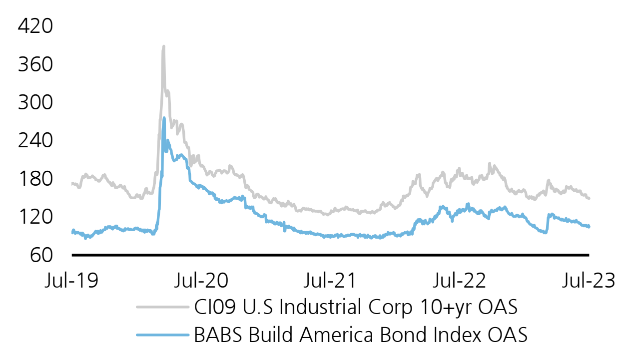
Source: SIFMA, UBS, as of 7 July 2023

Fig. B5: Trading volume – corporates
Trading volume, in USD bn



Source: SIFMA, UBS, as of 7 July 2023

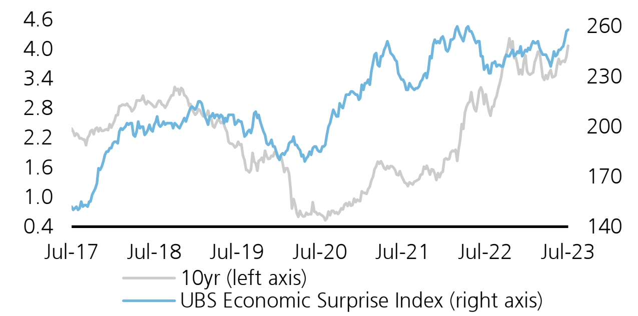
Fig. B6: Industrial corporate and BABs spreads
Option adjusted spreads, in bps



Source: ICE BofA, UBS, as of 7 July 2023

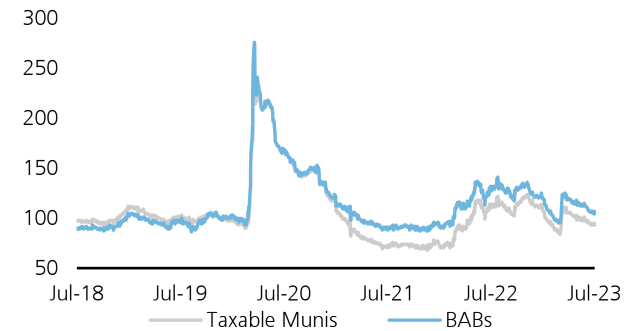
Rates chartbook and key metrics

Fig. C1: Treasury rates and economic surprises
Treasury yield to maturity, in %



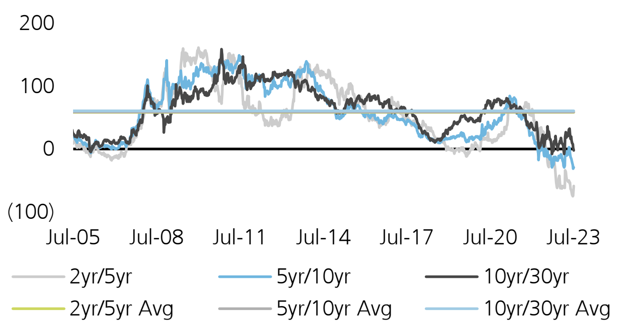
Source: Bloomberg, UBS, as of 7 July 2023

Fig. C2: BABs versus taxable munis spreads
Option adjusted spread, in bps



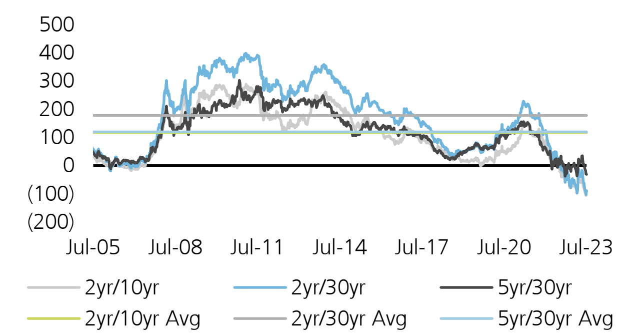
Source: ICE BofA, UBS, as of 7 July 2023

