UBS House View

Investment Strategy Guide
June 2019

Chief Investment Office
Global Wealth Management
US edition

No rush?

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UBS

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Dear reader,

This month's **Feature** article focuses on the implications of US-China trade frictions. Investors, business owners, executives, and policy makers are all watching closely, hoping not to be caught in the middle as the world's two largest economies vie to improve their negotiating positions. We ultimately believe a deal or détente will occur, but the ongoing frictions are providing a challenging environment for investors to position themselves.

Our **In Context** article highlights our US sector positioning, where we are managing trade risk by going to neutral on the US technology sector and upgrading the communications services sector to a moderate overweight stance. In our tactical asset allocation, we maintain an overweight to Japanese and emerging market equities, which are geared to benefit from a growth re-acceleration as the year continues. But we also recently closed our overweight to emerging market hard-currency bonds and continue to recommend an overweight to long-duration Treasuries to balance our positioning and protect against downside risks.

This month's **Thematic Spotlight** falls on *Pricing Power Standouts*, a new theme that aims to identify companies with an ability to maintain profits by passing along tariffs and other rising input costs that could come in an economy that's worked through most of its slack. In our view, these companies could help investors stay invested and participate in the ongoing bull market, while managing some of the current environment's risks.

Regards,

Mike Ryan

Monthly House View
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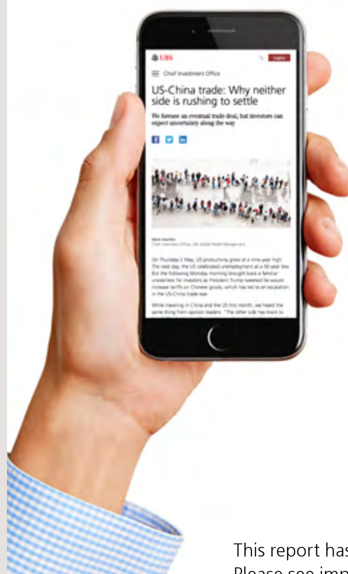

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CIO Preferences

	underweight	neutral	overweight
Total equities - pg. 20			+
Global		=	
US all-cap		=	
US large-cap growth		=	
US large-cap value		=	
US mid-cap		=	
US small-cap		=	
Int'l developed market		=	
Japanese			+
Emerging market			+
Total bonds - pg. 22		=	
US government	–		
US Treasuries (long)			+
US municipal		=	
US investment-grade corporate		=	
US high-yield		=	
Int'l developed market		=	
Emerging market		=	
EM hard-currency		=	
Cash	–		

This is a visual summary of our preferences. For the full detailed asset allocations see page 27.

Overweight
Tactical recommendation to hold more of the asset class than specified in the moderate risk strategic asset allocation (see page 29).

Underweight
Tactical recommendation to hold less of the asset class than specified in the moderate risk strategic asset allocation (see page 29).

Neutral
Tactical recommendation to hold the asset class in line with its weight in the moderate risk strategic asset allocation (see page 29).

Also in this report

04 Feature

12 In context

14 Bull market monitor

15 Questions we're tracking

16 Top themes

18 Global outlook

26 Key forecasts

27 Asset allocation

No rush?

Resilient markets
Equity markets are still up year-to-date, despite escalating trade tensions.

China is in no rush
China is using policy stimulus to offset the impact of tariffs and is more concerned about technology than trade.

The US is in no rush
A tough stance on China is playing well politically and the US has the tools to maintain the pressure.

Asset allocation
In our FX strategy, we have added an overweight to an emerging market currency basket designed to benefit from carry.

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On 2 May, the Bureau of Labor Statistics reported US productivity growth at 3.6% for 1Q 2019, the fastest growth in nine years. The next day, the US celebrated unemployment at a 50-year low. But investors who partied into the weekend were sick Monday morning after President Donald Trump tweeted he would increase tariffs on Chinese goods, which has led to an escalation in the US-China trade conflict.

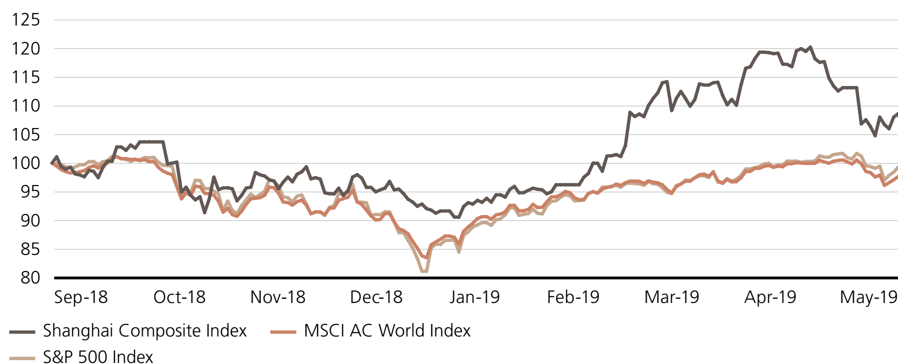
The market reaction has so far been relatively muted. Chinese stocks are down 7% and US stocks 3% since the beginning of May, but are still up 16% and 14%, respectively, for the year (see Fig. 1). Some think a 10% drop in the Dow Jones would motivate President Trump to compromise and get the Federal Reserve to think about cutting rates. Yet traveling in China and the US this month, we heard the same thing from opinion leaders: "The other side has more to lose." When it serves his interest, President Trump takes tariffs off as quickly as he puts them on, so things can change quickly. But we don't see the US or China hurrying to reach a deal, and the risk of miscalculation is growing.

To prepare for this environment, we have reduced risk in our tactical asset allocation over the past month and are seeking returns where the uncertainty paradoxically makes us more confident of investment outcomes. It now looks more likely that inflation stays muted, central banks accommodative, and world economic growth near or below trend.

Figure 1

Markets are still up year-to-date despite trade tensions

Shanghai Composite Index, S&P 500 Index, MSCI AC World Index, rebased to 100



Source: Bloomberg, UBS, as of 21 May 2019

With this in mind, in our FX strategy we add an overweight in an emerging market foreign exchange basket consisting of the Indonesian rupiah, Indian rupee, and the South African rand. We think a protracted period of trade negotiations may create a more favorable environment for yield strategies such as this. In our recent note "Be prepared: Plan, Protect, and Grow," we discussed a number of other ways to find yield, including investing in dividend-paying stocks and multilateral development bank bonds.

China is not in a hurry for a deal…

The US is escalating economic pain on China to force concessions that help retain the US's relative strength.

One way to describe the "trade war" is that the US is escalating economic pain on China to force concessions that help retain the US's relative strength. From this perspective, it is clear that it is in China's interest to maintain its current position, delay concessions it might have to make, and use policy measures to counteract the impact of US actions on its economy. While the dispute remains contained to tit-for-tat tariff increases, China can use fiscal and monetary levers to help maintain growth, and it still has cards to play:

- The People's Bank of China has already provided further stimulus in the last month (see Fig. 2), adding liquidity via its one-year medium-term lending facility and cutting the reserve requirement ratio for some small and medium-sized lenders. We expect a further 100–200 basis points of cuts in that ratio and even more stimulus if the US further widens the scope of tariffs. Meanwhile, the so-called "national team" – domestic investors consisting of state-linked funds – has reportedly stepped in to support China's equity markets.

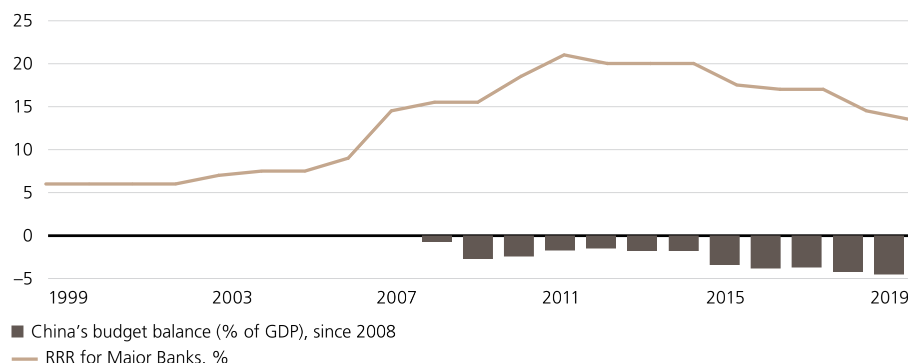
- Managed currency depreciation can be used to help offset the negative economic impact of US tariffs – the yuan is currently on track for its largest monthly decline since last July.

- China might consider selling part of its USD 1.17tr Treasury portfolio, which is equivalent to 7% of outstanding US government debt. Such a move would risk an extreme

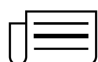
Figure 2

China has eased policy to offset tariff impacts and has scope to do more

China's actual budget balance (% of GDP, since 2008) and RRR for major banks (%)



Source: National People's Congress, Chinese Ministry of Finance; Bloomberg, UBS



US reaction, and China would struggle to find a suitable alternative to the dollar. But the potential for China to use its bond holdings as an escalation tool increases market uncertainty.

- China could increase pressure on US corporations operating in China or use unofficial sanctions on businessmen close to President Trump. We will further discuss Huawei and supply chains below.

China may also believe that every day it is still negotiating trade imbalances is a good day, because it means the US is less focused on more strategic issues, such as technology, security, human rights, and foreign policy.

The economic costs of tariffs and the importance of technology are two good reasons for China to settle.

So why would China settle?
China has at least two good reasons for opting to settle. First, efforts to offset the economic costs of tariffs have slowed its attempts to rebalance its economy away from state-driven investment. The lower bound of the current official GDP growth target range of 6–6.5% for 2019 would be the lowest in nearly three decades, and both retail sales and fixed-asset investment growth disappointed in the past month. We estimate that if the US imposes tariffs on all Chinese goods, it could push China's economic growth below 6%.

Second, China wants to sign a trade agreement that reduces the tension on what it really cares about: Technology. China has invested significantly in robotics, artificial intelligence, semiconductors, and health tech and sees these as critical to the country's long-term economic success and national security. If a deal means China has to reduce its trade surplus with the US but can keep its technological development programs on track, that may be the basis for an agreement.

For some in the Trump administration, longer-term national security considerations are more valuable than economic growth.

…and neither is the US
It would be a mistake to think the US belligerence in the conflict is just political posturing by President Trump. Hawks in his administration appear to believe that the longer the trade dispute continues, the closer they will get to their goal of disentangling China from US supply chains. To them, this is a longer-term national security measure far more valuable than any current cost to economic growth.

Politically, it isn't clear that an ongoing trade conflict alone hurts the president's chances of reelection. His approval ratings aren't far off their all-time high. The states facing the greatest negative economic impact from the trade dispute are, in many cases, not swing states. In any case the Democrats are unlikely to campaign on a pro-China platform. It's worth remembering the example of Democratic President Jimmy Carter, who escalated and expanded the Cold War against Russia by openly criticizing perceived violations of the human rights provisions in the Helsinki Accords.

The Trump administration is confident that the damage the trade conflict will inflict on the US is likely to be limited.

Economically, the Trump administration is confident that the damage the trade conflict will inflict on the US is likely to be limited. After all, the US is among the least trade-dependent nations in the world. The president may also believe any economic weakness would be offset by interest rate cuts. He has tweeted: "China will be pumping money into their system and probably reducing interest rates, as always, in order to make up

for the business they are, and will be, losing. If the Federal Reserve ever did a 'match,' it would be game over, we win!" Our estimate is that current tariffs shave 0.2–0.3% off the US economy, and increasing tariffs on all Chinese goods would reduce GDP growth by an additional percentage point, while also increasing risks of a recession.

Like China, the US thinks it has more economic cards it can play to force a deal. Preparations are already underway to levy tariffs on the remaining USD 300bn of US imports from China, which could be ready to be implemented by July. The Trump administration could also continue to increase the level of existing tariffs to ratchet up the pressure on China's economy, in the hope of forcing a deal.

Concessions from China could be hailed as an economic boost and a political success ahead of the next US election.

So why would the US want to settle?
From the US perspective, concessions from China could be hailed as an economic boost and a political success going into the next election. The flip side is that the president might also look to settle if the economic or political pain is perceived to be too costly.

Huawei: Conflict escalation and expansion?
The measures the US has announced against Chinese telecoms equipment maker Huawei have escalated the pressure the US is applying around trade. Although the US has allowed for some temporary exemptions, Google will withdraw Huawei's access to its Android mobile operating system on new handsets, and the world's largest chipmakers, including Qualcomm and Intel, reportedly plan to stop supplying Huawei. If Huawei's exports are reduced this may help shrink the US-China trade imbalance, but this also risks expanding the conflict in a way that disrupts global supply chains.

Roughly 15% of Huawei's component purchases in 2018 – around USD 11bn in total – were sourced from US makers like Micron and Qualcomm, according to Reuters. We estimate US suppliers hold dominant market shares of between 90% to 100% (see Table 1) in a number of components critical to the manufacture of telecom and networking gear.

China has its own leverage on the global supply chain, with a controlling share of at least 80% of processed rare earth minerals. President Xi Jinping and his top trade negotiator signaled as much with an official site visit to a domestic rare earth producer. This sent stocks of Chinese rare earth companies soaring in anticipation

Table 1

US dominance in areas of telecommunications technology give it considerable leverage

US market share in selected tech components

Segment	US market share
Field Programmable Gate Arrays (FPGA)	100%
Radio Frequency Front End (RFFE)	>90%
x86 processors	100%
Mobile operating system	>99%

Source: Bloomberg Intelligence, UBS

of tighter supply ahead. Any restrictions on rare earth exports from China would negatively impact the production of high-tech goods, such as wind turbines, robotics, and electric vehicles.

The Huawei issue puts other nations on notice that staying neutral may not be an option.

The Huawei issue puts other nations on notice that remaining neutral may not be an option in this conflict, and they may face difficult choices between supporting the US or China.

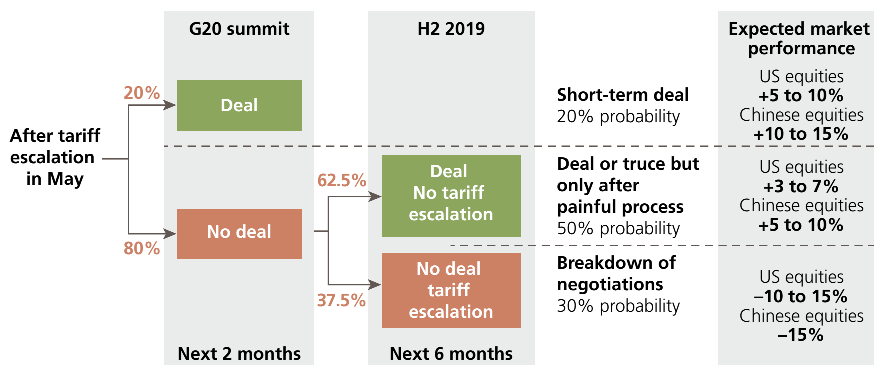
Getting to a deal and the path from there

The two sides can still strike a deal. To get there, Beijing probably needs to drop its demand that the US removes all tariffs at once, and Washington likely needs to reduce its proposed checks on China's technological ambitions and downsize its demands for Chinese imports of US agricultural and energy products. None of this is insurmountable, and Presidents Xi and Trump could choose to announce a mutually "huge" deal at their G20 meeting in June, which in reality would be limited to reducing the trade imbalance.

