UBS House View

Monthly Letter | 25 April 2024 | Chief Investment Office GWM, Investment Research

Soft landing

In our base case, US inflation and growth moderate, and the Fed starts cutting rates in September. This creates a supportive backdrop for both bonds and equities.

Overheating?

In a bear case, concerns about an overheating US economy send Treasury yields higher. An allocation to alternatives is important to help stabilize portfolios.

Roaring 20s?

In a bull case, a disinflationary boom in the US and increasing optimism about the AI growth outlook drive equity markets higher.

Asset allocation

Within equities, we favor quality stocks and hold a constructive view on the US technology sector. In fixed income, we also prefer quality.

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That butterfly effect

Like all imperial capitals throughout history, Washington DC has a cynical streak. Last week, the buzz at the International Monetary Fund/World Bank gatherings I attended noted (with irony) that Iran's strike on Israeli soil was clearly audible even 10,000km away, in the US Congress. After months of legislative stalemate, a rare bipartisan coalition enabled Congress to enact a sweeping set of measures that include aid to Israel, Ukraine, Taiwan, and Indo-Pacific allies, as well as additional sanctions on China, Russia, and Iran.

It's too soon to say if recent events mark a turning point in world history, or indeed whether the upward surprise in US inflation marks a turn in the macroeconomic trend. But as investors, we have no choice but to navigate portfolios through a volatile and complex geopolitical and macroeconomic environment full of "butterfly effects" that don't care about earnings forecasts or valuation metrics.

Still, we find that a grounding in scenario analysis, built on understanding the most probable drivers of future market outcomes, is the best tool to help set our asset allocations. In the rest of this letter, I present our latest scenario analysis and what we think it means for investors.

In our base case, we expect US inflation to gradually resume its downward trend, falling to 3% by the end of the third quarter. Although Federal Reserve officials have indicated there is no urgency to cut interest rates, we think they will be able to make a first reduction in September. Meanwhile, we think the conflict in the Middle East will stay geographically contained. We think this scenario is consistent with the S&P 500 rising to 5,200 by year-end, and the 10-year Treasury yield falling to 3.85%.

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UBS

Our bear case scenario would see a combination of "too good" US growth, worries about US fiscal policy, and/or a sustained commodity price shock driving the 10-year Treasury yield to 6%. We would expect the S&P 500 to fall to around 4,400 in such a scenario.

Increasing optimism about AI could support a bull case for equities.

A bull case scenario would depend on optimism about artificial intelligence building further, at the same time as US growth stays robust and inflation resumes a downward trajectory. This could support a rise in the S&P 500 toward 5,500, in our view, despite the 10-year Treasury yield climbing to 5%.

What do these scenarios mean for investors? We see the overall risk-return outlook for equities as balanced, and therefore think investors should hold equity allocations close to strategic benchmarks. Within equities, we see better opportunities below the index level in quality stocks, including technology. We also expect small-caps to outperform.

High-quality bonds are our preferred asset class. Quality bonds have value in a portfolio context given the likelihood that they would rally sharply in case of a recession, even if we see this outcome as unlikely over our tactical investment horizon. Interest rate expectations would have to rise significantly from here for investors to earn a negative return, and in our base case we expect total returns of around 10% for quality bonds by year-end (10-year Treasuries, based on yields as of the 24 April close).

Meanwhile, an allocation to alternatives can help investors diversify and manage risks across scenarios. Our bear case would likely be negative for both bonds and equities, and hedge fund strategies like macro and equity-market neutral could help stabilize portfolios in such a scenario.

A likely undersupplied market underpins our positive view on oil, and we also see scope for gold prices to rise further by the end of the year. Both also have value in a portfolio context, particularly to help hedge geopolitical risks.

Scenarios

	Base case *Soft landing*	**Bear case** *Overheating*	**Bull case** *Roaring 20s*
Probability	60%	20%	20%
S&P 500	5,200	4,400	5,500
10-year Treasury yield	3.85%	6%	5%

Source: UBS estimates, as of April 2024

Base case: Soft landing

US CPI data have been higher than expected in recent months.

