

UBS House View

Monthly Letter | 22 February 2024 | Chief Investment Office GWM, Investment Research

US large-caps

Despite recent big gains, we think investors still need a core allocation to US large-caps as a key building block of their portfolio.

Diversify exposure

International stocks and small-caps offer exposure to a broader range of potential growth drivers.

Opportunities beyond equities

We see quality bonds and alternative assets as additional building blocks that can help smooth portfolio returns.

Asset allocation

We prefer quality fixed income. Within equities, we like quality stocks, US technology, and emerging markets including India.



Mark Haefele

Chief Investment Officer
Global Wealth Management

 **Follow me on LinkedIn**
[linkedin.com/in/markhaefele](https://www.linkedin.com/in/markhaefele)



Our views, live with Q&A

The next CIO global monthly livestream will take place on 27 February. [Join here.](#)

Four things no great portfolio can do without

In the popular imagination, a bull market brings a mixture of optimism, excitement, and exuberance. Yet a sense of unease can often override the glee. Those sitting on paper gains wonder whether it's time to realize profit, and those holding excess cash alternate between feelings of FOMO (fear of missing out) and FOLO (fear of losing out).

These emotions are very much at play today. The S&P 500 is up by around 40% since its October 2022 lows, while the tech-related "Magnificent 7" stocks are up by close to 140% on average over the same period.

Dealing with this requires keeping a strong focus on strategy as well as tactics. In that context, in this letter I discuss why, despite these big gains, we think investors still need to have a core allocation to US large-cap stocks. Yet, with the future for many portfolios being increasingly dependent on developments at only a handful of highly valued companies, I also discuss why US large-caps should represent just one of four building blocks investors should hold in their portfolios.

Technological change, overconcentration, shifting rate expectations, and geopolitical uncertainty are some of the factors that make now a critical time for investors to review their allocations to these four building blocks—and address shortfalls or excesses where they exist. We believe that the right balance of US large-caps, international and small-cap stocks, quality bonds, and alternative assets can allow investors to position for long-term returns while navigating near-term risks.

Building block #1: US large-caps

US large-cap stocks should make up a substantial portion of equity allocations.

Why?

US tech companies are leading the AI revolution. We believe generative artificial intelligence will be the growth theme of the decade, and we estimate AI revenues to grow around 70% a year until 2027. Most recently, Nvidia's strong fourth-quarter results and guidance point to overall solid AI infrastructure spending trends.

Generative AI is unusual in history because right from its onset, many of the companies in the industry are already present across multiple stages of its value chain, from the cloud and connected hardware to large language model development and applications. These companies are almost exclusively giants in the US technology sector.

With such an advantage, we believe the largest players today are poised to grow larger still. Last year's earnings of the Magnificent 7 were already around USD 340 billion—only slightly less than the USD 367 billion earned by all Swiss and UK companies in the SPI and FTSE 100 indexes—and we think this year's earnings could rise a further 20% or more. In our view, investors can't afford not to have at least some exposure to AI. We believe software and semiconductors offer the best way to gain exposure in the near term.

The US is home to a broad range of opportunities. US large-caps offer a larger pool of investable stocks than any other region, accounting for 63% of the global equity market cap based on MSCI data. A healthy allocation to US equities provides exposure to both the country's resilient and valuable consumer market (US consumption is around USD 19 trillion annually) and its largest multinationals (about 35% of S&P 500 sales are generated outside the US).

The US equity market is also a key destination for technology companies looking to sell or raise capital. In the second half of 2023, software company Klaviyo debuted on the New York Stock Exchange, and UK-based chipmaker ARM Holdings launched on the Nasdaq. Meanwhile, generative AI startups raised about USD 27 billion in 2023—according to PitchBook data—around USD 18 billion of which came from Amazon, Microsoft, and Google.

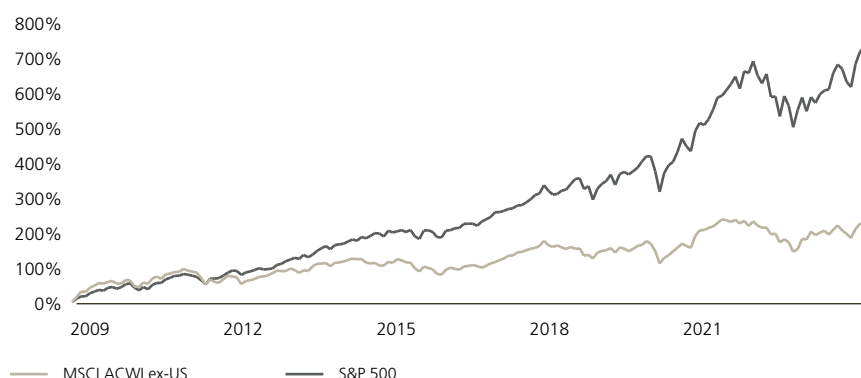
The big US tech firms are at the forefront of the AI revolution.