But we see only a 20% chance of this positive outcome (see Fig. 3). After the recent tariff escalation and the subsequent public statements by both leaders, a significant retreat from either on their trade objectives could expose the two presidents to domestic criticism.

Figure 3

Scenario tree for US-China negotiations



Note: Expected market performance represents expected total returns over a 6-month horizon
Source: UBS, as of May 2019

Our base case is that at the G20 summit in June, Trump and Xi will only agree to ongoing negotiations.

Our base case (with a 50% probability) is that, at the June summit, Trump and Xi will only agree to ongoing negotiations. At this point, we think the US will keep its options open and conclude the administrative process to apply tariffs on the remaining USD 300bn of Chinese imports it doesn't already tax but refrain from implementing them while negotiations are taking place. A deal could then be reached later in the year if both sides are willing to compromise. We would expect volatility to remain high on the bumpy path to an eventual deal, and the market is likely to react nervously to any trade-related news.

Read more on our scenario analysis and its investment implications in our latest *Global risk radar* report, "All the president's threats."

Asset allocation

With neither side in a hurry to reach a deal, it looks more likely than not that we are in for a period of sustained uncertainty. Against this backdrop, we have reduced risk in our tactical asset allocation over the past month and are seeking returns in areas where we can be more confident. For example, with economic uncertainty weighing on corporate investment, it now looks more likely that inflation stays muted, central banks accommodative, and global growth near or below trend.

With this in mind, we made the following changes to our tactical asset allocation in our 9 May ad hoc report:

We closed our overweight in emerging market dollar-denominated sovereign debt vs. US government bonds.

We closed our overweight in emerging market dollar-denominated sovereign debt vs. US government bonds. The effect of the rise in US-China trade tensions has been particularly acute for emerging markets (EM) assets, which are the most sensitive to the global cycle. While EM sovereign bonds offer a yield pick-up of about 350 basis points (bps) over US Treasuries, the spreads also didn't rise much as trade tensions escalated, despite the increased risks to global growth. Consequently, we closed this position because we think other positions offer a better risk-reward trade-off.

In our FX strategy, we added an underweight in the Australian dollar relative to the US dollar.

In our FX strategy, we added an underweight in the Australian dollar relative to the US dollar. The Australian dollar is a cyclical currency that tends to suffer when risk aversion rises. Australia is heavily exposed to Chinese trade flows, and the Reserve Bank of Australia has said it is considering a rate cut in June. We expect the central bank to cut the cash rate by 25bps in July and August, contingent on deterioration in the labor market. This could mean that while the currency can be expected to depreciate in a risk-off scenario, it also may not appreciate significantly in a risk-on scenario, making it an attractive portfolio underweight at this time.

We have also now opened the following position:

In our FX strategy, we overweight a basket of equally weighted high-yielding emerging market currencies.

In our FX strategy, we overweight a basket of equally weighted high-yielding emerging market currencies (Indonesian rupiah, Indian rupee, South African rand) against a basket of developed markets (DM) and EM currencies (Australian, New Zealand, and Taiwan dollars). We see an opportunity to pick up selected high-yielding EM currencies that are currently trading near the year's lows. We think these currencies should benefit from a favorable carry environment, offered by the more neutral outlook for global monetary policy as well as steady global and EM economic activity. We prefer a selection of individual emerging market currencies over more diversified indices of such currencies given idiosyncratic risks facing certain countries. Our selection of currencies in the short basket is designed to mitigate the risk a further escalation of global trade tensions would represent for long positions in high-carry EM currencies.

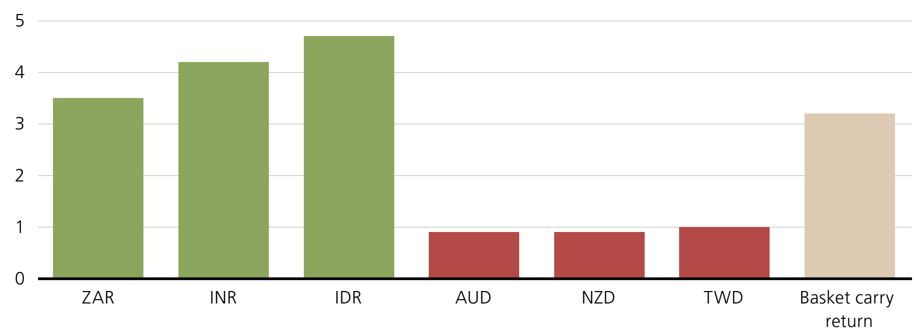
We also maintain several open positions to best manage risk and seek opportunity in this environment:

We overweight emerging market and Japanese equities vs. US government bonds.

Figure 4

Our EM vs. DM currency basket offers an attractive carry

Expected carry returns over six months (long currency positions in green, short positions in red), in %



Note: Expected carry returns are based on forward implied yields, representing 30-day averages.
Source: UBS, as of May 21, 2019

We overweight emerging market and Japanese equities vs. US government bonds. We believe EMs and Japan are set to play catch-up, having been the weakest equity markets so far in 2019. Since the start of the year, Japanese and EM stocks are both up about 3%, compared to nearly 12% for global equities and almost 14% for the S&P 500. The rising trade tensions between the US and China have had a more adverse effect so far on EM and Japan. Uncertainty about the impact of trade negotiations on global growth is likely to weigh on sentiment in the near term. But assuming the risk scenarios we are monitoring do not materialize, we believe EM and Japanese equities offer the best upside. Both are heavily geared to the global cycle and improvements in China's growth, and we don't think either have priced in a macro recovery with valuations in EM particularly attractive, whereas US equities have priced in the recent improvement in economic data.

We maintain our overweight to long-duration Treasuries vs. cash.

We maintain our overweight to long-duration Treasuries vs. cash. Treasury yields fell in the aftermath of US-China trade tensions escalating, on fears that US and global growth could slow even more. With US inflation continuing to fall and the core PCE index, the Fed's preferred inflation gauge, dropping to 1.55% for March and unlikely to reach 2% before year-end, we don't expect the Fed to raise rates until at least early 2020. Meanwhile, the cyclical up-tick in growth that looked likely last month is at risk of fading. An overweight to long-duration Treasuries provides some portfolio protection against equity volatility and growth slowdown risk as trade uncertainty weighs on the economy.

Within international developed equities, we overweight Canadian equities vs. Swiss stocks.

Within international developed equities, we overweight Canadian equities vs. Swiss stocks. We believe Swiss equity valuations are relatively unattractive. At a 12-month trailing price-to-earnings of 18.1x, they are above both their 10-year and

20-year averages and are the most expensive market in our universe, trading at a 15% premium to global equities on a P/E basis. We expect Canadian equities to outperform due to a stronger economic environment in North America than in Europe. In their own right, Canadian equity valuations remain attractive with a trailing P/E of 14.8x, 15% below the 20-year average. Firm oil prices—we expect Brent to trade at USD 75/bbl on a six-month view—should also continue to support energy earnings.

In our FX strategy, we overweight the euro vs. the Swiss franc.

In our FX strategy, we overweight the euro vs. the Swiss franc. The Eurozone's soft patch has lasted longer than expected, but we see a revival in European growth in the second half of the year. The ECB also looks set to normalize policy by shrinking its balance sheet. These factors should benefit the euro vs. the Swiss franc, and we think fair value based on purchasing power parity is CHF 1.20 per euro vs. 1.13 currently. Weakness in the Swiss franc looks set to continue over the medium term, as the Swiss National Bank is still waiting for the ECB to raise rates, which we think is only likely in the first quarter of 2020. Over the near term, the Swiss franc could benefit from safe-haven flows should US-China trade tensions escalate further, but our base case is for an eventual agreement and a reduction in political uncertainty.

In our FX strategy, we overweight the Norwegian krone vs. the Swiss franc and Canadian dollar.

In our FX strategy, we overweight the Norwegian krone vs. the Swiss franc and Canadian dollar. With Norwegian inflation edging up and oil prices staying strong, we expect the Norges Bank to remain relatively hawkish after indicating another rate increase in June. This stands in contrast to the Eurozone, where inflation is easing, and we believe the Swiss National Bank will only increase interest rates after the ECB. We are also cautious on the outlook for the Canadian dollar, given the continued weakness of the nation's housing market and the weak inflation backdrop in North America. We expect the Bank of Canada to keep rates on hold.

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Focus on visibility

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Since the trade talks between the US and China hit a speed bump in early May, markets seem to be fixated on every twist and turn (and tweet) in the negotiating process, which can send one's head spinning. As Mark Haefele discusses in this month's CIO letter, we believe both sides ultimately will find common ground, even though there may be periods of uncertainty ahead. As a result, we think it's important to keep the bigger picture in perspective—that economic and corporate fundamentals remain favorable—but, at the same time, tilt portfolios to try to reduce risks related to trade uncertainty. We therefore shift out of tech and into communications services in our US equity sector strategy.

Bull market remains intact

Despite the fact that this expansion has been long, there is scant evidence it is in danger of ending any time soon. For example, leading indicators remain supportive. Businesses and consumers have relatively easy access to capital, business confidence is supportive, and the job market is very healthy with new claims for unemployment insurance near 50-year lows.

These favorable conditions look poised to persist. Importantly, inflation is tame, which means that the Fed should be under no pressure to resume its rate hiking campaign. So access to capital should remain fairly easy. This is an important change from the fourth quarter, when investors feared the Fed was going to continue raising interest rates, potentially sparking a recession.

So even though underlying economic growth has slowed—largely due to the waning effects of the tax cuts and higher government spending from last year—corporate profit growth should be resilient. Based on 1Q earnings results, we believe this thesis is playing out. Earnings growth has decelerated—to 2.5% in the first quarter—but it looks like the worst of the slowdown is behind us. Earnings revisions have turned positive and guidance was fairly constructive. Bottom-up forward earnings estimates have now hit another all-time high, reversing the weakness in the first quarter (Fig. 1). With equity market valuations undemanding—the S&P 500 is trading at a forward P/E of 16.4x—continued earnings growth can drive equity markets higher.

Tech is exposed to trade risks

Still, the uncertainty around trade could linger. Even though it is not our base case, we believe it is prudent to shift away from sectors that have the most to lose if trade frictions escalate further. As a result we downgrade the information technology sector from moderate overweight to neutral and upgrade the communications services sector from neutral to moderate overweight.

While software companies within the tech sector look poised to continue to benefit from solid business spending, trends are more mixed for semiconductors and smartphones. Semiconductors are contending with elevated inventory levels and smartphone demand has been sluggish, largely due to the maturity of this product. If trade frictions escalate, smartphones could be in the crosshairs, with potential knock-on negative effects for semiconductor manufacturers. Furthermore, the sector has been the top performer this year, which has helped drive relative valuations near recent highs. As a result, we reduce our exposure.

Seek secular growth without trade uncertainty
The recently reconstituted communications services sector is exposed to similar secular growth drivers that can be found in the tech sector, but without some of the trade-related risks.

To reflect the evolution in the communications landscape over the last several years, last fall Standard & Poor's reshuffled its sector definitions to combine all communications and advertising-supported businesses into one sector. As a result, the new communications sector now includes the Internet giants Alphabet and Facebook, media heavyweights Disney and Comcast as well as traditional telcos AT&T and Verizon.

Internet services comprise about half of the sector and should continue to benefit as advertising dollars shift from traditional media outlets to digital platforms. While concerns about adverse regulation have been an overhang on this segment, we believe likely regulatory changes will not materially impact most Internet business models. Furthermore, the dominant players are making huge investments in nascent technologies such as autonomous vehicles and artificial intelligence that have the potential for large payoffs down the road.

Within media, the old axiom that content is king remains as true as ever. Some of the leading legacy media companies with world-class content and massive libraries are finally shifting more aggressively to direct-to-consumer business models that should sustain growth for many years to come. Robust broadband connections will continue to be needed to deliver this content, which puts a premium on the cable companies' best-in-class infrastructure.

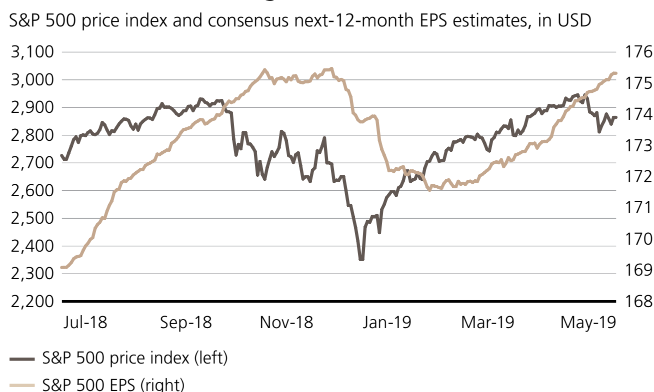
Rounding out the sector, at a 20% weight, are the telecom companies. Their high dividend yields offer downside protection if the market experiences a bout of volatility, with upside potential if wireless industry consolidation gets a green light from regulators.

So while we continue to believe the bull market remains intact and that secular growth companies are well-positioned during this late stage of the business cycle, we prefer to reduce exposure to segments of the market that have more downside risk related to trade uncertainty.

Figure 1

Forward earnings expectations (and stocks) are back near all-time highs

S&P 500 price index and consensus next-12-month EPS estimates, in USD

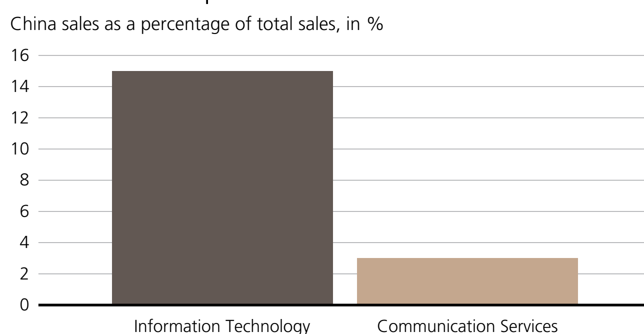


Source: FactSet, UBS, as of 22 May 2019

Figure 2

Tech is more exposed to US-China trade tensions

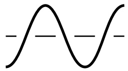
China sales as a percentage of total sales, in %



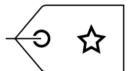
Source: FactSet, UBS, as of 22 May 2019

Bull Market Monitor

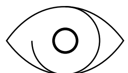
Equity bull markets rarely end in the absence of a recession occurring, which is why we track key attributes of the business cycle to gauge how the expansion is evolving and calculate the risks of a recession.



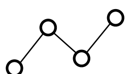
Cycle status
We think that the US business cycle has transitioned to the late stage. Growth decelerating from its peak toward long-term potential and Fed monetary policy being roughly neutral are the two characteristics typical of a late-cycle economy. The good news is that the economy can be late cycle for a long time. At one point last year the economy had been trending toward overheating, but the more recent data shows that growth is slowing to a more sustainable pace as fiscal and monetary stimulus fades. Subdued inflation has allowed the Fed to send more dovish signals, and risks that excessive monetary policy tightening will cause the cycle to end appear very low.