Fig. C3: Treasury yield curves
Yield curves, in basis points



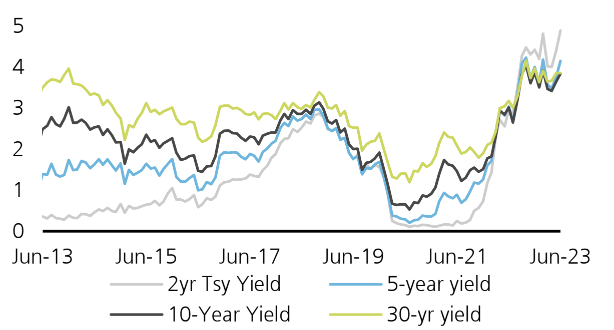
Source: Bloomberg, UBS, as of 7 July 2023

Fig. C4: Treasury yield curves
Yield curves, in basis points



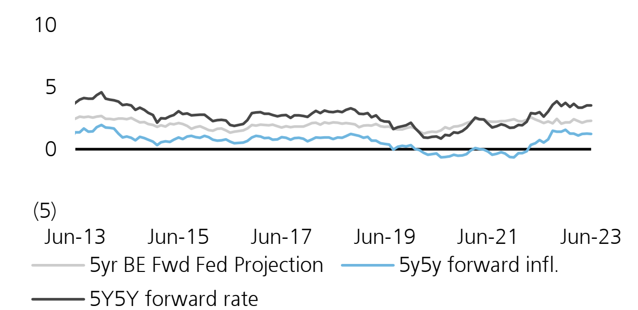
Source: Bloomberg, UBS, as of 7 July 2023

Fig. C5: TIPS nominal rates
Interest rates, in %



Source: Bloomberg, UBS, as of 7 July 2023

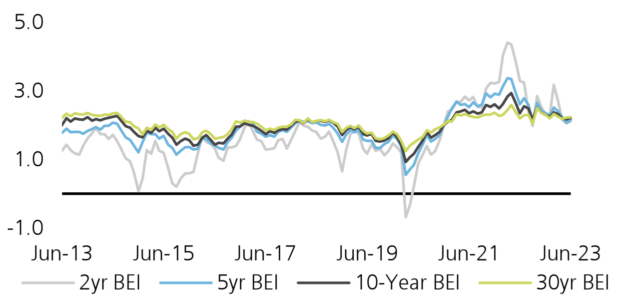
Fig. C6: TIPS forward rates
Forward rates, in %



Source: Bloomberg, UBS, as of 7 July 2023

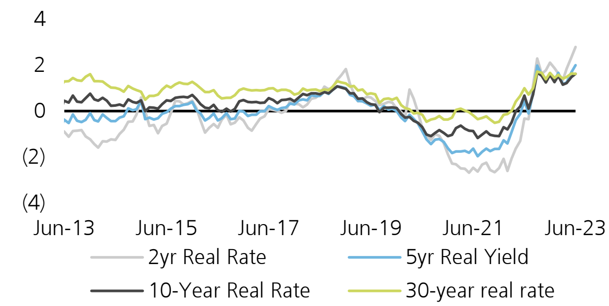
Rates chartbook and key metrics

Fig. C7: TIPS breakeven rates
Breakeven rates, in %



Source: Bloomberg, UBS, as of 7 July 2023

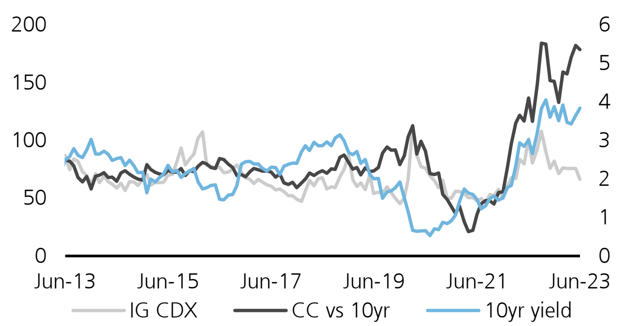
Fig. C8: TIPS real rates
Real rates, in %