The US accounts for almost two-thirds of global equity market capitalization.

Figure 1

The US has outperformed significantly

S&P 500 and MSCI ACWI ex-US in USD, total return, percentage change March 2009–January 2024



Source: Bloomberg, UBS, as of February 2024

A record of success. Between March 2009 and the end of January 2024, US stocks have gained 712%, versus 216% for ex-US stocks (S&P 500 and MSCI ACWI ex-US in USD indexes; or a 15% vs. 8% average annualized total return), with this performance differential backed by earnings growth. Since March 2009, S&P 500 earnings have grown by around 300%, compared to 86% for the European Stoxx 600 index, and 31% for the MSCI Emerging Markets index. Past performance is no guarantee of future success, but this history of wealth creation shows that US companies can deliver results for investors.

Why now?

US large-caps have performed very well in recent months. While taking some profit on excess exposure to these stocks may be prudent for some investors, many in Europe and Asia remain well below strategic target weightings to US large-cap stocks, and there is a risk this underweight could become costly in the months ahead.

We see scope for the US equity rally to continue.

A "Goldilocks" scenario could drive further US upside. In our base case scenario, we expect the S&P 500 to trade moderately higher than current levels by year-end. We have revised our December 2024 target for the index to 5,200 (from 5,000) on the back of stronger-than-expected earnings in the fourth quarter of 2023. If incoming data further support a Goldilocks outcome for growth, inflation, and rates, an upside scenario could see the S&P 500 end the year around 5,500.

Long-term gains could get front-loaded. It can often be easier to assess the long-term potential of a new technology like AI than to determine when the market will aptly price that potential. Given sufficient market confidence, we think much of the pricing for the long-term gains from AI could occur early on. In this scenario, investors sitting on the sidelines waiting for a better entry price risk missing what could be the investment opportunity of the decade.

US equity market valuations are fair in light of the supportive economic backdrop.

US equity valuations reflect strong fundamentals. Overall US equity valuations are higher than other regions. The S&P 500 is trading on a forward price-to-earnings (P/E) ratio of 20 times. Some of this premium is driven by the technology sector, which represents 30% of the US market versus 13% globally ex-US, and trades on a forward P/E of 28x. Yet tech valuations are fair, in our view, given the very strong earnings growth expected in the coming years. For example, on our earnings estimates, AI infrastructure companies (based on the MSCI ACWI IT index) are trading at around 20x 2027 P/E. If we look at US valuations excluding tech, they are still relatively high at 18x P/E, but a level we think appropriate in the context of robust US growth, falling inflation, and a strong labor market.

How?

Investors need to optimize their exposure to technology and the US large-caps more generally. This means increasing their allocation if necessary and diversifying appropriately.

For those underinvested in large-caps. Building up strategic US large-cap exposure after such a large rally can be psychologically challenging. Investors looking to mitigate timing risks can consider phasing investments on a disciplined schedule while accelerating during market sell-offs. Strategies that offer a degree of capital preservation can also help investors get upside exposure while mitigating their fear of regret.

Investors should take steps to mitigate concentration risk.

For those managing existing exposure. The risk of overconcentration in individual companies is often high, particularly for investors managing portfolios of individual securities. Our “Technology Disruption” equity preference list offers guidance on how to manage single-stock exposure to technology, including suggestions for portfolio weights. Meanwhile, investors looking to retain upside exposure and lock in some profits can consider replacing some direct equity exposure with equivalent exposure that offers a degree of capital preservation.

We also recommend investors ensure that a high allocation to US large-caps doesn’t come at the cost of our other key portfolio building blocks.

Managing home bias to optimize your equity allocation

Home bias is a common tendency among investors that leads them to make high allocations to domestic stocks relative to those overseas.