What's new?
US-China trade talks failed to produce an agreement and additional tariffs have been imposed by both sides. A decision on auto tariffs has been delayed for six months to allow time for negotiations with the EU and Japan. Recent economic data has been mixed. Job growth and consumer sentiment have been strong, and wages are rising, yet consumer spending has been somewhat disappointing. PMIs have surprised to the downside, with particular weakness in the manufacturing sector. After 3.2% growth in 1Q19 GDP, 2Q19 tracking estimates have slipped below 2%. For the moment we leave our growth indicator just above neutral. Core PCE inflation has fallen further below the Fed's 2% target. Credit spreads on corporate bonds have drifted higher over the past month. Bond yields have hit new lows and the market is fully pricing in a Fed rate cut by the end of 2019.



What are we watching?
In addition to the latest round of tariffs, the US has started the process to impose tariffs on nearly all remaining Chinese imports. In our view, this would take around one percentage point off of growth and increase recession risks. President Trump and China President Xi are expected to meet at the 28–29 June G–20 summit in Osaka for what could be the last chance to avoid further escalation. The drama over Brexit continues, although regardless of the outcome, the impact on the US economy should be limited.



What are the investment implications?
While now late cycle, we view the current growth, inflation, and monetary policy environment as still supportive for risk assets. We remain overweight equities in our tactical asset allocation.

Key cycle indicators

The cycle indicators gauge whether the economy is overheating and if financial conditions are restricting growth. These determine our assessment of where we are in the cycle.

Current month: ▼ Last month: ▽

Overall: Late cycle

Overheating indicators

Growth (relative to potential)

Labor market

Inflation (relative to 2%)

Financial indicators

Monetary policy

Yield curve

Credit conditions

Each indicator is evaluated relative to a neutral level that is sustainable over time in order to determine whether the economy is at risk of overheating or if financial conditions will start to restrict growth.

Questions we're tracking

Are trade worries a reason to exit markets?

US-China trade talks have taken a negative turn. The US raised tariffs on USD 200bn of Chinese imports. In return, China has announced plans to retaliate. While we ultimately expect a successful outcome to talks, risk asset volatility will remain high until there is further clarity. Even so, moving to cash isn't a good solution for managing risks. Instead, we recommend that investors remain fully invested, but balance downside risks through an overweight to long-duration Treasuries.

Can the US equity rally continue?

The S&P 500 has suffered a setback since hitting a record high in late April. Trade tensions with China have caused the index to retreat as much as 5% as investors await news on whether a deal can be reached. We believe that US equities can continue to move higher and maintain our six-month outlook for the S&P 500 target level of 2,950, or about 4% above current levels. Our base case remains that the US and China will strike an agreement on trade. From a fundamental perspective, US earnings have remained resilient, recession risks remain low, and stocks aren't expensive given current growth and inflation expectations. Therefore, we do expect the rally to continue.

Can investors limit risk without giving up gains?

Staying calm through volatility is key, and this has paid off for investors in 2019. Despite recent trade worries, global equities still have returned around 12% so far this year. Even so, investors need to manage potential downside risks. Investors should consider defensive and countercyclical positions to protect against downside risks, but remain fully invested and focus on strategies that don't overly sacrifice upside participation.

Should the yield curve worry investors?

Back in March a part of the yield curve inverted for the first time since 2007. For a few days, the yield on 3-month Treasury bills was higher than the yield on comparable 10-year bonds. An inverted yield curve doesn't mean a recession is imminent, or that stocks will fall. Since the 1970s, the 3m/10y spread has inverted four times; each time, the economic expansion continued (on average, for a further 1.75 years), and stocks rose by an average of 40.5%. In today's environment, yield curve observations need to be taken with a grain of salt, since central bank bond purchases have pushed down long-term yields.

What comes next for Brexit?

Theresa May, the UK prime minister, has announced her decision to step down, after her latest efforts to forge an EU withdrawal agreement failed to win support. May's departure will further increase uncertainty over the process of the UK exiting the EU, which is currently set for 31 October. The pound, which has lost almost 4% of its value against the euro and dollar over the past three weeks, remains under pressure. Fresh twists in the Brexit saga occur on a nearly daily basis - make sure to follow our coverage of events through our dedicated Brexit hub.

Month in review

Trade tensions reentered the spotlight this month after President Trump announced the US would increase tariffs from 10% to 25% on USD 200bn of Chinese goods. China quickly retaliated, announcing a tariff increase on USD 60bn of US imports, with rates of up to 25%. The conflict escalated further later in the month as the US Commerce Department added Chinese telecom giant Huawei to its list of entities posing national security risks to the US.

Trade headlines drove market volatility throughout the month, with the CBOE VIX index of implied volatility rising above 20 for the first time since January. The volatility knocked the S&P 500 off of the previous all-time high reached on 30 April, with the index down 3.0% for the month as of this writing.

While trade threats continue to loom, US earnings growth has been more positive than expected in the first quarter. With more than 90% of S&P 500 firms done reporting so far, earnings per share (EPS) are 4.6% above consensus estimates, driving EPS growth of 2.5% year over year.

On the economic front, US GDP surprised to the upside for the 1Q19. GDP expanded at a 3.2% pace, beating consensus estimates of 2.3% growth for the quarter. The headline beat was driven largely by net exports and inventory.

Overseas, UK Prime Minister Theresa May announced her decision to step down, after her latest efforts to forge an EU withdrawal agreement failed to win support.

As one theme closes, another theme opens

Laura Kane, CFA, CPA
Head Thematic Research Americas
CIO Global Wealth Management

Michelle Laliberte, CFA
Thematic Investment Strategist
CIO Global Wealth Management

As we look forward to the balance of the year, we expect periodic bouts of volatility, as late-cycle dynamics unfold and the US and China trade talks progress. In light of this view, we believe investors should stay invested and exposed to long-term growth, while at the same time limiting downside risk. Our recent thematic recommendation changes reflect our positive yet prudent stance on the outlook. First, we closed our *Business Spending* theme. Next, we opened a new one, *Pricing Power Standouts*.

The *Business Spending* theme was launched last year and targeted the beneficiaries of increased business spending. The theme largely played out as expected. Tax-reform benefits, strong economic growth, and a tight labor market all contributed to a pickup in capital expenditures and subsequent outperformance of the theme from inception. That said, the theme was exposed to an escalation in tariffs given its focus on industrials and technology. Our base case still calls for the US and China to eventually reach an agreement, but tariff uncertainty could delay corporate spending plans. This, along with a modest softening of some business spending-related macro indicators, led to the theme's closure. We are still constructive on IT spending—and we could see another pickup in capital expenditures before the end of the cycle—but given the choppier near-term outlook, the theme was no longer our highest-conviction idea.

The late-cycle environment & three key drivers

Some of the same dynamics that led us to close the *Business Spending* theme led us to open *Pricing Power Standouts*. As the business cycle progresses to later stages, investors have grown wary of the bull market's resilience. We still believe the aging bull has room left to run, but as late-cycle economics take shape, we see an opportunity for companies with pricing power to outperform over the next 12–24 months with support from three catalysts:

- **Moderating growth**: Above-trend real GDP growth will likely decelerate to more sustainable levels as support from fiscal and monetary policy fades. Companies with high and stable gross margins could be rewarded for greater profit stability in this environment.

- **Potential for rising input costs**: Tariffs, while uncertain, could put upward pressure on import prices, and we also expect WTI and Brent crude oil to continue to tick slightly higher toward $68 and $75 respectively over the next 6–12 months. We expect inflation rates to pick back up in 2020 after a slight deceleration this year. Companies that are able to pass through rising input costs should be well-positioned in a late cycle environment.

- **Decelerating corporate profit growth**: We anticipate corporate profit growth to decelerate relative to 2018. There are concerns that rising wages will squeeze margins for labor-intensive companies. Companies can pull various levers to protect margins against wages—including boosting productivity and outsourcing—but we see companies with a greater ability to raise prices as better insulated from downside surprises.

To identify companies with pricing power, we analyzed industry dynamics and company-specific characteristics. To assess the competitive environment, we evaluated industry concentration and market share distributions across 90 sub-industries. Our findings were then compared to company profitability metrics. The selected companies tended to have high, stable gross margins and enjoy a large market share in their respective industries.

As an evolving landscape becomes difficult to navigate, companies with pricing power could be a way for investors to protect their downside without sacrificing exposure to upside growth. For more information, please see the report: *Pricing Power Standouts*.

Themes universe

For guidance on how to invest in each of the themes on this page, please contact your Financial Advisor.

Technology

Automation and robotics
A fourth industrial revolution is underway, which we believe will transform the future of manufacturing.

Digital data
Companies that both enable digital data and invest its infrastructure will likely continue strong earnings growth over the coming years.

E-commerce
E-commerce is altering the global retail landscape and omnichannel companies should lead the way forward.

Enabling technologies
We identify five enabling technologies that should offer solid long-term growth amid irreversible technological disruption.

Fintech
The global fintech industry is at an inflection point and set to drive a major digital transformation in the financial services industry.

Health Tech
Aging populations are straining global healthcare budgets, spurring healthcare providers to explore new technologies that could improve efficiency.

Mass transit rail
Rapid urbanization in Asia will strain mass transit systems, providing opportunities for infrastructure investment over the long term.

Medical devices
The medical device industry has matured but opportunities exist for increased penetration in emerging markets (EMs) where affordability is on the rise.

Oncology
Advances in cancer therapeutics will create new multi-billion dollar opportunities for successful drugs.

Security and safety
Growing trends such as urbanization, digital data growth, and increased regulation support demand for security and safety.

Smart Mobility
Global urbanization will call for structural changes in technology that will alter the way we "consume" mobility in the coming decades.

Space
Growing private sector investment and lower entry barriers to the space economy are causing an inflection point in space-related long-term investments.

Resources

Agricultural yield
The world faces a growing food production crisis as the global population increases. Companies that help to boost agricultural yields stand to benefit.

Clean air and carbon reduction
Rising populations and urbanization are fueling the need for clean-air technologies. Solution providers targeting emissions reductions stand to benefit.

Energy efficiency
Stricter regulation and corporate competition to improve product efficiency are driving demand for energy-efficiency solutions.

Renewables
Increasing energy demand from urbanization and population growth will benefit renewable energy as lower costs drive competitiveness with fossil fuels.

Waste management and recycling
Low waste treatment rates in EMs offer big catch-up potential that could lead to extraordinary growth rates.

Water scarcity
Water scarcity is one of the biggest risks to mankind. If limited water resources can be better harnessed, the benefits could be enormous.

Society

Education services
With limits to many governments' education resources, there is increased opportunity for the private education market.

Emerging market healthcare
An aging EM population requires stepped-up investment in healthcare. We believe global healthcare companies can benefit.

Emerging market infrastructure
Growing urbanization and high economic growth rates will drive demand for infrastructure investment in EMs.

Generics
As healthcare costs grow, government policy and demographics will be important drivers of increased generic drug sales.

Genetic Therapies
Genetic therapies use genes and cells to treat serious diseases. They could revolutionize medicine by removing the fundamental causes of inherited genetic conditions.

Obesity
Urbanization and rising per-capita GDP in EMs will contribute to an ever-greater prevalence of global obesity.

Retirement homes
A larger population of seniors and evolving social trends support opportunity in retirement homes investment.

Retirement planning
Changing demographics are increasing demand for retirement planning, benefiting wealth and asset managers.

Silver spending
As the global population ages, those 55 and older are expected to account for an ever-increasing proportion of consumer spending.

Fixed income

Beyond benchmark
By diversifying fixed-income exposure investors can avoid the shortcomings of heavily government-weighted taxable fixed-income benchmarks.

MLP bonds
Master limited partnership bonds offer attractive coupon income relative to other investment-grade sectors.

Mortgage IOs
Mortgage Interest only (MIOs) offer the opportunity to benefit from rising interest rates along with attractive yields and high credit quality.

US senior loans
Senior loans offer attractive floating-rate coupons with low correlation to other asset classes and lower volatility than high-yield bonds.

Yield for the short end
Short-end corporate bonds offer attractive current yield without taking on excessive credit or interest-rate risk.

Equity

CLOSED Business spending rebound
After a prolonged period of muted investment spending, catalysts are in place for a rebound in business spending over the coming quarters.

Commodity producers
Commodity producers tend to outperform in a maturing economic cycle.

Event-driven strategies
Event-driven strategies can represent attractive ways to capitalize on companies' corporate actions.

CLOSED Finding value in EM
Recovering EM economic growth and higher commodity prices should support EM value outperformance.

NEW Pricing power standouts
As the business cycle progresses to later stages, companies with pricing power should be better insulated from the headwinds of slowing growth and rising input costs.

Restructuring and turnarounds
Certain companies undergoing restructuring may outperform the broader market in the coming years.

Rewarding experiences
Consumers are increasingly spending more on experiences vs. goods.

Equity–ESG

Gender lens
Evidence suggests that gender-diverse companies are more profitable and tend to outperform their less-diverse peers.

Sustainable value creation in EM
Incorporating environmental, social, and corporate governance considerations into EM equity investment decisions may provide a competitive edge.

KEY

Sustainable longer-term investment theme
Longer-term investments = Multi-business cycle
Shorter-term investments = Current business cycle

Global economic outlook

We recently trimmed our global growth forecasts as US-China trade tensions have escalated further, with both sides raising tariffs. Our base case remains that eventually a deal will be reached, but there is a risk that another round of tariffs will be implemented as soon as July. Policy uncertainty has created a difficult environment for businesses to make investment decisions. Inflation remains subdued in most countries, with many central banks missing their targets to the downside.

Global growth in 2019 expected to be 3.5%

	Real GDP growth in %			Inflation in %		
	2018F	2019F	2020F	2018F	2019F	2020F
US	2.9	2.8	1.9	2.4	1.8	2.1
Canada	1.8	1.2	1.8	2.2	1.7	1.9
Brazil	1.1	1.8	2.5	3.7	4.2	3.7
Japan	0.8	1.3	1.2	1.0	1.0	2.0
Australia	2.8	1.9	2.4	1.9	1.5	2.0
China	6.6	6.2	6.1	2.1	2.3	1.9
India	7.0	7.1	7.3	3.4	3.7	4.1
Eurozone	1.8	1.3	1.3	1.8	1.2	1.4
Germany	1.5	1.0	1.3	1.9	1.4	1.6
France	1.6	1.3	1.4	2.1	1.1	1.3
Italy	0.8	0.3	0.8	1.2	0.6	0.5
Spain	2.6	2.2	2.0	1.7	0.9	1.5
UK	1.4	1.5	1.2	2.5	2.1	2.2
Switzerland	2.5	0.9	1.6	0.9	0.6	1.0
Russia	2.3	1.5	2.3	2.9	4.9	3.9
World	3.8	3.5	3.6	3.0	3.0	2.8

Source: Reuters EcoWin, IMF, UBS, as of 22 May 2019
Note: In developing the CIO economic forecasts, CIO economists work in collaboration with economists employed by UBS Investment Research. Forecasts and estimates are current only as of the date of this publication and may change without notice.