March inflation data offered little reassurance that the US is on course for a sustainable return to 2% annualized inflation. The headline and core consumer price indexes (CPI) both rose by 0.4% from the previous month. And worse, "super core" inflation—which excludes food, energy, and shelter prices, and focuses on labor-intensive core services—increased to 0.65%, driven by rising costs in medical care, motor vehicle repair, and motor vehicle insurance.

However, in our base case scenario, we expect disinflation to resume in the months ahead.

US shelter inflation is likely to trend lower.

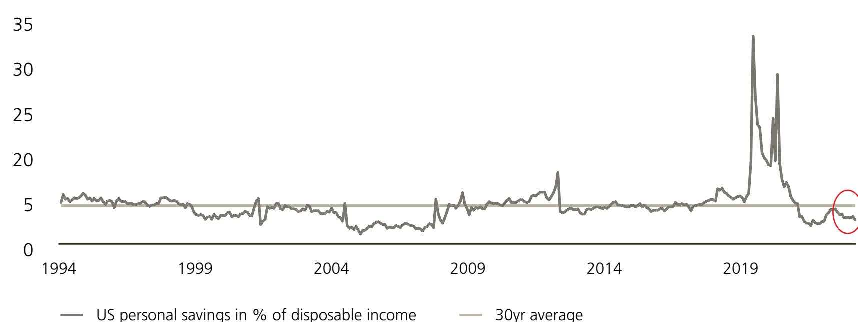
Disinflation to return
First, we are confident that shelter inflation—by far the biggest part of the CPI basket—will fall based on real-world data on new leases, which lead CPI shelter prices by around 12 months. The Apartment List National Rent Report, for example, showed rents fell 0.8% y/y in March. Second, the US savings rate is just 3.6%, a historically low level, meaning strong consumption cannot continue indefinitely. Third, wage growth has slowed to the lowest rate since June 2021—March saw average hourly earnings increase by 4.1% year-over-year. And fourth, we note greater consumer resistance to price hikes: The latest Beige Book suggests some "weakness in discretionary spending, as consumers' price sensitivity remained elevated."

We also note that outside the US, the disinflation trend remains intact in most other advanced economies. Recent inflation prints in the Eurozone and Switzerland came in lower than expected. Inflation has also continued to trend lower in the UK.

Figure 1

The US savings rate is at a low level

US personal savings in % of disposable personal income, 30-year average



Source: Bloomberg, UBS, as of April 2024

We still expect the Fed to cut interest rates this year, starting in September.

Rate cuts delayed, not canceled
While elevated inflation means that US rate cuts are likely to be pushed back, we do not think they will be canceled. We expect the Federal Reserve to cut rates twice this year, by 25 basis points each time, in September and December. On balance, we also think the Fed's focus on satisfying its dual mandate of price stability and full employment would override any potential concerns around shifting monetary policy settings so close to the US presidential election.

Outside of the US, we are seeing—and will most likely continue to see—rate cuts, given easing inflation pressures. Monetary easing is already under way in Switzerland. We think the European Central Bank is likely to follow in June, and the Bank of England at the start of August.

Recent events in the Middle East have raised the risk of a cycle of retaliation and escalation.