While there may be good reasons for some home bias (for example, due to tax and regulatory considerations), too large a home bias can result in poorly diversified portfolios. Localized crises, like the Asian financial crisis of the late 1990s and the Eurozone sovereign debt crisis of

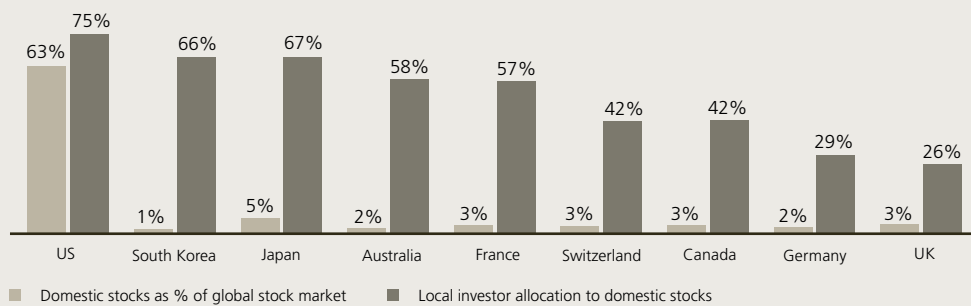
the late 2000s, illustrate how regional challenges can hurt investors whose portfolios are heavily tilted toward the countries in which they live.

The challenge is greatest for investors based in jurisdictions with small equity markets. Given that the US accounts for 63% of the global equity market capitalization, home bias generally means that non-US investors have too little exposure to the US market.

Figure 2

The average investor tends to have a home bias, which leaves them more exposed to domestic risks

Domestic stocks as a percentage of global stock market, local investor allocation to domestic stocks



Source: Bloomberg, IMF Coordinated Portfolio Investment Survey (December 2022), UBS, as of 8 February 2024

Building block #2: Diversified equity exposure

Stock market returns outside of the US large-caps have not been strong in recent years. However, we believe that a mix of stocks in Europe, Asia Pacific, the emerging markets, and small-caps should represent another core building block of portfolios.

Global diversification helps ensure investors don't miss the potential next portfolio growth engine.

Why?

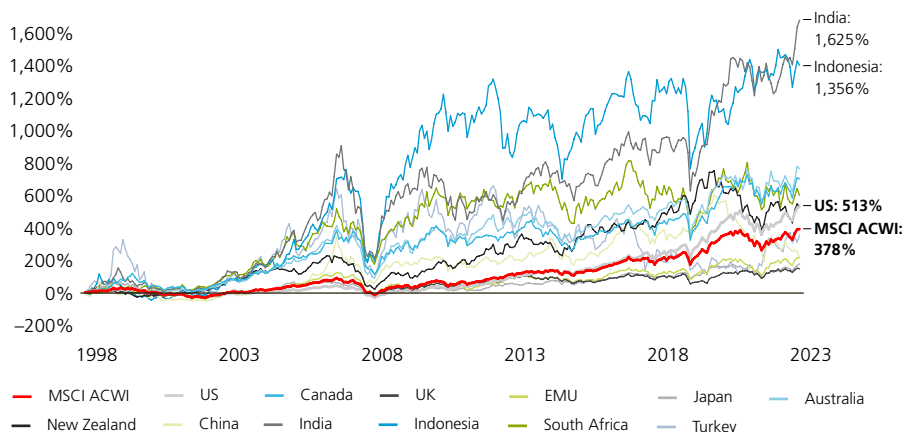
The next big thing? Many leading companies in sectors including semiconductors, pharmaceuticals, consumer goods, automobiles, engineering, and renewable energy count Europe or Asia Pacific, not the US, as their home. Meanwhile, for some companies in emerging markets, exposure to economic growth and favorable demographics creates a fertile backdrop for growth in the years ahead. Ensuring that investors don't miss these potential portfolio growth engines requires diversified exposure to stocks around the world.

The US market hasn't always led. Historically, market leadership has rotated over time. For example, while the S&P 500 has outperformed substantially since 2007, it returned just 38% between 1999 and 2007 compared with 97% for MSCI EAFE (which includes developed markets in Europe, Australasia, and the Far East) and 420% for MSCI Emerging Markets. A shift in regime can't be ruled out in the future—and in case of such a rotation, international markets that have lagged in recent years could benefit.

Figure 3

The US doesn't always outperform everywhere

Select MSCI indexes, total return, in USD, since the end of 1998 to January 2024, monthly data



Source: Bloomberg, UBS, as of February 2024

Equity valuations are lower in most markets outside the US.