Central bank policy

Brian Rose, PhD
Senior Economist Americas

Ricardo Garcia-Schildknecht
Strategist

House view

Probability: 60%

Policies tighten gradually

US Federal Reserve speakers have exhibited more divergence of views than normal on the future direction of interest rates. Fundamentally, the economy is operating around trend with strong employment, rising wages, and normal inflation levels. Market expectations of a rate cut in 2020 are unlikely to be realized, in our view. We expect the Fed will leave rates unchanged until the end of 2020. Further rate hikes would become more likely if core PCE inflation moves above the Fed's 2% target. Quantitative policy will continue to tighten organically as the balance sheet shrinks as a share of GDP for the foreseeable future. Market expectations for a rate increase in the Eurozone suggest it will come after Draghi leaves. Draghi's successor will play an important role in the schedule of tightening policy; given the size of the ECB governing council, leadership is more important at the ECB than at other central banks.

↗ Positive scenario

Probability: 30%

Policy easing as macro backdrop worsens

Political policy errors threaten economic growth either through more aggressive trade disruption or weaker US or European growth. Central banks respond to the changing economic outlook with a halt to policy tightening, followed by appropriate easing.

↘ Negative scenario

Probability: 10%

Central banks seek to reduce pricing power as macro risks fade

Tighter labor markets move from squeezing profit margins to causing firms to raise prices more significantly. Trade taxes are passed on more comprehensively than has been the case so far.

Political risks

Paul Donovan
Global Chief Economist, GWM

House view

Probability: 50%

Trade risks eventually calm down
Over the past nine months the market volatility arising from taxing trade (which can be thought of as being primarily a tax on equities) has been notable. Trade tensions have nonetheless increased. The fact that ordinary consumers have been largely unaware of the taxes to date may have led to political complacency about the consequences. Any escalation would make those negative consequences more visible, and this gives an incentive to resolve the situation over time. The EU-UK separation will be voted on in Parliament in early June. UK Prime Minister Theresa May announced on 24 May that she will step down as prime minister. Our base case is for a negotiated exit eventually, but delaying the exit opens up a wider range of possibilities including a general election.

↗ Positive scenario

Probability: 20%

Swift resolution of trade issues
A trade deal is agreed on the fringes of the G20 at Osaka in late June. NAFTA uncertainties are contained. The UK Parliament moves more quickly toward a negotiated exit from the EU. The change of leadership in the European Union institutions is relatively smooth.

↘ Negative scenario

Probability: 30%

Trade tensions escalate into a full-scale trade war
Trade tensions escalate into a full-scale Sino-US trade war. Trade taxes are applied between the US and Europe, and NAFTA is called into question. Nationalist tendencies continue to increase. Greater polarization of politics makes compromise on policy increasingly difficult.

Growth is bottoming out

Jeremy Zirin, CFA
Head of Equities Americas

David Lefkowitz, CFA
Senior Equity Strategist Americas

House view

Probability: 60%

Earnings reaccelerate after a flat first half
US earnings growth has decelerated as the one-time boost from a lower tax rate rolls off and economic growth slows in the US and overseas. Still, a material decline in profits looks unlikely. Leading indicators such as access to capital, business sentiment, and unemployment claims remain supportive. Our 2019 EPS estimate is USD 168 (3% growth). More than 90% of the market cap of the S&P 500 have reported first-quarter results. Profits are coming in 4.6% above consensus estimates, a slightly larger-than-normal "beat." As a result, 1Q S&P 500 profits are on pace to rise 2.5% year-over-year, allaying concerns of an "earnings recession." Earnings growth should reaccelerate modestly in the second half of 2019 and into next year as the economic expansion continues, comparisons in the energy sector get easier, and tech markets stabilize, especially for semiconductors.

↗ Positive scenario

Probability: 20%

Fiscal policy boosts earnings more than expected
Boost from fiscal stimulus lasts longer than expected. Deregulation further boosts financial sector earnings. Investment spending picks up.

↘ Negative scenario

Probability: 20%

Downturn in sentiment
Trade and geopolitical tensions flare up, depressing business and consumer sentiment. Wage pressures, without improving consumer and business demand, crimp profit margins and earnings growth rates. Declines in long-term interest rates pressure financial sector earnings.

Key dates

31 May 2019
Personal income and spending, PCE deflator for April
Income and spending were weaker than we expected in 1Q19, and core PCE inflation also surprised to the downside. We expect to see stronger data in 2Q.

3 June 2019
ISM Manufacturing PMI for May
The Purchasing Managers Index (PMI) fell sharply in April, hitting its lowest level since late 2016. The data suggests that the US is being affected by the global slowdown in manufacturing.

5 June 2019
Fed Beige Book
The Beige Book is a compilation of information gathered by the 12 Federal Reserve Districts on current economic conditions ahead of FOMC meetings. Although the Fed is unlikely to change policy soon, the Beige Book is still an important source of information.

6 June 2019
ISM Non-manufacturing for May
The ISM non-manufacturing index has weakened in recent months but remains at a level consistent with moderate economic growth. Further deterioration would raise concerns over the growth outlook.

7 June 2019
Labor report for May
Nonfarm payrolls increased by a strong 263,000 in April and the unemployment rate fell to 3.6%, the lowest since the 1960's. One point of focus will be average hourly earnings, which has been helped by the tight labor market.

Equities

Jeremy Zirin, CFA; David Lefkowitz, CFA; Markus Irngartinger, PhD, CFA; Edmund Tran, CFA

The strong performance for global equities this year was halted this month by rising concerns about a renewed escalation of US-China trade tensions. Equity market volatility has returned and is likely to remain in the near term as markets are looking for a potential negotiation between the two sides. Most equity markets remain close to fair value, and we would need to see more constructive newsflow on trade negotiations, an acceleration of macroeconomic momentum, and a rise in earnings growth expectations for most markets to move meaningfully higher from here.

Eurozone

Underweight

Economic activity in the region has weakened. Composite PMIs in April dropped to the lowest level since 2014. Q1 earnings have been mixed at best, with low single-digit growth year-on-year. Eurozone equities, however, have rallied strongly since the beginning of the year and now appear to be priced for an overly optimistic macro scenario. At the same time, external risks are back on the rise. The US-China trade conflict is escalating and the Brexit debate is returning to the market at a time when the EU faces major political events.

EURO STOXX (index points, current: 370)	Six-month target
House view	**360**
↗ Positive scenario	390
↘ Negative scenario	300

Emerging markets

Overweight

Emerging market (EM) equities were positive in April, but the abrupt escalation of Sino–US trade tensions has hurt the asset class in May, in an environment of high volatility. As a result, the asset class performance is trailing that of developed market (DM) counterparts by a wide margin so far this year. Assuming the risk scenarios we monitor do not materialize, EM equities offer attractive potential upside. They are heavily geared to the global cycle and improvements in China's growth, and we don't think valuations have priced in a macro recovery.

MSCI EM (index points, current: 998)	Six-month target
House view	**1060**
↗ Positive scenario	1140
↘ Negative scenario	910

Japan

Overweight

We are overweight Japanese equities as they have lagged other cyclical markets this year and should rerate on the back of improving macro data. Earnings growth should turn positive in FY2019, to +3% year over year from –6% in FY2018. We believe earnings will continue to slow near-term but expect a recovery in 2H19. In 1Q, slowing demand in China was a drag but headwinds have started to fade, with earnings growth recovering to –4% year over year from –28% in 4Q18. We prefer quality companies, firms that would benefit from an increase in digital payments in Japan, and firms that have solid environmental, sustainability, and governance (ESG) strategies.

TOPIX (index points, current: 1546)	Six-month target
House view	**1750**
↗ Positive scenario	1800
↘ Negative scenario	1400

UK

neutral

UK stocks are attractively valued—currently trading at 12.4x 12-month forward P/E with a dividend yield of nearly 5%. However, Brexit risks combined with uncertainties about the outlook for sterling and oil give us pause. Earnings may experience low single-digit growth in 2019 but remain influenced by the outlook for commodities. Should oil prices rise, equities will remain broadly supported. A stronger sterling remains a risk as the currency is closely linked to the Brexit outcome, where a resolution still remains unclear.

FTSE 100 (index points, current: 7334)	Six-month target
House view	**7500**
↗ Positive scenario	7750
↘ Negative scenario	6600

Note: Current values as of 22 May 2019

US Equities

A setback in the trade negotiations between the US and China has driven a nearly 5% drawdown in US stocks from fresh all-time highs. While the trade risks have risen, we continue to believe it is in both parties' interests to find common ground and a resolution will ultimately be found. Despite the potential for periods of volatility in the months ahead, we expect stocks to move higher over the next year driven by tame inflation, a Fed on pause, a modest re-acceleration in earnings growth, and reasonable valuations.

US equities overview

neutral

S&P 500 earnings growth has decelerated to a low single-digit pace—2.5% in the first quarter—due to weakness in commodities, segments within tech (including semiconductors) and some industrials. But leading indicators of profit growth—access to capital and business sentiment—remain favorable, suggesting an improvement ahead. We look for 3% growth in 2019 and 7% in 2020. With valuations reasonable (the S&P 500's forward P/E is just over 16x), continued gains in corporate profits should drive stocks higher in the months ahead. Our rolling six-month price target is 2,950.

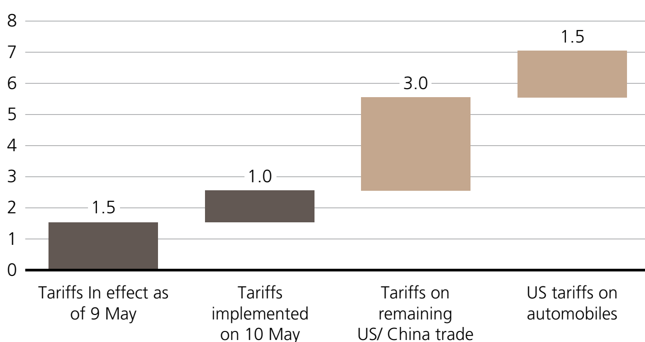
US equities – sectors

We upgrade communications services to moderate overweight. The sector offers secular growth—internet advertising, best-in-class media content, and broadband access—which we find appealing in the later stages of the business cycle. In addition, the telecom companies' high dividend yields should help limit downside if markets experience downside volatility. We downgrade the tech sector to neutral due to potential trade-related risks for semiconductors and smartphones, especially considering now-higher relative valuations. Our ratings on financials (moderate overweight), industrials (moderate underweight), and utilities (moderate underweight) are unchanged.

Figure 1

Tariff impact on profits has been manageable so far

Estimated reduction in S&P 500 profits; potential tariffs in tan, in %



Source: UBS, as of 22 May 2019

US equities – size

We remain neutral across size segments. Over the last month, all segments are down between 2–2.5%. Mid-caps have outperformed this year but the dispersion of returns is not large with large-, mid- and small-caps up 14.5%, 16.5%, and 13.6% respectively. We continue to monitor funding costs as they typically increase later in the business cycle and have a larger impact on smaller firms.

US equities – style

We continue to recommend that investors stay neutrally allocated across growth and value styles. The economic backdrop is supportive for growth firms, which typically outperform later in the business cycle but whose valuations are higher than long-term averages relative to their value peers.

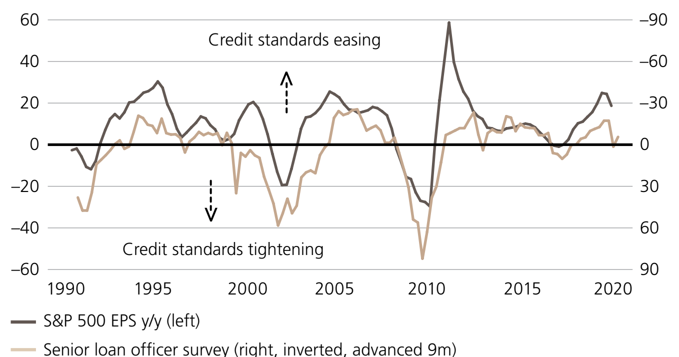
S&P 500 (index points, current: 2856)	Six-month target
House view	**2950**
↗ Positive scenario	3250
↘ Negative scenario	2375

Note: Current values as of 22 May 2019

Figure 2

Credit standards suggest slower but continued earnings growth

S&P 500 earnings growth vs. bank lending standards for commercial & industrial loans, in %



Source: Bloomberg, FactSet, UBS, as of 22 May 2019

Bonds

Leslie Falconio; Kathleen McNamara, CFA, CFP; Barry McAlinden, CFA; Philipp Schoettler; Frank Sileo, CFA

Amidst the heightened trade tensions, the 10-year Treasury yield has fallen over the past month and set a new year-to-date low of 2.3%, surpassing its prior low of 2.33% set in March. Inflation remains somewhat below the Fed's 2% target but we believe that tightness in labor markets and the reversion of temporary drags will very slowly drive inflation higher. The Fed has signaled its intention to pause rate hikes and we think it will hold rates steady until it sees clear evidence that inflation is on a gradual upward path toward the 2% target. This condition is not likely to be met this year and we maintain our interest rate forecasts, which were slightly lowered last month.

Government bonds

underweight

The 10-year Treasury reached 2.30% amidst trade talk disruption. The safe haven dipped below the prior year-to-date low of 2.33% that occurred in March. CIO's outlook for the 10-year yield remains within the range of 2.3% to 2.8%, unless political and geopolitical risks heighten further and the market increasing believes that the Fed will cut rates.

US 10-YEAR YIELD (current: 2.4%)	Six-month target
House view	**2.8%**
↗ Positive scenario	2.2%
↘ Negative scenario	3.0%

US Investment-Grade Corporate Bonds

neutral

Concerns about global trade and a slight indigestion in the primary market caused IG credit spreads to widen modestly over the past month. That said, total returns have still been slightly positive in May due to the decline in Treasury yields. Current spreads of 125bps fall within our 120bps to 140bps target range for the next six months. We continue to favor financials (US banks) over non-financials due to their strong credit profiles. In addition, IG corporates with short maturities (1–3 years) provide attractive yield relative to their low duration.

US IG SPREAD (current: 125bps*)	Six-month target
House view	**120–140bps**
↗ Positive scenario	90bps
↘ Negative scenario	275bps

*Data based on ICE BAML IG corporate index

US high-yield corporate bonds

neutral

Mounting China-US trade tensions caused USD HY credit spreads to widen by about 40bps over the past month. The 1Q10 Fed Senior Loan Officer Survey showed that a net 4% of the banks surveyed eased their standards on loans to large and middle-market firms in 1Q19, reversing a slight net tightening during the previous quarter. Our HY spread forecast range remains at 470–510 basis points (bps). While current spreads of 403bps look tight, we believe the Fed's more cautious stance and investor appetite for yield have potential to sustain spreads in the short term.

USD HY SPREAD (current: 403bps*)	Six-month target
House view	**470–510bps**
↗ Positive scenario	300bps
↘ Negative scenario	800bps

*Data based on ICE BAML High Yield indices

Emerging market bonds

neutral

EM credit delivered mid-to-high single-digit gains year-to-date on tighter spreads and lower Treasury yields. The asset class benefited from more dovish central banks globally, continued Chinese stimulus measures, and rising oil prices, among other factors. Our six-month base case calls for sideways-to-slightly-tighter EM sovereign spreads, and sideways corporate spreads. Key risks include further escalation of US-China trade disputes and a sharper than expected global slowdown. We advise investors to hold a strategic allocation to EM credit in globally diversified portfolios.