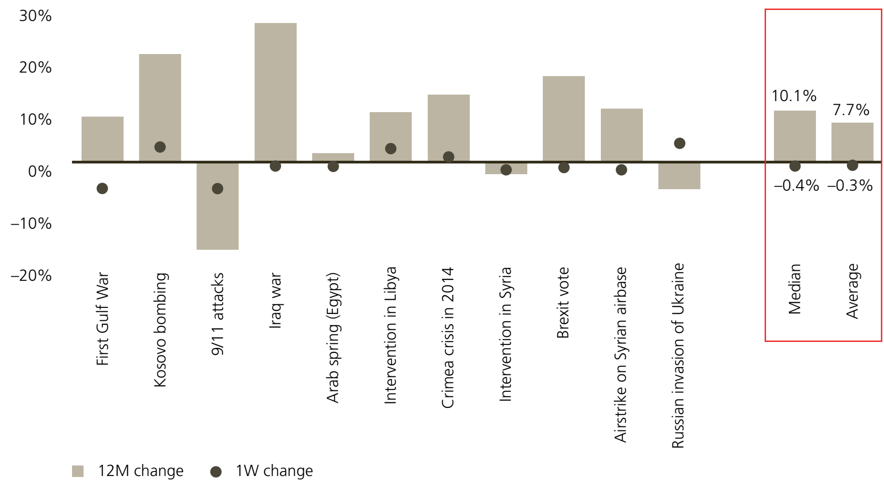
Middle East conflict remains contained
The confrontation between Iran and Israel raises the risk of a dangerous cycle of retaliation and escalation. Iran showed that it can attack Israel with hundreds of missiles and drones from multiple launch points. The 72-hour warning and US coordination of a multilateral defense did prevent significant damage, but raised the question of what would happen in a strike without warning. Meanwhile, Israel's retaliation sent a message about its ability to respond to Iranian provocation with assets operating within Iran itself.

Our base case is for the Israel-Hamas war to continue alongside sporadic attacks in the broader region, but we do not expect a war between Israel and Iran. Both Iran and Israel intended to send a message with their actions in recent weeks and, fortunately, both sides think their message was heard. From this perspective, Israel as well as Iran were able to claim a victory without needing to take further action, and the US reaffirmed its commitment to Israel's defense while advocating restraint.

Figure 2

Historically, the impact of geopolitical risk on markets has been short-lived

One-week and 12-month percent change in the S&P 500 after select geopolitical events, median and average, in %



Source: Bloomberg, UBS, as of April 2024

Overall, we think this scenario is consistent with the 10-year Treasury yield falling to 3.85% by the end of the year, as lower inflation leads markets to price a more meaningful Fed rate-cutting cycle in 2025 and 2026. Our base case target for the S&P 500 is 5,200 by year-end.

In a bear case, the 10-year Treasury yield could rise to 6%.

Bear case: Overheating
In our bear case scenario, a mix of US growth being "too good," fiscal policy concerns, and a commodity price spike drives the US 10-year Treasury yield to rise to 6% (reflecting a real yield of 3%, a 10-year breakeven inflation rate of 2.5%, and a term premium of 0.5%). This scenario would imply around a negative 8% return for holders of US 10-year bonds.

While higher bond yields aren't necessarily negative for equities, sharp rises in rates can destabilize markets, and we believe increases in the 10-year Treasury yield significantly beyond 5% would fuel concerns about financial system stability, increasing the risk of weaker growth in the future. We would expect the S&P 500 to fall to around 4,400 in this scenario.

What could be some of the catalysts?

US inflation remains above target despite aggressive rate hikes by the Fed.

US growth stays "too good," shifting rate expectations
The Fed has increased interest rates by 525 basis points over the past two years to try and cool inflation. Yet, while inflation has fallen, the core personal consumption expenditure price index still rose by an annualized 3.7% in the first quarter of 2024, driven by services. First-quarter GDP growth was weaker than expected, at 1.6% annualized, but this was largely driven by higher imports and lower inventories, rather than weak final domestic sales. If US economic growth stays strong and inflation above target, the Fed may need to raise interest rates further and investors may need to reassess their estimates of US trend rates of growth. This could contribute to higher real yields on longer-term bonds.

Commodity price shock leads to fears of inflation destabilization
We believe the global oil market is likely to remain undersupplied in the second quarter of 2024 and would expect Brent crude oil prices to rise beyond USD 100/bbl if oil flows through the Strait of Hormuz are disrupted or if major oil production facilities are attacked.

The Fed and bond market investors would typically "look through" short-term changes in commodity prices. But a renewed spike in oil prices, so soon after the recent inflation shock, could lead to fears that consumer and business inflation expectations could get destabilized and require higher interest rates in response.

US fiscal policy concerns drive a higher term premium
The US runs a government deficit of 5.9% (as of March 2024), and neither presidential candidate has a record of slashing deficits. A recent projection by the Congressional Budget Office showed that interest costs on US debt are set to exceed defense spending this year. And trillions of dollars need to be refinanced each year, making the Treasury market vulnerable to a buyers' strike.