Source: Bloomberg, UBS, as of 7 July 2023

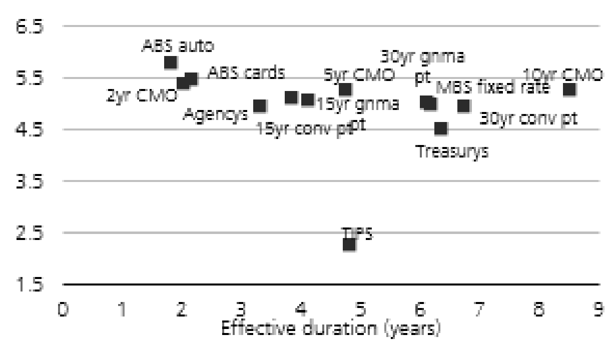
MBS chartbook and key metrics

Fig. D1: Mortgage Basis is rich but maintain a neutral weighting
Spreads, in basis points



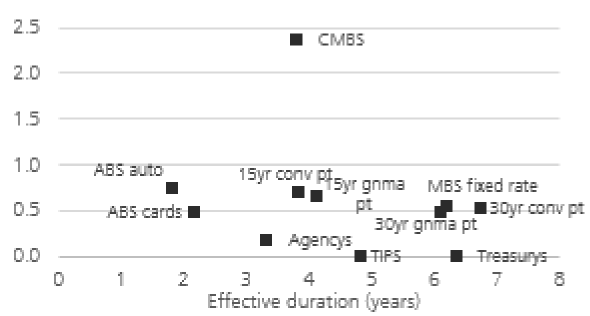
Source: Bloomberg, CDX, UBS, as of 7 July 2023

Fig. D2: Structured product yields
Yield to worst, in %



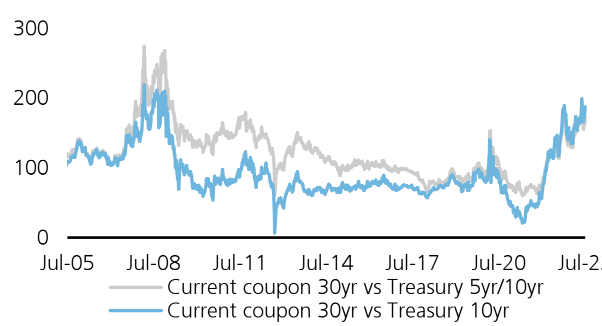
Source: ICE BofA, Yieldbook, UBS, as of 10 July 2023

Fig. D3: Structured product option adjusted spreads
OAS, in %



Source: ICE BofA, Yieldbook, UBS, as of 10 July 2023

Fig. D4: Mortgage basis versus Treasury rates
Mortgage spread, in basis points



Source: Bloomberg, UBS, as of 7 July 2023

Appendix

Emerging Market Investments

Investors should be aware that Emerging Market assets are subject to, among others, potential risks linked to currency volatility, abrupt changes in the cost of capital and the economic growth outlook, as well as regulatory and sociopolitical risk, interest rate risk and higher credit risk. Assets can sometimes be very illiquid and liquidity conditions can abruptly worsen. CIO Americas, WM generally recommends only those securities it believes have been registered under Federal US registration rules (Section 12 of the Securities Exchange Act of 1934) and individual State registration rules (commonly known as "Blue Sky" laws). Prospective investors should be aware that to the extent permitted under US law, CIO Americas, WM may from time to time recommend bonds that are not registered under US or State securities laws. These bonds may be issued in jurisdictions where the level of required disclosures to be made by issuers is not as frequent or complete as that required by US laws.

For more background on emerging markets generally, see the CIO Americas, WM Education Notes "Investing in Emerging Markets (Part 1): Equities," 27 August 2007, "Emerging Market Bonds: Under- standing Emerging Market Bonds," 12 August 2009 and "Emerging Markets Bonds: Understanding Sovereign Risk," 17 December 2009.

Investors interested in holding bonds for a longer period are advised to select the bonds of those sovereigns with the highest credit ratings (in the investment-grade band). Such an approach should decrease the risk that an investor could end up holding bonds on which the sovereign has defaulted. Subinvestment-grade bonds are recommended only for clients with a higher risk tolerance and who seek to hold higher-yielding bonds for shorter periods only.

Nontraditional Assets

Nontraditional asset classes are alternative investments that include hedge funds, private equity, real estate, and man- aged 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:

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.

Foreign Exchange/Currency Risk: Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in US dollars, changes in the exchange rate between the US 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 US investor.