EMBIG div / CEMBI div SPREAD* (current: 355bps / 315bps)	Six-month target
House view	**330–350bps /310–330bps**
↗ Positive scenario	290bps / 270bps
↘ Negative scenario	450bps / 520bps

*JPMorgan Emerging Market Bond Index Global / JPMorgan Corporate Emerging Bond Index

Note: Current values as of 22 May 2019

Municipal bonds

⊖ neutral

Munis are now on pace to register positive total returns for seven straight months. Thus far in 2019, tax-exempt paper has gained 4.4%. By comparison, US Treasury securities posted softer results (+2.6%). Muni mutual funds have been on the receiving end of net new cash for 19 consecutive weeks. At the same time, new issue volume remains muted. We expect favorable supply/demand dynamics to continue throughout the summer months, barring an abrupt increase in US government rates. Current AAA 10-year muni-to-Treasury yield ratio: 72.1% (last month: 74.8%).

Non-US developed fixed income

⊖ neutral

Over the past month, interest rates across developed markets moved mostly lower. On foreign exchange markets, the dollar was mixed, gaining against the pound but weakening against the yen. The net result was a modestly positive return over the month. Non-US developed bond yields are mostly at very unattractive levels. We do not recommend a strategic asset allocation position on the asset class.

Additional US taxable fixed income (TFI) segments

Agency bonds

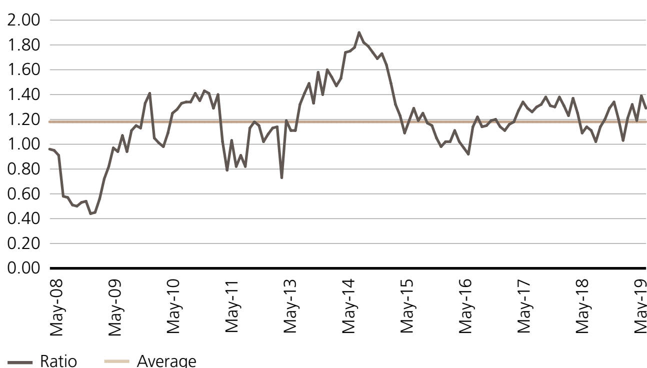
With a year-to-date total return of slightly over 2%, agency debt is one of the lowest-returning fixed income sectors in 2019. This should be no surprise given the rally in risk assets the market witnessed for most of this year. However, even with the recent desire for safe havens as potential trade tensions have escalated beyond market expectations, agency debt remains fairly ho-hum. This reaffirms CIO's preference for MBS or US Treasuries over agency debt. Current spread is +9bps to the 5-year (vs. +7bps last month).

Mortgage-backed securities (MBS)

MBS are now more attractive given their recent underperformance vs. Treasuries. The current coupon spread is slightly wider over the past several weeks at 88bps to the Treasury curve. As the credit cycle continues to mature and the risk of sustained tariffs negatively impacts US growth, the safe haven of agency MBS is increasingly becoming a preferred allocation versus the credit risk of IG corporates. However, we currently remain neutral on both IG and MBS at these levels and are happily waiting on the sidelines awaiting more information on the trade dispute. Current spread is +88bps to the 5-year and 10-year Treasury blend (vs. +81.5bps last publication)

Current Coupon MBS appears cheap to AA corporates given IG outperformance in 2019

The wider spread ratio the cheaper MBS is to AA Corp



Source: Factset; UBS as of 20 May 2019

Preferred securities

Recently, preferreds have been more stable than stocks. This contrasts with late 2018, when risk aversion spiked and return correlations rose. They remained high in early 2019, but this brought a good deal of recovery. Overall volatility rose in May, but preferreds are holding solid year-to-date gains, outperforming other sectors. As the year progresses we expect correlations to continue to normalize. To mitigate interest rates or credit risk, we favor those fixed-rate preferreds with higher coupons and favor fixed-to-floating rate coupons (F2Fs) with call protection, high front-end fixed-coupons and high back-end reset spreads and strong prospectus language in the absence of LIBOR.

Treasury inflation-protected securities (TIPS)

TIPS had been our favored asset class entering into 2019. After outperforming 5-year Treasuries by about 2%, we moved to neutral on our 5-year TIPS vs. 5-year Treasury allocation. Given the large rise in inflation expectations, we anticipated a correction in the 5-year break even inflation (BEI) rate. This has occurred over the first few weeks of May as the BEI declined by 10bps this month and almost 20bps since the March peak. Currently at 1.71%, TIPS represent value. The risk-off sentiment keeps us neutral at present but we are positive over the longer term with the Fed on hold. Current 5-year breakeven inflation rate of 1.71% (1.86% last month).

UBS interest rate forecasts

US	21-May–19	UBS 3m	UBS 6m	UBS 12m
USD 3m LIBOR	2.5	2.6	2.6	2.6
USD 2Y Treas.	2.2	2.5	2.6	2.7
USD 5Y Treas.	2.2	2.5	2.6	2.6
USD 10Y Treas.	2.4	2.7	2.8	2.8
USD 30Y Treas	2.8	3.1	3.1	3.0
Curve: 2y/10y spread (bp)	0.20	0.20	0.20	0.10

Source: Bloomberg, UBS, as of 21 May 2019

Commodities and other asset classes

Dominic Schnider, CFA, CAIA; Giovanni Staunovo; Thomas Veraguth; Wayne Gordon

Broad-based commodity indices have given up some year-to-date gains recently. The recent pullback in commodity prices has been broad-based, but base metal and livestock prices have fallen the most. That said, broad-based commodity indices are still up 4.5%-7% this year. We continue to expect a high single-digit rate of return from a broad index point of view for the remainder of 2019.

Commodities

neutral

Precious metals The gold price rises when real US rates are low, equity markets are volatile and/or the US dollar is weak—all of which we anticipate for 2H19. With the Fed unlikely to hike this year or next, and inflation improving, real US rates should stay low this year. Equity markets should be volatile due to late-cycle dynamics and US-China tensions. And we foresee broad US dollar weakness as investors refocus on fiscal issues. We forecast the gold price at USD 1,400/oz in 12 months. The metal is also a valuable insurance asset, as adding it can help to reduce the overall volatility of a portfolio.

GOLD (current: USD 1273/oz)	Six-month target
House view	**USD 1350/oz**
↗ Positive scenario	USD 1450/oz
↘ Negative scenario	USD 1250/oz

Crude oil We see a disconnect between the financial and physical oil markets. Trade tensions have dragged down Brent in recent weeks, while the futures curve is pointing more steeply downward, i.e., for immediate delivery crude buyers need to pay a rising premium vs. delivery at a later point. The physical market in Europe is scrambling to obtain sufficient barrels. We expect the tightness in the physical market to impact the financial markets and see Brent rising to USD 75/bbl over the coming weeks.

BRENT (current: USD 71/bbl)	Six-month target
House view	**USD 75/bbl**
↗ Positive scenario	USD 100/bbl
↘ Negative scenario	USD 50/bbl

Base metals Base metal prices have suffered broadly from the latest escalation in US-China trade tensions and markets going risk-off. But the price weakness from mid-April onward also reflects the softer-than-expected global economic data. An uptick in copper, aluminum, and zinc inventories at exchanges lately has not helped metal prices, either. That said, the market has not really discriminated between base metals where inventories have soared and those where they have dropped.

Agriculture Broad agricultural indices reached fresh lows after the US and China ratcheted up tariffs and the USDA released a relatively bearish May outlook report. The USDA forecasts a 6% rise in the 2019–20 global wheat surplus and for soybean inventories to remain steady at a record high and corn supply to decline by 11mn tons. A sharp increase in US corn and cotton inventories undermined what had been a more constructive global picture for both commodities.

Other asset classes

Listed real estate We see earnings growth of 4.9% for 2019–2020 (excluding emerging markets), fueled by internal growth and weak but positive rental reversion. Companies focus on extensions and repositioning. Some need to deleverage, while others are still able to slightly optimize financing costs and consolidate their balance sheets. A growing number of companies' risk-spreads will expand amid a cyclical deceleration.

RUGL Index (current: USD 5452)	Six-month target
House view	**USD 5100**
↗ Positive scenario	USD 5500
↘ Negative scenario	USD 4600

Note: Current values as of 22 May 2019

Foreign exchange

Thomas Flury, Strategist

In our FX strategy, we add a basket of emerging market currencies that is constructed to earn the interest-rate advantage without being too strongly exposed to US-China trade tensions and other global risk-on vs. risk-off considerations. On the long side we have the currencies of India, Indonesia, and South Africa. These are financed with short positions in Australia, New Zealand, and Taiwan dollars.

USD

overweight

Investors have been spoiled with high US interest rates, which, combined with low currency volatility, made them invest heavily in US dollars. Uncertainty about the state of the US economy challenges this picture. We expect the USD to give up some of its overvaluation and weaken against most major currencies over the next 12 months.

EUR

overweight

The European economy is showing more signs of growth. The prospect of a new ECB president replacing the dovish Mario Draghi poses euro upside risk. We believe EURUSD should recover to 1.17 in six months. We maintain our long EUR vs. short Swiss franc (CHF) position.

GBP

neutral

Lingering Brexit uncertainty should keep GBPUSD close to current levels over the next three months, but extreme risks have been reduced by the deadline extension. The BoE could hike rates in November, but any rate hikes would only come slowly and gradually due to Brexit risks. We expect GBPUSD to trade around 1.35 in six months.

CHF

Underweight

The Fed is likely done with its rate hikes and US growth is in doubt, so our 12-month forecast now assumes that the currency pair will trade downward from parity as fundamental forces weigh on the dollar. We expect USDCHF to trade around parity in the next six months, then closer to 0.98 in 12 months. We maintain our short CHF vs. long EUR and short CHF vs. long Norwegian krone (NOK) positions.

JPY

neutral

USDJPY has drifted lower below 110, driven by rising global risk aversion and narrowing US-Japan yield differentials. The risk for USDJPY remains skewed to the downside in the near term. A further deterioration in risk appetite is likely to trigger more short-covering of speculative JPY positioning. We expect USDJPY to trade closer to 106 in six months. We believe the JPY has long-term appreciation potential against all other G10 currencies.

Other developed market currencies

underweight

We maintain an overweight on NOK vs. CAD. As with the NOKCHF trade, this position aims to benefit from central bank divergence, but brings some diversification. At the margin it is positively correlated with the oil price, as the NOK reacts more strongly to swings in Brent crude oil prices than the CAD, but it is less exposed than NOKCHF. We are also short AUD vs. USD. This position was initiated in response to the risk that US–China trade negotiations become gridlocked, as Australia is heavily exposed to Chinese trade flows. The short AUD position also profits from a slowing Australian economy and the RBA preparing markets for rate cuts.

UBS CIO FX forecasts

	3M	6M	12M	PPP*
EURUSD	1.15	1.17	1.20	1.30
USDJPY	107	106	105	74
USDCAD	1.33	1.32	1.30	1.20
AUDUSD	0.68	0.68	0.71	0.69
GBPUSD	1.32	1.35	1.38	1.59
NZDUSD	0.65	0.65	0.67	0.59
USDCHF	1.00	1.00	0.98	0.92
EURCHF	1.15	1.17	1.17	1.20
GBPCHF	1.32	1.35	1.35	1.47
EURJPY	123	124	126	96
EURGBP	0.87	0.87	0.87	0.82
EURSEK	10.50	10.50	10.50	9.84
EURNOK	9.40	9.20	9.20	10.56

Source: Thomson Reuters, UBS, as of 23 May 2019
Note: Past performance is not an indication of future returns.
*PPP = Purchasing Power Parity

Key forecasts

As of 17 April 2019

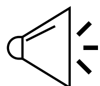
- Overweight (+)
- Neutral (=)
- Underweight (–)

Asset class	TAA (6–12 months)	Change this month	Benchmark	Value	m/m perf. in %[1]	Six-month forecast: House View	Six-month forecast: Positive scenario	Six-month forecast: Negative scenario
EQUITIES	Overweight							
US	Neutral	–	S&P 500	2856	–1.7%	2950	3250	2375
Eurozone	Underweight	–	Euro Stoxx	370	–3.5%	360	390	300
UK*	Neutral	–	FTSE 100	7334	–1.7%	7500	7750	6600
Japan	Overweight	–	Topix	1546	–4.3%	1750	1800	1400
Switzerland	Underweight	–	SMI	9645	0.8%	9350	10120	8500
Emerging Markets	Overweight	–	MSCI EM	998	–8.7%	1060	1140	910
BONDS	Neutral							
US Government bonds	Underweight	–	10yr Treasury yield	2.4%	1.2%	2.8%	2.2%	3.0%
US Corporate bonds	Neutral	–	BAML IG spread	125 bps	0.8%	120-140 bps	90 bps	275 bps
US High-yield bonds	Neutral	–	BAML US HY spread	403 bps	–0.1%	470–510 bps	300 bps	800 bps
EM Sovereign	Neutral	–	EMBI Diversified spread	355 bps	0.6%	330–350 bps	290 bps	450 bps
EM Corporate	Neutral	–	CEMBI Diversified spread	315 bps	–2.2%	310–330 bps	270 bps	520 bps
OTHER ASSET CLASSES								
Gold	Neutral	–	Spot price	1273 /oz.	–0.2%	1350	1450	1250
Brent crude oil	Neutral	–	Spot price	70.99 /bbl.	–1.4%	75	100	50
Listed real estate	Neutral	–	RUGL Index	5452	2.0%	5100	5500	4600
CURRENCIES			Currency pair					
USD	Overweight	–		NA	NA	NA	NA	NA
EUR	Overweight	–	EURUSD	1.12	–0.7%	1.17	NA	NA
GBP	Neutral	–	GBPUSD	1.27	–2.5%	1.35	NA	NA
JPY**	Neutral	–	USDJPY	110	–1.4%	106	NA	NA
CHF	Underweight	–	USDCHF	1.01	–0.6%	1.00	NA	NA

Note: Change this month represents the change in positioning since since our previous report: *UBS House View update: US-China dispute: Taking action to manage risk*, published on 9 May 2019.
Source: Bloomberg, UBS
* For 1–4 year horizon, we would underweight UK equities.
** For a 1–4 year horizon, we would also hold a preference for the JPY
[1] Month over month.
Note: Current values as of 22 May 2019. Currency values as of 23 May 2019.
Past performance is no indication of future performance. Forecasts are not a reliable indicator of future performance.

Asset allocation implementation

The UBS House View is our current assessment of the global economy and financial markets, with corresponding investment recommendations. The asset allocation implementation of this view can vary across model portfolios, depending on their objectives.



Important publication note
These *Asset allocation implementation* pages will replace the *Detailed Asset Allocation* section (pages 29–41) of this report series starting July 2019. The full set of allocation tables will still be made available to you in a separate report, available at ubs.com/houseview.

Please e-mail us at wmrfeedback@ubs.com with feedback and suggestions.

Implementation guidance

The escalation in US-China trade tensions has created significant uncertainty about the economic outlook, and the global cyclical acceleration that looked promising in April has moderated to mere stabilization for the time being. Our base case is that there will eventually be a trade deal without additional tariffs first being applied, thereby removing a headwind for economic growth and the continuation of the bull market. Thus, our asset allocation positioning reflects this view that there is equity upside, while US government bonds provide more downside protection.