Concerns about the US debt burden and loose fiscal policy could lead investors to demand a higher term premium, or compensation for locking up their money with the US government for the long term (a dynamic that was evident for a short time in September/October 2023 after the US Treasury announced a larger than expected funding requirement). Prior to the global financial crisis, investors typically demanded a "term premium" of between 0.5% and 1.5%. We think a return to this range (from around zero today) is plausible if concerns about the US fiscal trajectory mount, though Fed intervention (akin to the Bank of England's actions in 2022), should limit the size of the term premium.

Bull case: Roaring 20s
At the time of writing, options markets are pricing around a 20% probability that the S&P 500 could rise by roughly another 10% in the remainder of 2024. What could such a bull case look like?

US inflation resumes a clear downward trend

We already see a variety of evidence to suggest that inflation will turn down again in the coming months, including lower rental inflation, slowing wage growth, and consumer resistance to price increases. In our bull case, these trends play out more quickly, leading to a sustainable fall toward central banks' targets.

In our bull case, the US economy continues to grow at an above-trend rate.

Growth stays strong in the US, and improves in Europe and China

In our base case, we expect US economic growth to moderate to around trend this year, from a 4% annualized rate in the latter half of 2023. In our bull case, US growth stays above trend in 2024, supported by strong job creation, resilient consumer spending, and increased capital expenditure. The picture of robust growth could be further supported if the European economy expands faster than expected or if China enacts large-scale fiscal stimulus to bolster growth.

Investors front-load AI growth

Given the significant weight of technology stocks in the US index, a bull case scenario would likely require investor optimism about the potential for AI to boost corporate earnings and for investors to price that growth into stocks.

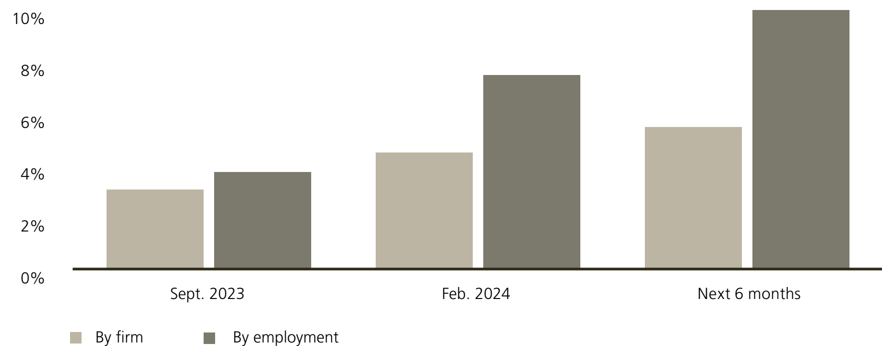
AI adoption is increasing rapidly.

Increasing optimism about AI could be driven by faster-than-expected adoption of copilots, especially in office productivity software. The US Census Bureau's recent Business Trends and Outlook Survey—which tracks AI use across 1.2 million firms in the US—found that adoption is rising. In the first quarter of 2024, 5.4% (firm-weighted) to 9% (employment-weighted) of companies said they were now using AI, up from 3.7–4.5% in the third quarter of 2023. Participants' responses suggest this share could rise to 6.6–12% over the next six months—an encouraging increase, and one that still leaves plenty of scope for penetration to rise further. We believe increasing AI adoption—and further evidence of its monetization—should strengthen investor confidence in the sustainability of the AI growth outlook.

Figure 3

Rising AI adoption could increase optimism about the outlook

Percentage of firms using/planning to use AI in the US



Source: Business Trends and Outlook Survey (BTOS), US Census Bureau, UBS, as of April 2024

Overall, in this bull case scenario—a disinflationary boom—we would see the S&P 500 rising to around 5,500 by the end of the year, despite a 10-year Treasury yield of 5%, supported by better-than-expected economic and earnings growth.

Investment ideas

By diversifying and balancing across regions and asset classes, investors can manage volatility and keep their portfolio on track.