Lower valuations. Equity valuations in most markets outside the US are currently cheaper based on their 12-month-forward P/E ratios. The MSCI EAFE index is trading at 13.7x, a 5% discount to its 10-year average, while the MSCI EMU index is at its cheapest level relative to the S&P 500 in almost four decades. For MSCI Emerging Markets, its valuation of 11.6x is an unusually deep 44% discount to US stocks. Investor positioning in international markets is still light, and valuations in most regions have scope for a catch-up if the global economic backdrop improves and the equity rally broadens.

Small-caps. Apart from casting a wider geographic net, investors can also consider diversifying through small-cap stocks, which account for roughly 6% of total US equity market capitalization (and about 11% globally). Valuations are appealing here, too. The forward P/E for the S&P SmallCap 600 index is only 14x, lower than its 10-year average of 17x and a 30% discount to the large-cap S&P 500 valuation. In the Eurozone, the ratio for small- and mid-caps is at 11.1x, the largest discount to large-caps in more than 20 years.

Lower interest rates in 2024 should create a supportive environment.

Why now?

Beneficiaries of lower rates. Most major central banks—including those in the Eurozone, Switzerland, and the UK—are likely to cut interest rates this year. Historically, lower rates have been supportive of global stocks and small-caps. Since 1989, emerging market stocks have delivered an average of 10% and 20% total returns in the six and 12 months, respectively, following the first Federal Reserve rate cut. US small-caps should also benefit from lower interest rates: Nearly half of the debt of Russell 2000 companies is floating-rate, compared with about 10% for large-caps. Conversely, higher-for-longer rates would likely present a risk for small-caps.

Earnings should start to recover. We expect positive earnings growth across international markets and small-caps. Consensus expectations are for 14% growth for US small-caps this year, and in emerging markets we forecast a solid mid-teens increase in US dollar terms. Both compare favorably with our 9% forecast for the S&P 500.

How?

For investors looking to quickly boost portfolio diversification and get exposure to this key building block, a variety of strategies can offer broad exposure to entire regions like Europe or emerging markets, or market segments like small-caps.

Building exposure to overlooked areas of the market can yield benefits.

But a more granular and gradual approach focused on progressively building up exposure to overlooked individual companies, countries, regions, or market segments can also yield benefits. Such an approach can allow investors to isolate risks, invest in individual markets with different approaches, and time entry into markets in alignment with current fundamentals.

For example, we can identify high-quality growth stocks in Europe that, on our estimates, offer similar earnings growth prospects as the Magnificent 7 in the US. “Europe’s Magnificent 7,” a selection from the technology, consumer discretionary, consumer staples, healthcare, and industrials sectors, trade at a premium to the European market, but we think this is deserved due to their superior sustainable earnings growth, strong free cash flow generation, and lower volatility.

Similarly, in Asia Pacific, our “Asian titans” strategy focuses on stocks with a consistent record of outperforming regional benchmarks. Driven by industry leadership, above-average earnings growth, strong free cash flow margins, higher returns on equity, and favorable valuations, we expect these stocks to continue to outperform the broader MSCI Asia ex-Japan index in the next three to five years.

We see opportunities in Indian equities.

Within emerging markets, India is among our most preferred. We think Indian stocks can deliver low-to-mid-teens total rates of return over the next 12 months, driven chiefly by robust earnings growth. We expect 18.5% earnings growth for the Nifty stock index in fiscal year 2024 and nearly 12% in 2025. While some investors may balk at Indian stocks' roughly 20x P/E ratio, this is still below their average of 22x over the last decade.

Building block #3: Quality bonds

Quality bonds, including high grade (government) and investment grade corporate bonds, are another key building block for portfolios.

Quality bonds can help stabilize portfolio performance.

Why?

Safe and liquid. High-quality bonds are among the safest investments based on the creditworthiness of their issuers. That makes them an effective way of preserving capital, reducing volatility, and stabilizing portfolios, in our view. US Treasuries can also be bought and sold easily, even in times of crisis.