Equities
We recommend maintaining an overweight to EM and Japanese equities. Both have lagged US equities this year, and since US-China trade tensions escalated in May EM equities are down about twice as much as US stocks. While uncertainty about trade is likely to weigh on sentiment and growth in the near term, EM and Japanese equities offer the best upside in our base case. Both are levered to an improving global cycle and their valuations are relatively attractive. We also have a preference for China equities in our all-equity portfolio. They're down 13% from their recent peak and additional policy stimulus to offset the tariffs should help support the market.

Within US equity sectors, we downgraded tech to neutral and upgraded communication services to a moderate overweight. About 45% of the tech sector comprised of semiconductor and hardware firms, which are pressured by rising trade tensions, though software and services are less exposed to trade. But communication services also offers secular growth via internet companies with low sensitivity to trade tensions, coupled with defensive media and telecom.

Fixed income
We maintain our overweight to long-duration Treasuries as a counter-cyclical position in case trade tensions get even worse and economic conditions deteriorate. We don't expect Treasury yields to rise much this year with the Fed on pause, which could persist well into 2020 with inflation below the Fed's 2% target. But if growth slows sharply, the 30-year Treasury yield could easily fall from around 2.75% to near 2%, or about a 10% return.

We closed our overweight to EM hard-currency sovereign bonds in our 9 May ad hoc House View update. While their spreads didn't rise much as trade tensions escalated, moving the allocation to US government bonds provides more portfolio protection. If trade tensions de-escalate as we expect, EM equities offer more upside and we prefer to take the risk exposure there. In our Sustainable Investing portfolios, we continue to recommend an overweight to Green bonds, which offer a similar duration and more defensive sector composition than ESG corporate bonds and thus should hold up better in a volatile environment.

Our TAA recommendations

Emerging market equities

Japan equities

China equities
(all-equity portfolio)

Long duration

What's changed

On 9 May, we closed our overweight to emerging market (EM) hard currency sovereign bonds.

A note on TAA scaling
Unless noted otherwise, the TAA percentages on this page refer to a Moderate risk profile. Generally speaking, we apply a scaling methodology to TAA tilts for lower-risk portfolios, so that a 2% overweight in the moderate risk profile reflects as a 1.5% and 1%, respectively, in the Moderately Conservative and Conservative profiles.

Non-taxable investor

Moderate risk, without non-traditional assets

	Strategic Asset Allocation (SAA)	Tactical tilt	Tactical Asset Allocation (TAA)	Preferences
Cash	**5**	**–2**	**3**	Underweight
Fixed Income	**46**		**46**	Neutral
US Gov't FI	16	–4	12	Underweight
US Treasuries (long)	0	+2	2	Overweight
US Municipal	0		0	Neutral
US IG Corp FI	21		21	Neutral
US HY Corp FI	5		5	Neutral
Int'l Developed FI	0		0	Neutral
Emerging Markets FI	4		4	Neutral
EM Local Currency FI	0		0	Neutral
EM Hard Currency FI	0		0	Neutral
Equity	**49**	**+2**	**51**	Overweight
US All Cap	0		0	Neutral
US Large Cap Growth	9		9	Neutral
US Large Cap Value	9		9	Neutral
US Mid Cap	5		5	Neutral
US Small Cap	3		3	Neutral
Int'l Developed Markets	17		17	Neutral
Japan	0	+1	1	Overweight
Emerging Markets	6	+1	7	Overweight

Overweight: Tactical recommendation to hold more of the asset class than specified in the moderate risk strategic asset allocation. **Underweight:** Tactical recommendation to hold less of the asset class than specified in the moderate risk strategic asset allocation. **Neutral:** Tactical recommendation to hold the asset class in line with its weight in the moderate risk strategic asset allocation.
"Emerging Markets FI" is a blend of 50% local currency, 50% hard currency.
Source: UBS

Risk profile implementation guidance

Tactical positioning for the Moderate portfolio is recommended for other risk profiles, with implementation adjustments. Specifically, in Conservative portfolios we retain the tactical preference for Japan equities, but not emerging markets stocks. If trade tensions persist and economic conditions deteriorate, the yen is likely to rally, as it has thus far in May, cushioning weakness in Japanese equities, whereas the opposite currency effect is likely in EM.

In the Aggressive portfolio, we recommend 20–30 Treasury strips paying only principal in place of 20+ year Treasury bonds. The former has longer duration and thus offers more protection against equity risk during a sustained economic slowdown when rates are likely to fall. In contrast, this protection is less necessary in a Conservative portfolio. Short-to-intermediate-maturity Treasuries are sufficient and they're less exposed to rising rate risk.

Taxable investor
with non-traditional assets

Investor risk profile	Conservative				Moderately conservative				Moderate				Moderately aggressive				Aggressive			
Directional change / All figures in %	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]
Cash	**5.0**	**–1.0**		**4.0**	**5.0**	**–1.5**		**3.5**	**5.0**	**–2.0**		**3.0**	**5.0**	**–2.0**		**3.0**	**5.0**	**–2.0**		**3.0**
Fixed Income	**69.0**	**+0.0**		**69.0**	**50.0**	**+0.0**		**50.0**	**33.0**	**+0.0**		**33.0**	**17.0**	**+0.0**		**17.0**	**5.0**	**+0.0**		**5.0**
US Fixed Income	**67.0**	**+0.0**		**67.0**	**48.0**	**+0.0**		**48.0**	**31.0**	**+0.0**		**31.0**	**15.0**	**+0.0**		**15.0**	**5.0**	**+0.0**		**5.0**
US Gov't FI	17.0	–1.0		16.0	2.0	–1.5		0.5	2.0	–2.0		0.0	2.0	–2.0		0.0	2.0	–2.0		0.0
US Treasuries (long)	0.0	+1.0		1.0	0.0	+1.5		1.5	0.0	+2.0		2.0	0.0	+2.0		2.0	0.0	+2.0		2.0
US Municipal FI	46.0	+0.0		46.0	42.0	+0.0		42.0	27.0	+0.0		27.0	11.0	+0.0		11.0	3.0	+0.0		3.0
US IG Corp FI	4.0	+0.0		4.0	2.0	+0.0		2.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US HY Corp FI	0.0	+0.0		0.0	2.0	+0.0		2.0	2.0	+0.0		2.0	2.0	+0.0		2.0	0.0	+0.0		0.0
Int'l Fixed Income	**2.0**	**+0.0**		**2.0**	**2.0**	**+0.0**		**2.0**	**2.0**	**+0.0**		**2.0**	**2.0**	**+0.0**		**2.0**	**0.0**	**+0.0**		**0.0**
Int'l Developed FI	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
EM FI[3]	2.0	+0.0		2.0	2.0	+0.0		2.0	2.0	+0.0		2.0	2.0	+0.0		2.0	0.0	+0.0		0.0
EM FI - Hard Currency	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Equity	**13.0**	**+1.0**		**14.0**	**27.0**	**+1.5**		**28.5**	**44.0**	**+2.0**		**46.0**	**64.0**	**+2.0**		**66.0**	**85.0**	**+2.0**		**87.0**
US Equity	**8.0**	**+0.0**		**8.0**	**16.0**	**+0.0**		**16.0**	**25.0**	**+0.0**		**25.0**	**37.0**	**+0.0**		**37.0**	**46.0**	**+0.0**		**46.0**
US All cap	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Large cap Growth	2.5	+0.0		2.5	5.5	+0.0		5.5	8.5	+0.0		8.5	13.0	+0.0		13.0	16.0	+0.0		16.0
US Large cap Value	2.5	+0.0		2.5	5.5	+0.0		5.5	8.5	+0.0		8.5	13.0	+0.0		13.0	16.0	+0.0		16.0
US Mid cap	2.0	+0.0		2.0	3.0	+0.0		3.0	5.0	+0.0		5.0	7.0	+0.0		7.0	9.0	+0.0		9.0
US Small cap	1.0	+0.0		1.0	2.0	+0.0		2.0	3.0	+0.0		3.0	4.0	+0.0		4.0	5.0	+0.0		5.0
International Equity	**5.0**	**+1.0**		**6.0**	**11.0**	**+1.5**		**12.5**	**19.0**	**+2.0**		**21.0**	**27.0**	**+2.0**		**29.0**	**39.0**	**+2.0**		**41.0**
Int'l Developed Markets	5.0	+0.0		5.0	8.0	+0.0		8.0	13.0	+0.0		13.0	19.0	+0.0		19.0	28.0	+0.0		28.0
Japan	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0
Emerging Markets	0.0	+0.0		0.0	3.0	+0.5		3.5	6.0	+1.0		7.0	8.0	+1.0		9.0	11.0	+1.0		12.0
Non-traditional	**13.0**	**+0.0**		**13.0**	**18.0**	**+0.0**		**18.0**	**18.0**	**+0.0**		**18.0**	**14.0**	**+0.0**		**14.0**	**5.0**	**+0.0**		**5.0**
Hedge Funds	13.0	+0.0		13.0	18.0	+0.0		18.0	18.0	+0.0		18.0	14.0	+0.0		14.0	5.0	+0.0		5.0
Private Equity	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Private Real Estate	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0

CIO GWM tactical deviation legend: Overweight Underweight Neutral. Change legend: ▲ Upgrade ▼ Downgrade for moderate risk profile

[1] Change is the difference in the tactical deviation column since our previous report: *UBS House View update: US-China dispute: Taking action to manage risk, published on 9 May 2019*.

[2] The current allocation column is the sum of the strategic asset allocation and the tactical deviation columns.

[3] EM FI is a blend of 50% local currency, 50% hard currency.

Source: UBS and WMA AAC, 23 May 2019. See the Performance Measurement and Appendix sections of the *UBS House View Investment Strategy Guide* for performance measurement details and information regarding sources of strategic asset allocations and their suitability, investor risk profiles, and the interpretation of the suggested tactical deviations from the strategic asset allocations.

Taxable investor
without non-traditional assets

Directional change	Investor risk profile	Conservative				Moderately conservative				Moderate				Moderately aggressive				Aggressive			
	All figures in %	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]
	Cash	**5.0**	**–1.0**		**4.0**	**5.0**	**–1.5**		**3.5**	**5.0**	**–2.0**		**3.0**	**5.0**	**–2.0**		**3.0**	**5.0**	**–2.0**		**3.0**
	Fixed Income	**79.0**	**+0.0**		**79.0**	**63.0**	**+0.0**		**63.0**	**46.0**	**+0.0**		**46.0**	**27.0**	**+0.0**		**27.0**	**10.0**	**+0.0**		**10.0**
	US Fixed Income	**77.0**	**+0.0**		**77.0**	**61.0**	**+0.0**		**61.0**	**44.0**	**+0.0**		**44.0**	**25.0**	**+0.0**		**25.0**	**10.0**	**+0.0**		**10.0**
	US Gov't FI	17.0	–1.0		16.0	2.0	–1.5		0.5	2.0	–2.0		0.0	2.0	–2.0		0.0	5.0	–2.0		3.0
	US Treasuries (long)	0.0	+1.0		1.0	0.0	+1.5		1.5	0.0	+2.0		2.0	0.0	+2.0		2.0	0.0	+2.0		2.0
	US Municipal FI	56.0	+0.0		56.0	55.0	+0.0		55.0	40.0	+0.0		40.0	21.0	+0.0		21.0	5.0	+0.0		5.0
	US IG Corp FI	4.0	+0.0		4.0	2.0	+0.0		2.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
	US HY Corp FI	0.0	+0.0		0.0	2.0	+0.0		2.0	2.0	+0.0		2.0	2.0	+0.0		2.0	0.0	+0.0		0.0
	Int'l Fixed Income	**2.0**	**+0.0**		**2.0**	**2.0**	**+0.0**		**2.0**	**2.0**	**+0.0**		**2.0**	**2.0**	**+0.0**		**2.0**	**0.0**	**+0.0**		**0.0**
	Int'l Developed FI	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
	EM FI[3]	2.0	+0.0		2.0	2.0	+0.0		2.0	2.0	+0.0		2.0	2.0	+0.0		2.0	0.0	+0.0		0.0
	EM FI - Hard Currency	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
	Equity	**16.0**	**+1.0**		**17.0**	**32.0**	**+1.5**		**33.5**	**49.0**	**+2.0**		**51.0**	**68.0**	**+2.0**		**70.0**	**85.0**	**+2.0**		**87.0**
	US Equity	**10.0**	**+0.0**		**10.0**	**20.0**	**+0.0**		**20.0**	**28.0**	**+0.0**		**28.0**	**40.0**	**+0.0**		**40.0**	**46.0**	**+0.0**		**46.0**
	US All cap	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
	US Large cap Growth	3.5	+0.0		3.5	7.0	+0.0		7.0	10.0	+0.0		10.0	14.0	+0.0		14.0	16.0	+0.0		16.0
	US Large cap Value	3.5	+0.0		3.5	7.0	+0.0		7.0	10.0	+0.0		10.0	14.0	+0.0		14.0	16.0	+0.0		16.0
	US Mid cap	2.0	+0.0		2.0	4.0	+0.0		4.0	5.0	+0.0		5.0	8.0	+0.0		8.0	9.0	+0.0		9.0
	US Small cap	1.0	+0.0		1.0	2.0	+0.0		2.0	3.0	+0.0		3.0	4.0	+0.0		4.0	5.0	+0.0		5.0
	International Equity	**6.0**	**+1.0**		**7.0**	**12.0**	**+1.5**		**13.5**	**21.0**	**+2.0**		**23.0**	**28.0**	**+2.0**		**30.0**	**39.0**	**+2.0**		**41.0**
	Int'l Developed Markets	6.0	+0.0		6.0	9.0	+0.0		9.0	15.0	+0.0		15.0	20.0	+0.0		20.0	28.0	+0.0		28.0
	Japan	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0
	Emerging Markets	0.0	+0.0		0.0	3.0	+0.5		3.5	6.0	+1.0		7.0	8.0	+1.0		9.0	11.0	+1.0		12.0

CIO GWM tactical deviation legend: Overweight Underweight Neutral. Change legend: ▲ Upgrade ▼ Downgrade for moderate risk profile

[1] Change is the difference in the tactical deviation column since our previous report: *UBS House View update: US-China dispute: Taking action to manage risk, published on 9 May 2019.*

[2] The current allocation column is the sum of the strategic asset allocation and the tactical deviation columns.

[3] EM FI is a blend of 50% local currency, 50% hard currency.

Source: UBS and WMA AAC, 23 May 2019. See the Performance Measurement and Appendix sections of the *UBS House View Investment Strategy Guide* for performance measurement details and information regarding sources of strategic asset allocations and their suitability, investor risk profiles, and the interpretation of the suggested tactical deviations from the strategic asset allocations.