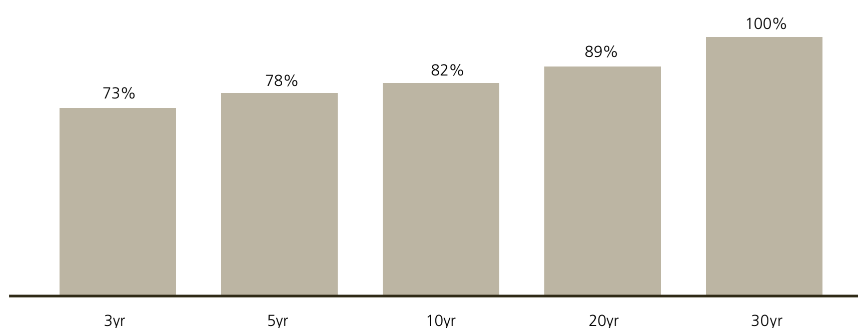
As the market oscillates between pricing different scenarios, asset class volatility could remain elevated. By diversifying and balancing across global equity markets and asset classes, investors can mitigate that volatility and keep their portfolio on track. Including alternative assets in portfolios may also help manage the risk of our bear case scenario, in which both bonds and equities fall.

Bonds. We keep a preference for quality bonds, including investment grade. Investors should use currently attractive yields to gain exposure if they are underallocated strategically.

Figure 4

Bonds tend to outperform cash—increasingly so with longer holding periods

Probability of bonds outperforming cash, by holding period, in %. Monthly data since 1960.



Source: Ibbotson, UBS, as of April 2024

High-quality bonds offer significant value in a portfolio context.

In our base case, we expect returns of around 10% for 10-year Treasuries by year-end as a renewed fall in inflation and slower economic growth lead investors to price a more meaningful rate-cutting cycle in 2025 and 2026. Unlike cash, high-quality bonds offer significant value in a portfolio context, given their potential for outsized returns if there is a growth misstep, or heightened fears about geopolitical uncertainty.

We note that diverging government policies, as well as different inflation and growth trends across regions, increase the complexity of global fixed income investing. However, that divergence potentially boosts the value of a more active and diversified approach to investing. This can include judicious exposure to riskier credits alongside quality bonds, as part of a well-diversified bond allocation.

Equities. We see the equity outlook as broadly balanced. At an index level, US equity valuations are elevated, but we expect AI-related companies to drive strong earnings growth in the years ahead. Indexes outside of the US are cheaper, though have more limited exposure to companies with the most appealing structural growth prospects. We therefore advocate diversified strategic exposure across key regions.

We think the recent volatility in tech stocks offers an opportunity for investors to build exposure.

Within equities, the level of technology exposure investors hold in portfolios is likely to be a key driver of outcomes in the remainder of 2024 and in the years ahead. In this light, we think it is key for investors to hold a healthy strategic allocation to technology stocks, while also being mindful of concentration risks. For investors who are underinvested in the tech sector and the AI revolution, we think the recent market volatility may offer an opportunity to gain exposure.

Investors looking to build technology exposure can also consider strategies that combine a bond with the sale of a put option—the right but not the obligation to sell an asset at a predefined price—as a way of getting "paid to wait" to potentially buy at lower prices. Capital preservation strategies may also help manage investors' "fear of regret." Meanwhile, investors looking to diversify existing technology exposure can consider alternative growth themes like the low-carbon transition, health-tech, and ocean economy; as well as small- and mid-cap stocks, where relative valuations are close to multi-decade lows.

At a country level, we move the UK equity market from least preferred to most preferred this month. With the improving global manufacturing outlook, we have positive views on oil and industrial metals. We expect earnings growth to accelerate from 4% this year to 7% in 2025, driven by improving profits for commodity-linked companies and banks, alongside a strengthening UK economy. The outlook for domestic consumption is likely to improve amid a resilient labor market and normalizing inflation. Likely Bank of England rate cuts should help equity valuations rebound from currently low levels (the FTSE 100 trades on 11x forward price-to-earnings, versus a long-run average of 12.8x).