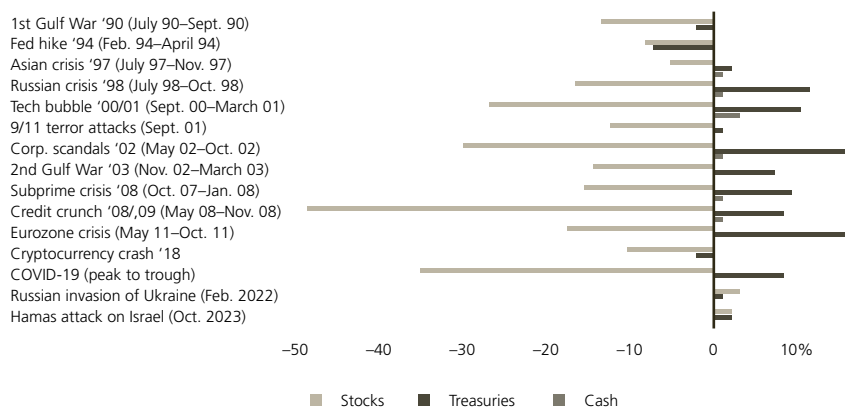
Reliable income and higher returns versus cash. Quality bonds offer a steady stream of income. While we think cash rates are likely to fall, current bond yields can be locked in, providing a more durable source of portfolio income over time. Historically, bonds delivered higher returns than cash over the long term, and their probability of outperforming cash rises with longer holding periods—from 65% over 12 months to 82%, 85%, and 90% over five, 10, and 20 years, respectively.

A record of effective diversification. Bonds have historically insulated portfolios effectively during periods of equity market turbulence. In all but three of the past 98 years, bonds have delivered positive performance in years when equities fell, a relationship we think will continue in the future.

Figure 4

Bonds reduce portfolio stress better than cash

10-year US Treasuries' total returns in periods of stress, in %



Source: Bloomberg, UBS, as of February 2024

Yields are likely to fall this year.

Why now?

We expect yields to fall. The current risk-reward proposition for quality bonds is especially attractive, in our view. At 4.3%, the 10-year US Treasury yield is appealing, and we see the potential for capital appreciation as inflation recedes, growth slows, and the Fed cuts rates this year. We expect the 10-year yield to fall to 3.5% by December in our base case scenario. This would imply 10% returns for current holders of 10-year Treasuries.

A hard-landing hedge. If economic growth slows more abruptly than we expect, global benchmark yields could fall faster as central banks ease policy quickly. In a hard-landing scenario, we would expect the US 10-year yield to decline to 2.5% by the end of this year. This would imply an 18% return for current holders of 10-year Treasuries by the end of December.

Investors should act soon to lock in bond yields.

Opportunity to lock in returns. We see the reinvestment risk from holding cash as being greater than the potential gains from waiting for better bond prices. We see a clear asymmetry in the potential path for cash rates. While the Fed could raise rates again if inflation reaccelerates, its intention and economic projections point to rate cuts starting this year. We therefore recommend investors act soon to lock in currently attractive bond yields.

How?

Medium duration. We favor the 1- to 10-year duration segment, particularly the 5-year duration point. We believe this middle part of the yield curve offers the best combination of high yields, stability, and sensitivity to falling interest rate expectations.

Buying short- or medium-duration bonds while selling longer-duration bonds (on a duration-neutral basis) can also be an effective way of hedging risk scenarios. We think such an approach would perform well in our base case, in the event of rapid rate cuts, or if longer-term bonds sell off due to excess supply.

Actively managed fixed income strategies can tap into a broader range of opportunities.

Active strategies. Beyond single bonds, investors should also consider exposure to actively managed fixed income strategies to improve diversification, gain the convenience of automatic reinvestment, and take full advantage of the breadth of opportunity in the asset class. High yields, volatility, dispersion, and shifting interest rate expectations should increase the potential for active managers to outperform.

Building block #4: Alternatives

Stocks and bonds aren't the only building blocks needed for an optimal portfolio. While investors should consider the risks inherent to alternative assets—including illiquidity, long lockup periods, high fees, leverage, and concentration—we think alternatives should be a core component of portfolios.

Why?

Potentially higher returns. We estimate that adding diversified exposure to alternative investments, including hedge funds, private equity, private debt, private real estate, and private infrastructure, could add 1–2% of return per year to a portfolio for a similar level of expected portfolio volatility. Hedge funds generate these excess returns by using a wider toolkit than simple exposure to stocks and bonds. Meanwhile, private markets' return advantage arises from a combination of active improvement of how their portfolio companies do business and effective use of leverage.

Alternatives can help investors diversify sources of return.

Smoother portfolio returns. Alternatives can help investors diversify sources of return at times when equities and bonds are moving together like they are today. The six-month rolling correlation between stocks and high-quality bonds currently stands at close to eight-year highs. Global discretionary macro hedge funds have historically shown low or negative return correlations to bonds and credit, delivering positive returns when fixed income assets are selling off.

Broader exposure. Alternatives provide access to some investments that can't be found in public markets. In 2000, there were three times more companies listed on the New York Stock Exchange and Nasdaq than companies backed by private equity firms. Today, private-equity-backed companies outnumber publicly listed firms by a factor of three to one. This less efficient marketplace tends to create more opportunities for long-term outside returns than public markets.