Taxable investor
yield-focused

Investor risk profile	Conservative				Moderately conservative				Moderate				Moderately aggressive				Aggressive			
Directional change / All figures in %	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]
Cash	**3.0**	**–1.0**		**2.0**	**3.0**	**–1.0**		**2.0**	**3.0**	**–1.0**		**2.0**	**3.0**	**–1.0**		**2.0**	**3.0**	**–1.0**		**2.0**
Fixed Income	**65.0**	**+0.0**		**65.0**	**56.0**	**–0.5**		**55.5**	**43.0**	**–1.0**		**42.0**	**30.0**	**–1.0**		**29.0**	**12.0**	**–1.0**		**11.0**
US Fixed Income	**61.0**	**+0.0**		**61.0**	**48.0**	**–0.5**		**47.5**	**32.0**	**–1.0**		**31.0**	**22.0**	**–1.0**		**21.0**	**10.0**	**–1.0**		**9.0**
US Gov't FI	25.0	–1.0		24.0	15.0	–2.0		13.0	6.0	–3.0		3.0	3.0	–3.0		0.0	3.0	–3.0		0.0
US Treasuries (long)	0.0	+1.0		1.0	0.0	+1.5		1.5	0.0	+2.0		2.0	0.0	+2.0		2.0	0.0	+2.0		2.0
US Municipal FI	23.0	+0.0		23.0	14.0	+0.0		14.0	6.0	+0.0		6.0	3.0	+0.0		3.0	3.0	+0.0		3.0
US IG Corp FI	4.0	+0.0		4.0	4.0	+0.0		4.0	4.0	+0.0		4.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US HY Corp FI	9.0	+0.0		9.0	15.0	+0.0		15.0	16.0	+0.0		16.0	16.0	+0.0		16.0	4.0	+0.0		4.0
Int'l Fixed Income	**4.0**	**+0.0**		**4.0**	**8.0**	**+0.0**		**8.0**	**11.0**	**+0.0**		**11.0**	**8.0**	**+0.0**		**8.0**	**2.0**	**+0.0**		**2.0**
EM FI - Local Currency	0.0	+0.0		0.0	3.0	+0.0		3.0	6.0	+0.0		6.0	6.0	+0.0		6.0	2.0	+0.0		2.0
EM FI - Hard Currency	4.0	+0.0		4.0	5.0	+0.0		5.0	5.0	+0.0		5.0	2.0	+0.0		2.0	0.0	+0.0		0.0
Equity	**12.0**	**+1.0**		**13.0**	**21.0**	**+1.5**		**22.5**	**34.0**	**+2.0**		**36.0**	**47.0**	**+2.0**		**49.0**	**62.0**	**+2.0**		**64.0**
US Equity	**6.0**	**+0.0**		**6.0**	**11.0**	**+0.0**		**11.0**	**16.0**	**+0.0**		**16.0**	**21.0**	**+0.0**		**21.0**	**24.0**	**+0.0**		**24.0**
US All cap	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Large cap Growth	2.0	+0.0		2.0	3.0	+0.0		3.0	4.0	+0.0		4.0	6.0	+0.0		6.0	6.0	+0.0		6.0
US Large cap Value	4.0	+0.0		4.0	8.0	+0.0		8.0	12.0	+0.0		12.0	15.0	+0.0		15.0	18.0	+0.0		18.0
International Equity	**6.0**	**+1.0**		**7.0**	**10.0**	**+1.5**		**11.5**	**18.0**	**+2.0**		**20.0**	**26.0**	**+2.0**		**28.0**	**38.0**	**+2.0**		**40.0**
Int'l Developed Value	6.0	+0.0		6.0	10.0	+0.0		10.0	15.0	+0.0		15.0	21.0	+0.0		21.0	29.0	+0.0		29.0
Japan	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0
Emerging Markets	0.0	+0.0		0.0	0.0	+0.5		0.5	3.0	+1.0		4.0	5.0	+1.0		6.0	9.0	+1.0		10.0
Yield Assets	**20.0**	**+0.0**		**20.0**	**20.0**	**+0.0**		**20.0**	**20.0**	**+0.0**		**20.0**	**20.0**	**+0.0**		**20.0**	**23.0**	**+0.0**		**23.0**
Senior Loans	6.0	+0.0		6.0	4.0	+0.0		4.0	2.0	+0.0		2.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Preferreds	10.0	+0.0		10.0	7.0	+0.0		7.0	7.0	+0.0		7.0	5.0	+0.0		5.0	2.0	+0.0		2.0
MLPs	4.0	+0.0		4.0	7.0	+0.0		7.0	9.0	+0.0		9.0	12.0	+0.0		12.0	16.0	+0.0		16.0
US Real Estate	0.0	+0.0		0.0	2.0	+0.0		2.0	2.0	+0.0		2.0	3.0	+0.0		3.0	5.0	+0.0		5.0

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Source: UBS and WMA AAC, 23 May 2019. See the Performance Measurement and Appendix sections of the *UBS House View Investment Strategy Guide* for performance measurement details and information regarding sources of strategic asset allocations and their suitability, investor risk profiles, and the interpretation of the suggested tactical deviations from the strategic asset allocations.

Taxable investor
sustainable investment

Investor risk profile	Conservative				Moderately conservative				Moderate				Moderately aggressive				Aggressive			
Directional change / All figures in %	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]
Cash	**5.0**	**–1.0**		**4.0**	**5.0**	**–1.5**		**3.5**	**5.0**	**–2.0**		**3.0**	**5.0**	**–2.0**		**3.0**	**5.0**	**–2.0**		**3.0**
Fixed Income	**79.0**	**+0.0**		**79.0**	**57.0**	**+0.0**		**57.0**	**41.0**	**+0.0**		**41.0**	**22.0**	**+0.0**		**22.0**	**10.0**	**+0.0**		**10.0**
MDB Bonds	25.0	+0.0		25.0	10.0	+0.0		10.0	10.0	+0.0		10.0	8.0	+0.0		8.0	5.0	+0.0		5.0
Sustainable munis	40.0	+0.0		40.0	31.0	+0.0		31.0	21.0	+0.0		21.0	9.0	+0.0		9.0	5.0	+0.0		5.0
Green bonds	4.0	+1.5		5.5	6.0	+2.5		8.5	4.0	+3.0		7.0	2.0	+3.0		5.0	0.0	+3.0		3.0
ESG corporate bonds	10.0	–1.5		8.5	10.0	–2.5		7.5	6.0	–3.0		3.0	3.0	–3.0		0.0	0.0	+0.0		0.0
Equity	**16.0**	**+1.0**		**17.0**	**38.0**	**+1.5**		**39.5**	**54.0**	**+2.0**		**56.0**	**73.0**	**+2.0**		**75.0**	**85.0**	**+2.0**		**87.0**
ESG thematic equities	6.0	+0.0		6.0	12.0	+0.0		12.0	18.0	+0.0		18.0	23.0	+0.0		23.0	24.0	+0.0		24.0
ESG leaders equities (US)	5.0	+0.0		5.0	8.0	+0.0		8.0	11.0	+0.0		11.0	15.0	+0.0		15.0	19.0	+0.0		19.0
ESG leaders equities (ex-US)	5.0	+1.0		6.0	6.0	+1.5		7.5	9.0	+2.0		11.0	14.0	+2.0		16.0	17.0	+2.0		19.0
ESG improvers equities	0.0	+0.0		0.0	4.0	+0.0		4.0	6.0	+0.0		6.0	8.0	+0.0		8.0	9.0	+0.0		9.0
ESG engagement equities	0.0	+0.0		0.0	8.0	+0.0		8.0	10.0	+0.0		10.0	13.0	+0.0		13.0	16.0	+0.0		16.0

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For more information on the sustainable investment asset allocation tables, read the CIO publication: *Sustainable Investing Portfolios: Investing for returns and for good*, or the Wealth Management US Asset Allocation Committee report: *Introducing the House View Sustainable Investing Strategic Asset Allocations*.

Non-taxable investor
with non-traditional assets

Investor risk profile	Conservative				Moderately conservative				Moderate				Moderately aggressive				Aggressive			
Directional change / All figures in %	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]
Cash	**5.0**	**–1.0**		**4.0**	**5.0**	**–1.5**		**3.5**	**5.0**	**–2.0**		**3.0**	**5.0**	**–2.0**		**3.0**	**5.0**	**–2.0**		**3.0**
Fixed Income	**69.0**	**+0.0**		**69.0**	**50.0**	**+0.0**		**50.0**	**33.0**	**+0.0**		**33.0**	**17.0**	**+0.0**		**17.0**	**5.0**	**+0.0**		**5.0**
US Fixed Income	**64.0**	**+0.0**		**64.0**	**45.0**	**+0.0**		**45.0**	**29.0**	**+0.0**		**29.0**	**14.0**	**+0.0**		**14.0**	**5.0**	**+0.0**		**5.0**
US Gov't FI	35.0	–1.0		34.0	25.0	–1.5		23.5	16.0	–2.0		14.0	7.0	–2.0		5.0	5.0	–2.0		3.0
US Treasuries (long)	0.0	+1.0		1.0	0.0	+1.5		1.5	0.0	+2.0		2.0	0.0	+2.0		2.0	0.0	+2.0		2.0
US Municipal FI	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US IG Corp FI	24.0	+0.0		24.0	15.0	+0.0		15.0	8.0	+0.0		8.0	2.0	+0.0		2.0	0.0	+0.0		0.0
US HY Corp FI	5.0	+0.0		5.0	5.0	+0.0		5.0	5.0	+0.0		5.0	5.0	+0.0		5.0	0.0	+0.0		0.0
Int'l Fixed Income	**5.0**	**+0.0**		**5.0**	**5.0**	**+0.0**		**5.0**	**4.0**	**+0.0**		**4.0**	**3.0**	**+0.0**		**3.0**	**0.0**	**+0.0**		**0.0**
Int'l Developed FI	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
EM FI[3]	5.0	+0.0		5.0	5.0	+0.0		5.0	4.0	+0.0		4.0	3.0	+0.0		3.0	0.0	+0.0		0.0
EM FI - Hard Currency	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Equity	**10.0**	**+1.0**		**11.0**	**25.0**	**+1.5**		**26.5**	**42.0**	**+2.0**		**44.0**	**62.0**	**+2.0**		**64.0**	**85.0**	**+2.0**		**87.0**
US Equity	**6.0**	**+0.0**		**6.0**	**14.0**	**+0.0**		**14.0**	**22.0**	**+0.0**		**22.0**	**33.0**	**+0.0**		**33.0**	**45.0**	**+0.0**		**45.0**
US All cap	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Large cap Growth	2.0	+0.0		2.0	5.0	+0.0		5.0	8.0	+0.0		8.0	12.0	+0.0		12.0	16.0	+0.0		16.0
US Large cap Value	2.0	+0.0		2.0	5.0	+0.0		5.0	8.0	+0.0		8.0	12.0	+0.0		12.0	16.0	+0.0		16.0
US Mid cap	1.0	+0.0		1.0	3.0	+0.0		3.0	4.0	+0.0		4.0	6.0	+0.0		6.0	8.0	+0.0		8.0
US Small cap	1.0	+0.0		1.0	1.0	+0.0		1.0	2.0	+0.0		2.0	3.0	+0.0		3.0	5.0	+0.0		5.0
International Equity	**4.0**	**+1.0**		**5.0**	**11.0**	**+1.5**		**12.5**	**20.0**	**+2.0**		**22.0**	**29.0**	**+2.0**		**31.0**	**40.0**	**+2.0**		**42.0**
Int'l Developed Markets	4.0	+0.0		4.0	8.0	+0.0		8.0	14.0	+0.0		14.0	21.0	+0.0		21.0	29.0	+0.0		29.0
Japan	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0
Emerging Markets	0.0	+0.0		0.0	3.0	+0.5		3.5	6.0	+1.0		7.0	8.0	+1.0		9.0	11.0	+1.0		12.0
Non-traditional	**16.0**	**+0.0**		**16.0**	**20.0**	**+0.0**		**20.0**	**20.0**	**+0.0**		**20.0**	**16.0**	**+0.0**		**16.0**	**5.0**	**+0.0**		**5.0**
Hedge Funds	16.0	+0.0		16.0	20.0	+0.0		20.0	20.0	+0.0		20.0	16.0	+0.0		16.0	5.0	+0.0		5.0
Private Equity	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Private Real Estate	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0

CIO GWM tactical deviation legend: Overweight Underweight Neutral. Change legend: ▲ Upgrade ▼ Downgrade for moderate risk profile

[1] Change is the difference in the tactical deviation column since our previous report: *UBS House View update: US-China dispute: Taking action to manage risk, published on 9 May 2019*.

[2] The current allocation column is the sum of the strategic asset allocation and the tactical deviation columns.

[3] EM FI is a blend of 50% local currency, 50% hard currency.

Source: UBS and WMA AAC, 23 May 2019. See the Performance Measurement and Appendix sections of the *UBS House View Investment Strategy Guide* for performance measurement details and information regarding sources of strategic asset allocations and their suitability, investor risk profiles, and the interpretation of the suggested tactical deviations from the strategic asset allocations.

Non-taxable investor

without non-traditional assets

Investor risk profile	Conservative				Moderately conservative				Moderate				Moderately aggressive				Aggressive			
Directional change / All figures in %	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]
Cash	**5.0**	**–1.0**		**4.0**	**5.0**	**–1.5**		**3.5**	**5.0**	**–2.0**		**3.0**	**5.0**	**–2.0**		**3.0**	**5.0**	**–2.0**		**3.0**
Fixed Income	**79.0**	**+0.0**		**79.0**	**63.0**	**+0.0**		**63.0**	**46.0**	**+0.0**		**46.0**	**27.0**	**+0.0**		**27.0**	**10.0**	**+0.0**		**10.0**
US Fixed Income	**74.0**	**+0.0**		**74.0**	**58.0**	**+0.0**		**58.0**	**42.0**	**+0.0**		**42.0**	**24.0**	**+0.0**		**24.0**	**10.0**	**+0.0**		**10.0**
US Gov't FI	35.0	–1.0		34.0	25.0	–1.5		23.5	16.0	–2.0		14.0	7.0	–2.0		5.0	5.0	–2.0		3.0
US Treasuries (long)	0.0	+1.0		1.0	0.0	+1.5		1.5	0.0	+2.0		2.0	0.0	+2.0		2.0	0.0	+2.0		2.0
US Municipal FI	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US IG Corp FI	34.0	+0.0		34.0	28.0	+0.0		28.0	21.0	+0.0		21.0	12.0	+0.0		12.0	5.0	+0.0		5.0
US HY Corp FI	5.0	+0.0		5.0	5.0	+0.0		5.0	5.0	+0.0		5.0	5.0	+0.0		5.0	0.0	+0.0		0.0
Int'l Fixed Income	**5.0**	**+0.0**		**5.0**	**5.0**	**+0.0**		**5.0**	**4.0**	**+0.0**		**4.0**	**3.0**	**+0.0**		**3.0**	**0.0**	**+0.0**		**0.0**
Int'l Developed FI	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
EM FI[3]	5.0	+0.0		5.0	5.0	+0.0		5.0	4.0	+0.0		4.0	3.0	+0.0		3.0	0.0	+0.0		0.0
EM FI - Hard Currency	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Equity	**16.0**	**+1.0**		**17.0**	**32.0**	**+1.5**		**33.5**	**49.0**	**+2.0**		**51.0**	**68.0**	**+2.0**		**70.0**	**85.0**	**+2.0**		**87.0**
US Equity	**10.0**	**+0.0**		**10.0**	**18.0**	**+0.0**		**18.0**	**26.0**	**+0.0**		**26.0**	**35.0**	**+0.0**		**35.0**	**45.0**	**+0.0**		**45.0**
US All cap	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Large cap Growth	3.5	+0.0		3.5	6.5	+0.0		6.5	9.0	+0.0		9.0	12.0	+0.0		12.0	16.0	+0.0		16.0
US Large cap Value	3.5	+0.0		3.5	6.5	+0.0		6.5	9.0	+0.0		9.0	12.0	+0.0		12.0	16.0	+0.0		16.0
US Mid cap	2.0	+0.0		2.0	3.0	+0.0		3.0	5.0	+0.0		5.0	7.0	+0.0		7.0	8.0	+0.0		8.0
US Small cap	1.0	+0.0		1.0	2.0	+0.0		2.0	3.0	+0.0		3.0	4.0	+0.0		4.0	5.0	+0.0		5.0
International Equity	**6.0**	**+1.0**		**7.0**	**14.0**	**+1.5**		**15.5**	**23.0**	**+2.0**		**25.0**	**33.0**	**+2.0**		**35.0**	**40.0**	**+2.0**		**42.0**
Int'l Developed Markets	6.0	+0.0		6.0	10.0	+0.0		10.0	17.0	+0.0		17.0	24.0	+0.0		24.0	29.0	+0.0		29.0
Japan	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0
Emerging Markets	0.0	+0.0		0.0	4.0	+0.5		4.5	6.0	+1.0		7.0	9.0	+1.0		10.0	11.0	+1.0		12.0

CIO GWM tactical deviation legend: Overweight Underweight Neutral. Change legend: ▲ Upgrade ▼ Downgrade for moderate risk profile

[1] Change is the difference in the tactical deviation column since our previous report: *UBS House View update: US-China dispute: Taking action to manage risk, published on 9 May 2019.*

[2] The current allocation column is the sum of the strategic asset allocation and the tactical deviation columns.