We expect the US dollar to remain well-supported in the near term as the Fed delays rate cuts.

Currencies. With the Fed likely to delay the start of its rate-cutting cycle until September, we expect the US dollar to remain well-supported in the months ahead. But we still expect the Fed to follow the European Central Bank and the Bank of England—which are likely to start lowering rates in June and August, respectively—in easing policy. In the near term, we could see EURUSD dipping temporarily below 1.05, though over the medium term we expect modest USD depreciation as growth improves outside the US. We see the currency pairing at 1.09 by the end of the year.

We keep a most preferred view on the Australian dollar, as the Reserve Bank of Australia is likely to be among the last developed market central banks to start reducing rates. We expect the AUDUSD pairing to reach the high 0.60s by year-end.

The Swiss franc has weakened since the Swiss National Bank's March interest rate cut. While we think the franc is reaching the end of its depreciation trend, its negative carry and stabilizing risk sentiment in markets mean we keep our least preferred view.

Commodities. We expect total returns of around 10% for broad commodity indexes over the next six to 12 months, with all subsectors contributing to performance. For oil, a likely undersupplied market—given solid demand and OPEC+

supply discipline—underpins our positive view, and we see Brent crude prices trading in a range of USD 85–95/bbl over our forecast horizon. We also see scope for gold prices to rise further by the end of the year, with a December price target of USD 2,500/oz. We believe both oil and gold have value in a portfolio context, particularly to help hedge geopolitical risks. Elsewhere, a recovery in global industrial activity, the prospect of lower interest rates, and various commodity-specific supply-side constraints should combine to push prices higher.

Alternative investments have a key role to play in portfolios.

Alternatives. Hedge fund strategies like macro funds can navigate and diversify in an environment where US stock-bond correlations are elevated (a 1-year rolling measure has only been higher on 5% of occasions since 2000). Equity-market neutral and specialist credit strategies look for differentiated returns by exploiting the wide current dispersion between the strongest and weakest companies.

Meanwhile, the long-term case for private equity in a well-diversified portfolio remains strong, as we expect a continuation of its outperformance since 1993 (based on vintage year internal rates of return comparison for global private equity and global public equity equivalent using Cambridge Associates and MSCI AC World data, respectively). Today's uncertainty favors building and maintaining positions across geographies, strategies, and vintages (starting year of the fund).

We also think inflation-linked cash flows provided by private infrastructure assets—including sustainable and impact assets tied to renewables—may appeal in stronger growth and inflation scenarios. Infrastructure assets can also help diversify, with correlations of between –0.2 and 0.6 to other asset classes between 2005 and 2022, according to Cambridge Infrastructure Index data.

Mark Haefele
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Messages in Focus