Why now?

High dispersion, low correlation. The S&P 500 intra-index correlation is currently below average, while dispersion is above average. We think this is a good environment for equity long/short hedge fund managers to create alpha. We particularly like equity market-neutral hedge funds with low net exposure, which aim to mitigate portfolio volatility and deliver steadier returns than stocks.

Similarly, high dispersion within the high yield credit universe is creating opportunities for specialized credit hedge fund managers to generate performance. The gap in spreads within the weakest segment of credit markets (rated CCC or lower) is in the 70th percentile since 1998 and rising (according to ICE BofA index data).

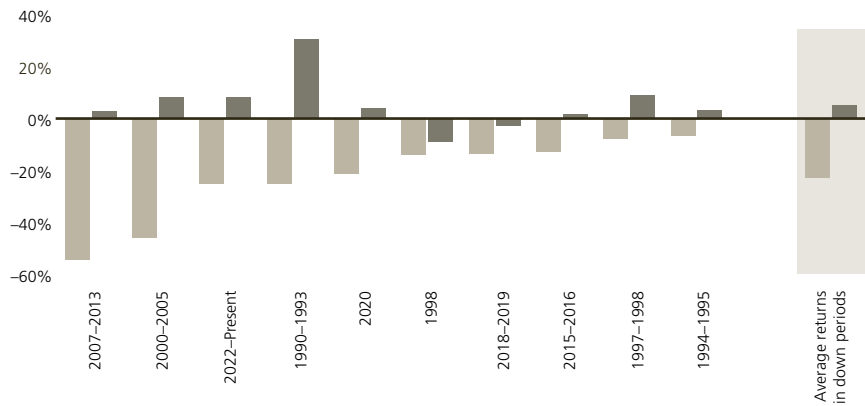
Private equity purchase price multiples have declined.

Low purchase price multiples. Private equity purchase multiples have fallen to 10.8x EV/EBITDA from highs of 12x in 2022. We think the current environment looks particularly interesting in middle-market buyout and secondaries, which are trading at around 15% discounts to net asset value. We see most potential in managers with a record of boosting operational performance in sectors supported by structural growth including software, healthcare, education, and climate tech.

Figure 5

Macro hedge funds offer a degree of protection in down periods

Global macro vs. global equities, during equities' worst down periods



Source: Bloomberg, Cambridge Associates, UBS, as of February 2024

Allocating across all four building blocks helps investors position effectively for a range of scenarios.

How?

There is no “one-size-fits-all” approach to investing in alternative investments. But, as a general rule, investors with a diversified and liquid multi-asset portfolio may put wealth to work in illiquid assets as long as these allocations are in line with their desired investment time horizon, risk preference, and tolerance for illiquidity. Investors with more moderate cash flow needs may have the capacity to allocate more to alternatives than those with a greater reliance on their portfolio for income or raising cash.

For investors who value simplicity, liquidity, and broad diversification, fund-of-hedge-funds or perpetual capital funds may be more appealing than building up exposure to single manager funds.

But for investors with the willingness and ability to build up exposure over time, a more granular approach can also be rewarding. In addition to diversified funds, these investors can also consider single-manager strategies in hedge funds and private markets that allow them to tailor their exposures to their main financial objectives, be they income, long-term capital creation, or a diversified mix of both.

Why all four building blocks make sense

We do not think investors have the luxury of taking an “either/or” approach to picking from these portfolio building blocks. Technological change, portfolio concentration, shifting rate expectations, and geopolitical uncertainty require us to think about the global outlook in terms of scenarios, not linear paths. Only by allocating across all these components can investors most effectively position themselves for the base-case soft-landing scenario, as well as upside and downside scenarios.

Committing to all four of the building blocks can also help investors manage the tension between building long-term portfolios and navigating short-term market dynamics. For example, the relative cheapness of international and small-cap equities can help offset the apparent richness of US mega-cap tech. Holding sufficient high-quality bonds can help dampen portfolio swings from the more growth-sensitive equities. An allocation to alternatives can help smooth portfolio returns, particularly in years of high equity-bond correlations.