Appendix

Investment committee

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 at the Global Investment Committee (GIC). Senior investment professionals from across UBS, complemented by selected external experts, debate and rigorously challenge the investment strategy to ensure consistency and risk control.

Global Investment Committee composition
The GIC comprises top market and investment expertise from across all divisions of UBS:

- Mark Haefele (Chair)
- Solita Marcelli
- Min Lan Tan
- Themis Themistocleous
- Paul Donovan
- Bruno Marxer (*)
- Mark Andersen
- Adrian Zuercher

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 Wealth Management Americas US Investment Strategy Committee.

US Investment Strategy Committee

- Solita Marcelli
- Jason Draho (chair)
- Leslie Falconio
- David Lefkowitz
- Brian Rose
- Daniel Scansaroli

*Business area outside of the Chief Investment Office

Explanations about asset classes

Our preferences represent the longer-term allocation of assets that is deemed suitable for a particular investor and were developed and approved by the US Investment Strategy Committee. Our preferences are provided for illustrative purposes only and will differ among investors according to their individual circumstances, risk tolerance, return objectives and time horizon. Therefore, our preferences in this publication may not be suitable for all investors or investment goals and should not be used as the sole basis of any investment decision. Minimum net worth requirements may apply to allocations to non-traditional assets. As always, please consult your UBS Financial Advisor to see how our preferences should be applied or modified according to your individual profile and investment goals.

Our preferences do not assure profits or prevent against losses from an investment portfolio or accounts in a declining market.

Appendix

Agency credit ratings

S&P	Moody's	Fitch/IBCA	Definitions
Investment grade			
AAA	Aaa	AAA	Issuers have exceptionally strong credit quality. AAA is the best credit quality.
AA+ AA AA-	Aa1 Aa2 Aa3	AA+ AA AA-	Issuers have very strong credit quality.
A+ A A-	A1 A2 A3	A+ A A-	Issuers have high credit quality.
BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-	Issuers have adequate credit quality, This is the lowest Investment Grade category.
Non-investment grade			
BB+ BB BB-	Ba1 Ba2 Ba3	BB+ BB BB-	Issuers have weak credit quality. This is the highest Speculative Grade category.
B+ B B-	B1 B2 B3	B+ B B-	Issuers have very weak credit quality.
CCC+ CCC CCC-	Caa1 Caa2 Caa3	CCC+ CCC CCC-	Issuers have extremely weak credit quality.
CC	Ca	CC+ CC CC-	Issuers have very high risk of default.
D	C	DDD	Obligor failed to make payment on one or more of its financial commitments. This is the lowest quality of the Speculative Grade category.

Required Disclosures

Analyst certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Company/Country Disclosures (13 July 2023)

Within the past 12 months UBS AG, its affiliates or subsidiaries may have received or provided investment services and activities or ancillary services as per MiFID II which may have given rise to a payment or promise of a payment in relation to these services from or to each company mentioned in the publication.

Altria Group 2, 5, 9, 10, 11, Apple Inc. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, Bank of America Corp 2, 4, 5, 6, 8, 9, 11, 19; Boeing Co. 2, 4, 5, 6, 9, 10, 11, Charles Schwab Corp 2, 4, 5, 6, 9, 10, 11, 13, Citigroup 1, 2, 4, 5, 6, 9, 10, 11, 12, 13, 18, CVS Health 1, 2, 4, 5, 6, 9, 10, 11, 13, eBay 2, 4, 5, 9, 10, 11, 13, Exelon Corp. 2, 4, 5, 6, 9, 10, 11, 13, Ford Motor Co. 2, 4, 6, 9, 10, 11, 13, 14, General Electric Co. 2, 4, 5, 6, 7, 9, 10, 11, General Motors Company 2, 9, 14, Goldman Sachs Group Inc. 1, 2, 4, 5, 6, 9, 10, 11, Home Depot Inc. 2, 5, 9, 10, 11, 13, JPMorgan Chase & Co. 2, 4, 5, 6, 9, 10, 11, KINDER MORGAN INC/DE 2, 8, 10, 11, 14, 15, Microsoft Corp. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, Morgan Stanley 1, 2, 4, 5, 6, 8, 9, 10, 11, 13, MPLX LP 2, 14, Oracle Corporation 2, 5, 9, PepsiCo Inc. 2, 5, 9, 10, Philip Morris International 1, 2, 5, 9, 10, 11, 13, 16, 17, Plains All American Pipeline 2, 14, Truist Financial Corp. 2, 4, 5, 6, 8, 9, 11, U.S. Bancorp 2, 4, 5, 6, 8, 9, 10, Verizon Communications 2, 4, 5, 9, 10, 11, 13, Wells Fargo & Co 1, 2, 3, 4, 5, 6, 9, 10, 11,

1. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and investment banking services are being, or have been, provided.
2. UBS Securities LLC makes a market in the securities and/or ADRs of this company.
3. The equity analyst covering this company, a member of his or her team, or one of their household members has a long common stock position in this company.
4. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and non-investment banking securities-related services are being, or have been, provided.
5. This company/entity is, or within the past 12 months has been, a client of UBS Financial Services Inc, and non-investment banking securities-related services are being, or have been, provided.
6. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and non-securities services are being, or have been, provided.
7. The UBS Wealth Management strategist, a member of his or her team, or one of their household members has a long common stock position in this company.
8. UBS beneficially owned 1% or more of a class of this company's common equity securities as of last month's end (or the prior month's end if this report is dated less than 10 days after the most recent month's end).
9. Within the past 12 months, UBS has received compensation for products and services other than investment banking services from this company/entity.
10. Within the past 12 months, UBS has received compensation for investment banking services from this company/entity or one of its affiliates.
11. UBS expects to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.
12. The fixed income analyst covering this company, a member of his or her team, or one of their household members has a long common stock position in this company.
13. UBS has acted as manager/co-manager in the underwriting or placement of securities of this company/entity or one of its affiliates within the past 12 months.
14. Because this security exhibits higher-than-average volatility, the FSR has been set at 15% above the MRA for a Buy rating, and at -15% below the MRA for a Sell rating (compared with 6/-6% under the normal rating system).
15. UBS Financial Services Inc., its affiliates or subsidiaries owns a net long position exceeding 0.5% of the total issued share capital of this company.
16. UBS is acting as manager/co-manager, underwriter, placement or sales agent in regard to an offering of securities of this company/entity or one of its affiliates.
17. UBS Securities LLC is acting as manager/co-manager, underwriter, placement or sales agent in regard to an offering of securities of this company/entity or one of its affiliates.
18. The UBS Wealth Management strategist or one of their household members has a financial interest in the debt or equity securities of the subject company.
19. The UBS Wealth Management strategist or one of their household members has a financial interest in the debt or equity securities of the subject company.

Required Disclosures
For a complete set of required disclosures relating to the companies that are the subject of this report, please mail a request to UBS CIO Global Wealth Management Business Management, 1285 Avenue of the Americas, 8th Floor, Avenue of the Americas, New York, NY 10019.

Statement of Risk

Preferred securities - Prospective investors should consult their tax advisors concerning the federal, state, local, and non-US tax consequences of owning preferred stocks. Preferred stocks are subject to market value fluctuations, given changes in the level of interest rates. For example, if interest rates rise, the value of these securities could decline. If preferred stocks are sold prior to maturity, price and yield may vary. Adverse changes in the credit quality of the issuer may negatively affect the market value of the securities. Most preferred securities may be redeemed at par after five years. If this occurs, holders of the securities may be faced with a reinvestment decision at lower future rates. Preferred stocks are also subject to other risks, including illiquidity and certain special redemption provisions.

Preferred Securities Ratings Definitions

Rating	Definition
Attractive	Preferred securities on the Attractive List are those that we view favorably based on (1) fundamental credit quality, (2) valuation and (3) structure (security characteristics).
Neutral	We believe that issuers of preferreds on the Neutral List are likely to meet the coupon payment but we do not deem the preferreds to fit the definition of our Attractive or Unattractive Lists.
Unattractive	We may deem these preferred securities to be Unattractive for fundamental reasons, for valuation reasons, or because of their structure. In the case of fundamental drivers, we have concerns that the credit profile may deteriorate. Sector considerations may also be a factor. In the case of valuation, we believe that price/yield levels do not adequately compensate investors for the risks.