Take advantage of tech volatility	The recent sell-off in technology stocks provides a potential opportunity for investors who are underinvested in the technology sector and the AI revolution. We advocate diverse strategic exposure to the sector, balancing the beneficiaries of tech disruption (incl. AI) with sector leaders including "Asia's Super 8." Structured strategies can help investors position for further upside while protecting against downside, or earn income while awaiting a potentially better entry point.
Opportunities beyond technology	Beyond the technology sector, we advocate a focus on quality stocks, including Europe's Magnificent 7, alternative growth themes (including the low carbon transition, healthtech, and ocean economy), and small and mid caps. We expect the quality style and select growth themes to deliver resilient earnings growth. Meanwhile, better-than-expected economic performance should support small and mid cap earnings, where relative valuations are close to multi-decade lows.
Manage liquidity	Interest rates look likely to stay higher-for-longer in the US, but not forever. We expect cash to deliver progressively lower returns over the coming two years, creating a reinvestment risk for investors who do not proactively manage cash holdings. We believe investors should build a liquidity strategy beyond cash and money market funds, including fixed-term deposits, bond ladders, and structured investment strategies to cover expected portfolio withdrawals over the next five years.
Buy quality bonds	We keep a preference for quality bonds. Robust economic growth and elevated inflation have driven bond yields higher in recent months, improving potential returns for investors in quality fixed income. Investors can benefit from attractive yields and potential capital gains if yields fall (as we expect), and diversify portfolios against equity market risks. Beyond individual bonds, active and diversified fixed income exposure can provide investors with a convenient way to realize the full return potential of the asset class while managing global interest rate, credit, and concentration risks.
Generate income from currencies and commodities	Cross-asset volatility has increased in recent weeks. That provides investors an opportunity to boost portfolio income via volatility selling strategies. In currencies, with uncertainty around rate cut timings, we see value in income-generating strategies in the USD, British pound, and the euro. The Australian dollar also looks poised to make gains vs. the USD. We also like strategies that take advantage of the trading ranges within commodities, with gold and crude oil particularly interesting.
Get in balance	Investors are grappling with a complex financial environment. Some worry that the stock market has reached its peak, leading them to hold too much cash. Others may be overly focused on specific sectors, risking too much concentration in their portfolios. Against this backdrop, getting in balance is a key principle. We believe that only by diversifying across asset classes, regions, and sectors can investors effectively manage the tension between navigating short-term market dynamics and growing long-term wealth.
Diversify with alternatives	Alternative assets should be a key component of long-term portfolios, in our view. They can help diversify return sources and smooth portfolio returns, particularly when equity-bond correlations are positive as they are today. We currently see opportunities in strategies that offer unique return sources (credit hedge funds), provide access to fast-growing companies (private equity), and align with powerful long-term trends like digitalization and decarbonization (private infrastructure and thematic private equity funds).

Global forecasts

Economy

Real GDP y/y, in %

	2023	2024E	2025E
US	2.5	2.4	1.4
Canada	1.1	0.9	1.4
Japan	1.9	0.8	1.2
Eurozone	0.5	0.6	1.2
UK	0.1	0.2	1.5
Switzerland	0.8	1.3	1.5
Australia	2.1	1.6	2.2
China	5.2	4.9	4.6
India	7.6	7.0	6.8
EM	4.5	4.3	4.4
World	3.3	3.1	3.1

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

	2023	2024E	2025E
US	4.1	3.3	2.3
Canada	3.9	2.5	2.1
Japan	3.3	2.3	2.0
Eurozone	5.4	2.4	2.1
UK	7.3	2.4	2.0
Switzerland	2.1	1.4	1.2
Australia	5.6	3.5	3.1
China	0.2	0.4	1.4
India	5.4	4.5	4.5
EM	7.5	8.1	5.0
World	6.2	5.8	3.8

Source: Bloomberg, UBS, as of 25 April 2024. Latest forecasts available in the *Global forecasts* publication, published weekly.

Asset classes

	Spot	Dec-24
Equities		
S&P 500	5,072	5,200
Eurostoxx 50	4,990	4,900
FTSE 100	8,040	8,500
SMI	11,371	11,640
MSCI Asia ex-Japan	654	667
MSCI China	57	58
Topix	2,711	2,800
MSCI EM	1,035	1,060
MSCI AC World	923	940
Currencies		
EURUSD	1.07	1.09
GBPUSD	1.25	1.30
USDCHF	0.92	0.89
USDCAD	1.37	1.36
AUDUSD	0.65	0.68
EURCHF	0.98	0.97
NZDUSD	0.59	0.60
USDJPY	155	148
USDCNY	7.25	7.25

	Spot	Dec-24
2-year yields, in %		
USD 2y Treas.	4.9	3.75
EUR 2y Bund	3.0	2.00
GBP 2y Gilts	4.4	3.50
CHF 2y Eidg.	0.9	0.70
JPY 2y JGB	0.3	0.25
10-year yields, in %		
USD 10y Treas.	4.6	3.85
EUR 10y Bund.	2.6	2.25
GBP 10y Gilts	4.3	3.50
CHF 10y Eidg.	0.7	0.70
JPY 10y JGB	0.9	1.00
Commodities		
Brent crude, USD/bbl	88	87
Gold, USD/oz	2,325	2,500

Source: Bloomberg, UBS, as of 25 April 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.

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