Mark Haefele
Chief Investment Officer
Global Wealth Management

Messages in Focus

Manage liquidity	We expect interest rates to fall in 2024. This means that cash will progressively deliver lower returns, creating a risk for investors who do not lock in returns today. Investors should diversify a liquidity strategy beyond cash and money market funds, with a combination of fixed term deposits, bond ladders, and structured investment strategies to cover expected portfolio withdrawals over the next five years.
Buy quality	Quality is key. In fixed income, quality bonds offer attractive yields and should deliver capital appreciation if economic growth slows and inflation falls further, as we expect. Active and diversified bond exposure can help mitigate specific risks and enable investors to realize the full return potential of the asset class. In equities, we believe that quality companies with strong balance sheets, high profitability, and exposure to resilient earnings streams remain well positioned to deliver performance, especially if growth slows.
Optimize tech exposure	The AI revolution is here, and investors' future performance will rest heavily on their level of exposure to the technology sector. We believe investors cannot afford to be underinvested—we expect rapid earnings growth and think that the big will get bigger. Equally, investors need to be wary of concentration and overexposure. As a guideline, the Magnificent 7 and information technology represent 18% and 24% of the MSCI All-Country World Index, respectively. Structured and diversified solutions can help investors grow exposure while mitigating downside risks, and we also see various diversification opportunities for investors managing US tech concentration risks.
Anticipate a "Goldilocks" scenario	Investors should prepare for a potential broadening of the equity market rally, which could materialize with a combination of Fed interest rate cuts, still-robust growth, and falling inflation. We would expect US and European small-caps, select Swiss mid-caps, and emerging and frontier market equities to be particular beneficiaries in this scenario, given their interest rate sensitivity and low valuations. High small-cap exposure in ESG engagement strategies and in select long-term investment themes could also prove supportive of these areas.
Capture upside and protect downside	A mix of low equity market volatility and high bond yields makes this an attractive time to consider strategies that can allow investors to capture market upside while protecting against downside. These can be particularly effective ways to invest in markets that have downside risks but also high potential upside, including technology and China. More generally, we believe investors can mitigate portfolio downside risks by adding exposure to gold and oil (which could rally in the event of geopolitical turmoil) and macro hedge funds (which have historically delivered consistent performance in times of bond market turbulence).
Trade the range in currencies and commodities	We expect most major currency pairings to continue to trade in established ranges in the months ahead, creating opportunities for investors to earn additional income by "trading the range." Some exceptions include the Swiss franc, where we expect near-term weakness stemming from lower-than-expected inflation, and the Australian dollar and Japanese yen, where we expect appreciation driven by relative policy tightening. Meanwhile, we expect oil prices to fluctuate in the USD 80–90/bbl range in 2024, creating opportunities for investors to navigate the range.
Diversify with alternative credit	High dispersion within the high yield credit universe is creating opportunities for specialized credit hedge fund managers to generate performance. This is a supportive backdrop for various credit strategies, including credit arbitrage and distressed debt. We also see opportunities in convertible arbitrage, a strategy which we expect to see more opportunities as companies refinance maturing debt.
Capture growth with private markets	A new world will see significant investments in healthcare, digitalization, and energy. This will create significant opportunities for private market managers to provide equity or debt capital to companies at different lifecycle stages. For investors, private markets offer attractive return potential and differentiated opportunities, in exchange for lower liquidity. They can also be an effective vehicle for investors focused on driving positive change through impact and sustainability.

Global forecasts

Economy

Real GDP y/y, in %

	2023	2024E	2025E
US	2.5	1.6	1.6
Canada	1.1	0.2	1.3
Japan	1.9	0.3	1.1
Eurozone	0.5	0.6	1.2
UK	0.1	0.6	1.5
Switzerland	0.7	1.2	1.5
Australia	2.0	1.5	2.1
China	5.2	4.6	4.6
India	7.3	6.2	6.2
EM	4.5	4.0	4.3
World	3.2	2.8	3.1

Inflation (average CPI), y/y, in %

	2023	2024E	2025E
US	4.1	3.0	2.2
Canada	3.9	2.5	2.1
Japan	3.3	1.9	1.6
Eurozone	5.4	2.3	2.1
UK	7.3	2.7	2.1
Switzerland	2.1	1.4	1.4
Australia	5.6	3.4	3.1
China	0.2	0.8	1.6
India	5.3	4.5	4.5
EM	7.5	8.3	5.1
World	6.2	5.8	3.8

Source: Bloomberg, UBS, as of 21 February 2024. Latest forecasts available in the *Global forecasts* publication, published weekly.