Issuer credit risk rating definitions

The UBS CIO issuer credit risk rating reflects the opinion of the relevant UBS CIO analyst regarding an issuer's risk of a near- to intermediate-term dividend deferral on preferred securities, and/or issuer payment default on debt obligations.

Low Risk: The issuer is considered to be in solid financial condition with strong credit fundamentals and low likelihood of a near- to intermediate-term dividend deferral, and/or issuer payment default. The issuer's securities are of generally high quality.

Medium Risk: The issuer is considered to be in adequate financial condition with satisfactory credit fundamentals relative to the near- to intermediate-term dividend deferral, and / or issuer payment default. The issuer's securities are of medium to weaker credit quality and may have higher volatility than those of Low Risk issuers. These instruments should therefore only be held by risk tolerant investors.

High Risk: The issuer is considered to be in weak financial condition with deteriorating credit fundamentals or the state of the issuer's financial condition and credit fundamentals may be uncertain due to volatile market conditions. Sector considerations may be a dominating factor. There is a high likelihood of a near- to intermediate-term dividend deferral, and / or issuer payment default. The issuer's securities are speculative.

Note: Distinctions in the credit quality of individual security instruments may vary based on the maturity of the instrument, as well as the relative priority within an issuer's capital structure. These distinctions will be discussed in our future credit reports, as applicable. In regions outside the United States, the UBS CIO office will map these distinctions to security-level risk flags.

IG (investment grade) securities are those rated Baa3 or above by Moody's and BBB- or above by S&P and Fitch. HY (high yield) securities are those that are rated below investment grade (or are unrated) by the major ratings agencies.

Statement of Risk

Fixed income - Bond market returns are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions and other important variables. Corporate bonds are subject to a number of risks, including credit risk, interest rate risk, liquidity risk, and event risk. Though historical default rates are low on investment-grade corporate bonds, perceived adverse changes in the credit quality of an issuer may negatively affect the market value of securities. As interest rates rise, the value of a fixed-coupon security will likely decline. Bonds are subject to market value fluctuations, given changes in the level of risk-free interest rates. Not all bonds can be sold quickly or easily on the open market. Prospective investors should consult their tax advisors concerning the federal, state, local, and non-US tax consequences of owning any securities referenced in this report.

Issuer credit risk rating definitions

The UBS CIO issuer credit risk rating reflects the opinion of the relevant UBS CIO analyst regarding an issuer's risk of a near- to intermediate-term dividend deferral on preferred securities, and/or issuer payment default on debt obligations.

Low Risk: The issuer is considered to be in solid financial condition with strong credit fundamentals and low likelihood of a near- to intermediate-term dividend deferral, and/or issuer payment default. The issuer's securities are of generally high quality.

Medium Risk: The issuer is considered to be in adequate financial condition with satisfactory credit fundamentals relative to the near- to intermediate-term dividend deferral, and / or issuer payment default. The issuer's securities are of medium to weaker credit quality and may have higher volatility than those of Low Risk issuers. These instruments should therefore only be held by risk tolerant investors.

High Risk: The issuer is considered to be in weak financial condition with deteriorating credit fundamentals or the state of the issuer's financial condition and credit fundamentals may be uncertain due to volatile market conditions. Sector considerations may be a dominating factor. There is a high likelihood of a near- to intermediate-term dividend deferral, and / or issuer payment default. The issuer's securities are speculative.

Note: Distinctions in the credit quality of individual security instruments may vary based on the maturity of the instrument, as well as the relative priority within an issuer's capital structure. These distinctions will be discussed in our future credit reports, as applicable. In regions outside the United States, the UBS CIO office will map these distinctions to security-level risk flags.

IG (investment grade) securities are those rated Baa3 or above by Moody's and BBB- or above by S&P and Fitch. HY (high yield) securities are those that are rated below investment grade (or are unrated) by the major ratings agencies.

Issuer credit outlook

We complement the instrument-specific risk information of the credit risk flags by indicating our outlook for the credit quality of an issuer over the next 12 months. Depending on instrument pricing, all combinations of an issuer credit outlook and relative valuation recommendations are possible.
Improving: We expect the credit profile of the issuer to improve, to an extent that may result in upgrades by rating agencies.
Stable: We do not expect the credit profile of the issuer to change meaningfully.
Deteriorating: We expect the credit profile of the issuer to deteriorate, to an extent that may result in downgrades by rating agencies.

Companies mentioned in this report (13 July 2023):

Apple Inc. (AAPL - , $), Boeing Co. (BA - , $), Bank of America Corp (BAC - , $), Boardwalk Pipeline Partners, LP (BWP US - , $12.05), Citigroup (C - , $), CVS Health (CVS - , $), Wells Fargo & Co (E - , $), eBay (EBAY - , $), Exelon Corp. (EXC - , $), Ford Motor Co. (F - , $), General Electric Co. (GE - , $), General Motors Company (GM - , $), Goldman Sachs Group Inc. (GS - , $), Home Depot Inc. (HD - , $), JPMorgan Chase & Co. (JPM US - , $148.15), KINDER MORGAN INC/DE (KMI - , $), Altria Group (MO - , $), MPLX LP (MPLX US - , $34.80), Morgan Stanley (MS - , $85.77), Microsoft Corp. (MSFT - , $), Oracle Corporation (ORCL - , $), PepsiCo Inc. (PEP - , $), Philip Morris International (PM - , $66.17), Charles Schwab Corp (SCHW US - , $58.41), Truist Financial Corp. (TFC US - , $33.02), Verizon Communications (VZ - , $), Wells Fargo & Co (WFC US - , $43.26)

Disclaimer

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"). UBS Group includes Credit Suisse AG, its subsidiaries, branches and affiliates.

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

Instrument/issuer-specific 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. This publication is not intended to be a complete statement or summary of the securities, markets or developments referred to in the report. 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.

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. **Credit Suisse Global CIO Office Research** is produced by Credit Suisse Wealth Management. **Credit Suisse Securities Research** is produced by Credit Suisse operating under its Securities Research function within the Investment Banking Division. **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.

Disclaimer

Options and futures are not suitable for all investors, and trading in these instruments is considered risky and may be appropriate only for sophisticated investors. Prior to buying or selling an option, and for the complete risks relating to options, you must receive a copy of "Characteristics and Risks of Standardized Options". You may read the document at https://www.theocc.com/about/publications/character-risks.jsp or ask your financial advisor for a copy.

Investing in structured investments involves significant risks. For a detailed discussion of the risks involved in investing in any particular structured investment, you must read the relevant offering materials for that investment. Structured investments are unsecured obligations of a particular issuer with returns linked to the performance of an underlying asset. Depending on the terms of the investment, investors could lose all or a substantial portion of their investment based on the performance of the underlying asset. Investors could also lose their entire investment if the issuer becomes insolvent. UBS does not guarantee in any way the obligations or the financial condition of any issuer or the accuracy of any financial information provided by any issuer. Structured investments are not traditional investments and investing in a structured investment is not equivalent to investing directly in the underlying asset. Structured investments may have limited or no liquidity, and investors should be prepared to hold their investment to maturity. The return of structured investments may be limited by a maximum gain, participation rate or other feature. Structured investments may include call features and, if a structured investment is called early, investors would not earn any further return and may not be able to reinvest in similar investments with similar terms. Structured investments include costs and fees which are generally embedded in the price of the investment. The tax treatment of a structured investment may be complex and may differ from a direct investment in the underlying asset. UBS and its employees do not provide tax advice. Investors should consult their own tax advisor about their own tax situation before investing in any securities.

Important Information About Sustainable Investing Strategies: Sustainable investing strategies aim to consider and incorporate environmental, social and governance (ESG) factors into investment process and portfolio construction. Strategies across geographies and styles approach ESG analysis and incorporate the findings in a variety of ways. Incorporating ESG factors or Sustainable Investing considerations may inhibit the portfolio manager's ability to participate in certain investment opportunities that otherwise would be consistent with its investment objective and other principal investment strategies. The returns on a portfolio consisting primarily of sustainable investments may be lower or higher than portfolios where ESG factors, exclusions, or other sustainability issues are not considered by the portfolio manager, and the investment opportunities available to such portfolios may differ. Companies may not necessarily meet high performance standards on all aspects of ESG or sustainable investing issues; there is also no guarantee that any company will meet expectations in connection with corporate responsibility, sustainability, and/or impact performance.

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 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 Asesores México, 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-sr or ask your client advisor for the full disclaimer.

Version B/2023. CIO82652744