Asset classes

	Spot	Dec-24
Equities		
S&P 500	4,982	5,200
Eurostoxx 50	4,775	4,900
FTSE 100	7,663	7,780
SMI	11,429	11,640
MSCI Asia ex-Japan	638	685
MSCI China	54	59
Topix	2,627	2,680
MSCI EM	1021	1,100
MSCI AC World	903	940
Currencies		
EURUSD	1.08	1.12
GBPUSD	1.26	1.3
USDCHF	0.88	0.87
USDCAD	1.35	1.31
AUDUSD	0.66	0.72
EURCHF	0.95	0.97
NZDUSD	0.62	0.62
USDJPY	150	140
USDCNY	7.19	7.15

	Spot	Dec-24
2-year yields, in %		
USD 2y Treas.	4.67	3.25
EUR 2y Bund	2.85	2.00
GBP 2y Gilts	4.61	3.50
CHF 2y Eidg.	1.01	0.70
JPY 2y JGB	0.15	0.25
10-year yields, in %		
USD 10y Treas.	4.32	3.50
EUR 10y Bund	2.45	2.25
GBP 10y Gilts	4.10	3.50
CHF 10y Eidg.	0.85	0.70
JPY 10y JGB	0.72	0.80
Commodities		
Brent crude, USD/bbl	83	82
Gold, USD/oz	2,022	2,250

Source: Bloomberg, UBS, as of 21 February 2024. Latest forecasts available in the *Global forecasts* publication, published weekly.

Disclaimer / Risk Information

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- **Hedge Fund Risk:** There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-US securities and illiquid investments.
- **Managed Futures:** There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- **Real Estate:** There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- **Private Equity:** There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- **Foreign Exchange/Currency Risk:** Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a US investor.

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. Additional disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.

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

Generic investment research – Risk information:

This publication is **for your information only** and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein does not constitute a personal recommendation or take into account the particular investment objectives, investment strategies, financial situation and needs of any specific recipient. It is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS). All information and opinions as well as any forecasts, estimates and market prices indicated are current as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria.

In no circumstances may this document or any of the information (including any forecast, value, index or other calculated amount ("Values")) be used for any of the following purposes (i) valuation or accounting purposes; (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or (iii) to measure the performance of any financial instrument including, without limitation, for the purpose of tracking the return or performance of any Value or of defining the asset allocation of portfolio or of computing performance fees. By receiving this document and the information you will be deemed to represent and warrant to UBS that you will not use this document or otherwise rely on any of the information for any of the above purposes. UBS and any of its directors or employees may be entitled at any time to hold long or short positions in investment instruments referred to herein, carry out transactions involving relevant investment instruments in the capacity of principal or agent, or provide any other services or have officers, who serve as directors, either to/for the issuer, the investment instrument itself or to/for any company commercially or financially affiliated to such issuers. At any time, investment decisions (including whether to buy, sell or hold securities) made by UBS and its employees may differ from or be contrary to the opinions expressed in UBS research publications. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, divisions or affiliates of UBS. Futures and options trading is not suitable for every investor as there is a substantial risk of loss, and losses in excess of an initial investment may occur. Past performance of an investment is no guarantee for its future performance. Additional information will be made available upon request. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information.

Different areas, groups, and personnel within UBS Group may produce and distribute separate research products **independently of each other**. For example, research publications from **CIO** are produced by UBS Global Wealth Management. **UBS Global Research** is produced by UBS Investment Bank. **Research methodologies and rating systems of each separate research organization may differ**, for example, in terms of investment recommendations, investment horizon, model assumptions, and valuation methods. As a consequence, except for certain economic forecasts (for which UBS CIO and UBS Global Research may collaborate), investment recommendations, ratings, price targets, and valuations provided by each of the separate research organizations may be different, or inconsistent. You should refer to each relevant research product for the details as to their methodologies and rating system. Not all clients may have access to all products from every organization. Each research product is subject to the policies and procedures of the organization that produces it.

The compensation of the analyst(s) who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking, sales and trading or principal trading revenues, however, compensation may relate to the revenues of UBS Group as a whole, of which investment banking, sales and trading and principal trading are a part.

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

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

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

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

USA: This document is not intended for distribution into the US and / or to US persons.

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

Additional Disclaimer relevant to Credit Suisse Wealth Management

You receive this document in your capacity as a client of Credit Suisse Wealth Management. Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website <https://www.credit-suisse.com>. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.

Except as otherwise specified herein and/or depending on the local Credit Suisse entity from which you are receiving this report, this report is distributed by Credit Suisse AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). Credit Suisse AG is a UBS Group company.

Version D/2023. CIO82652744

© UBS 2024. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.