[3] EM FI is a blend of 50% local currency, 50% hard currency.

Source: UBS and WMA AAC, 23 May 2019. See the Performance Measurement and Appendix sections of the *UBS House View Investment Strategy Guide* for performance measurement details and information regarding sources of strategic asset allocations and their suitability, investor risk profiles, and the interpretation of the suggested tactical deviations from the strategic asset allocations.

Non-taxable investor
yield-focused

Investor risk profile	Conservative				Moderately conservative				Moderate				Moderately aggressive				Aggressive			
Directional change / All figures in %	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]
Cash	**3.0**	**–1.0**		**2.0**	**3.0**	**–1.0**		**2.0**	**3.0**	**–1.0**		**2.0**	**3.0**	**–1.0**		**2.0**	**3.0**	**–1.0**		**2.0**
Fixed Income	**65.0**	**+0.0**		**65.0**	**56.0**	**–0.5**		**55.5**	**43.0**	**–1.0**		**42.0**	**30.0**	**–1.0**		**29.0**	**12.0**	**–1.0**		**11.0**
US Fixed Income	**60.0**	**+0.0**		**60.0**	**46.0**	**–0.5**		**45.5**	**32.0**	**–1.0**		**31.0**	**22.0**	**–1.0**		**21.0**	**10.0**	**–1.0**		**9.0**
US Gov't FI	30.0	–1.0		29.0	16.0	–2.0		14.0	10.0	–3.0		7.0	5.0	–3.0		2.0	5.0	–3.0		2.0
US Treasuries (long)	0.0	+1.0		1.0	0.0	+1.5		1.5	0.0	+2.0		2.0	0.0	+2.0		2.0	0.0	+2.0		2.0
US Municipal FI	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US IG Corp FI	18.0	+0.0		18.0	16.0	+0.0		16.0	6.0	+0.0		6.0	2.0	+0.0		2.0	0.0	+0.0		0.0
US HY Corp FI	12.0	+0.0		12.0	14.0	+0.0		14.0	16.0	+0.0		16.0	15.0	+0.0		15.0	5.0	+0.0		5.0
Int'l Fixed Income	**5.0**	**+0.0**		**5.0**	**10.0**	**+0.0**		**10.0**	**11.0**	**+0.0**		**11.0**	**8.0**	**+0.0**		**8.0**	**2.0**	**+0.0**		**2.0**
EM FI - Local Currency	2.0	+0.0		2.0	5.0	+0.0		5.0	6.0	+0.0		6.0	6.0	+0.0		6.0	2.0	+0.0		2.0
EM FI - Hard Currency	3.0	+0.0		3.0	5.0	+0.0		5.0	5.0	+0.0		5.0	2.0	+0.0		2.0	0.0	+0.0		0.0
Equity	**12.0**	**+1.0**		**13.0**	**21.0**	**+1.5**		**22.5**	**34.0**	**+2.0**		**36.0**	**47.0**	**+2.0**		**49.0**	**62.0**	**+2.0**		**64.0**
US Equity	**6.0**	**+0.0**		**6.0**	**10.0**	**+0.0**		**10.0**	**15.0**	**+0.0**		**15.0**	**19.0**	**+0.0**		**19.0**	**24.0**	**+0.0**		**24.0**
US All cap	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Large cap Growth	2.0	+0.0		2.0	3.0	+0.0		3.0	4.0	+0.0		4.0	5.0	+0.0		5.0	6.0	+0.0		6.0
US Large cap Value	4.0	+0.0		4.0	7.0	+0.0		7.0	11.0	+0.0		11.0	14.0	+0.0		14.0	18.0	+0.0		18.0
International Equity	**6.0**	**+1.0**		**7.0**	**11.0**	**+1.5**		**12.5**	**19.0**	**+2.0**		**21.0**	**28.0**	**+2.0**		**30.0**	**38.0**	**+2.0**		**40.0**
Int'l Developed Value	6.0	+0.0		6.0	11.0	+0.0		11.0	16.0	+0.0		16.0	22.0	+0.0		22.0	29.0	+0.0		29.0
Japan	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0
Emerging Markets	0.0	+0.0		0.0	0.0	+0.5		0.5	3.0	+1.0		4.0	6.0	+1.0		7.0	9.0	+1.0		10.0
Yield Assets	**20.0**	**+0.0**		**20.0**	**20.0**	**+0.0**		**20.0**	**20.0**	**+0.0**		**20.0**	**20.0**	**+0.0**		**20.0**	**23.0**	**+0.0**		**23.0**
Senior Loans	6.0	+0.0		6.0	4.0	+0.0		4.0	2.0	+0.0		2.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Preferreds	10.0	+0.0		10.0	7.0	+0.0		7.0	6.0	+0.0		6.0	4.0	+0.0		4.0	2.0	+0.0		2.0
MLPs	4.0	+0.0		4.0	7.0	+0.0		7.0	10.0	+0.0		10.0	13.0	+0.0		13.0	16.0	+0.0		16.0
US Real Estate	0.0	+0.0		0.0	2.0	+0.0		2.0	2.0	+0.0		2.0	3.0	+0.0		3.0	5.0	+0.0		5.0

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Non-taxable investor

sustainable investment

Directional change	Investor risk profile	Conservative				Moderately conservative				Moderate				Moderately aggressive				Aggressive			
	All figures in %	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]
	Cash	**5.0**	**–1.0**		**4.0**	**5.0**	**–1.5**		**3.5**	**5.0**	**–2.0**		**3.0**	**5.0**	**–2.0**		**3.0**	**5.0**	**–2.0**		**3.0**
	Fixed Income	**79.0**	**+0.0**		**79.0**	**57.0**	**+0.0**		**57.0**	**41.0**	**+0.0**		**41.0**	**22.0**	**+0.0**		**22.0**	**10.0**	**+0.0**		**10.0**
	MDB Bonds	40.0	+0.0		40.0	21.0	+0.0		21.0	13.0	+0.0		13.0	8.0	+0.0		8.0	5.0	+0.0		5.0
	Sustainable munis	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
	Green bonds	14.0	+1.5		15.5	13.0	+2.5		15.5	10.0	+3.0		13.0	6.0	+3.0		9.0	0.0	+3.0		3.0
	ESG corporate bonds	25.0	–1.5		23.5	23.0	–2.5		20.5	18.0	–3.0		15.0	8.0	–3.0		5.0	5.0	–3.0		2.0
	Equity	**16.0**	**+1.0**		**17.0**	**38.0**	**+1.5**		**39.5**	**54.0**	**+2.0**		**56.0**	**73.0**	**+2.0**		**75.0**	**85.0**	**+2.0**		**87.0**
	ESG thematic equities	6.0	+0.0		6.0	12.0	+0.0		12.0	18.0	+0.0		18.0	23.0	+0.0		23.0	24.0	+0.0		24.0
	ESG leaders equities (US)	5.0	+0.0		5.0	8.0	+0.0		8.0	11.0	+0.0		11.0	15.0	+0.0		15.0	19.0	+0.0		19.0
	ESG leaders equities (ex-US)	5.0	+1.0		6.0	6.0	+1.5		7.5	9.0	+2.0		11.0	14.0	+2.0		16.0	17.0	+2.0		19.0
	ESG improvers equities	0.0	+0.0		0.0	4.0	+0.0		4.0	6.0	+0.0		6.0	8.0	+0.0		8.0	9.0	+0.0		9.0
	ESG engagement equities	0.0	+0.0		0.0	8.0	+0.0		8.0	10.0	+0.0		10.0	13.0	+0.0		13.0	16.0	+0.0		16.0

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For more information on the sustainable investment asset allocation tables, read the CIO publication: *Sustainable Investing Portfolios: Investing for returns and for good*, or the Wealth Management US Asset Allocation Committee report: *Introducing the House View Sustainable Investing Strategic Asset Allocations*.

All equity and all fixed income models

All figures in %	All equity				All fixed income, taxable				All fixed income, non-taxable			
	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]
Cash	**5.0**	**–2.0**		**3.0**	**5.0**	**–3.0**		**2.0**	**5.0**	**–3.0**		**2.0**
Fixed Income	**0.0**	**+0.0**		**0.0**	**95.0**	**+3.0**		**98.0**	**95.0**	**+3.0**		**98.0**
US Fixed Income	**0.0**	**+0.0**		**0.0**	**92.5**	**+3.0**		**95.5**	**89.0**	**+3.0**		**92.0**
US Gov't FI	0.0	+0.0		0.0	19.0	–1.0		18.0	33.0	–1.0		32.0
US MBS	0.0	+0.0		0.0	0.0	+0.0		0.0	9.0	+0.0		9.0
US Treasuries (long)	0.0	+0.0		0.0	0.0	+4.0		4.0	0.0	+4.0		4.0
US Municipal FI	0.0	+0.0		0.0	71.0	+0.0		71.0	0.0	+0.0		0.0
US IG Corp FI	0.0	+0.0		0.0	0.0	+0.0		0.0	41.0	+0.0		41.0
US HY Corp FI	0.0	+0.0		0.0	2.5	+0.0		2.5	6.0	+0.0		6.0
Int'l Fixed Income	**0.0**	**+0.0**		**0.0**	**2.5**	**+0.0**		**2.5**	**6.0**	**+0.0**		**6.0**
Int'l Developed FI	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
EM FI[3]	0.0	+0.0		0.0	2.5	+0.0		2.5	6.0	+0.0		6.0
EM FI - Hard Currency	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Equity	**95.0**	**+2.0**		**97.0**	**0.0**	**+0.0**		**0.0**	**0.0**	**+0.0**		**0.0**
US Equity	**53.0**	**+0.0**		**53.0**	**0.0**	**+0.0**		**0.0**	**0.0**	**+0.0**		**0.0**
US All cap	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Large cap Growth	7.0	+0.0		7.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Large cap Value	7.0	+0.0		7.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Large-cap total market	23.0	+0.0		23.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Mid cap	10.0	+0.0		10.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Small cap	6.0	+0.0		6.0	0.0	+0.0		0.0	0.0	+0.0		0.0
International Equity	**42.0**	**+2.0**		**44.0**	**0.0**	**+0.0**		**0.0**	**0.0**	**+0.0**		**0.0**
Int'l Developed Markets	30.0	–2.0		28.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Japan	0.0	+3.0		3.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Emerging Markets	12.0	–2.0		10.0	0.0	+0.0		0.0	0.0	+0.0		0.0
China	0.0	+3.0		3.0	0.0	+0.0		0.0	0.0	+0.0		0.0

CIO GWM tactical deviation legend: Overweight Underweight Neutral. Change legend: ▲ Upgrade ▼ Downgrade for moderate risk profile

[1] Change is the difference in the tactical deviation column since our previous report: *UBS House View update: US-China dispute: Taking action to manage risk, published on 9 May 2019*.

[2] The current allocation column is the sum of the strategic asset allocation and the tactical deviation columns.

[3] EM FI is a blend of 50% local currency, 50% hard currency.

Source: UBS and WMA AAC, 23 May 2019. See the Performance Measurement and Appendix sections of the *UBS House View Investment Strategy Guide* for performance measurement details and information regarding sources of strategic asset allocations and their suitability, investor risk profiles, and the interpretation of the suggested tactical deviations from the strategic asset allocations.

Publication note

The All Equity and All Fixed Income portfolios complement our balanced portfolios and offer more granular implementation of our House View. While we generally do not recommend that investors hold portfolios consisting of only stocks or only bonds, the All Equity and All Fixed Income portfolios can be used by investors who want to complement their existing holdings.

In the All Equity portfolio, tactical tilts will be based on the corresponding tilts to the Equity asset classes in our balanced portfolio (moderate risk profile, taxable without alternative investments). The amount of cash in the All Equity portfolio will vary one-for-one with the overall overweight/underweight on equities in the balanced portfolio, subject to a 3% maximum tilt from the 5% cash allocation. This allows us to use the cash allocation to express a tactical preference between stocks and fixed income. A special feature of the All Equity portfolio is that it includes "carveouts": 3% allocations to our preferred sectors within US large-caps as well as our preferred countries within both international developed markets and the emerging markets. A maximum of two sectors/countries of each type may be selected for carve-outs.

The All Fixed Income portfolios include both taxable and non-taxable versions. In addition to the fixed income asset classes in the balanced portfolios, the non-taxable version incorporates an additional allocation to Mortgage Backed Securities. Tactical tilts will be based on the corresponding tilts to the Fixed Income asset classes in our balanced portfolios (moderate risk profile without alternative investments, taxable or non-taxable respectively), but only when there is a preference between the fixed income asset classes. For example, an overweight on high yield corporate bonds offset by an underweight on government bonds in the balanced portfolio would be applied to the All Fixed Income portfolios. However, an overweight on US equities versus US government bonds in the balanced portfolio would not be reflected in the All Fixed Income portfolios. Further, the tilts in the All Fixed Income portfolios will typically be scaled up to twice the size of the tilts in the balanced portfolio.

All equity and all income, yield-focused

All figures in %	All equity				All income, taxable				All income, non-taxable			
	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]
Cash	**3.0**	**–1.0**		**2.0**	**3.0**	**–1.0**		**2.0**	**3.0**	**–1.0**		**2.0**
Fixed Income	**0.0**	**+0.0**		**0.0**	**77.0**	**+1.0**		**78.0**	**77.0**	**+1.0**		**78.0**
US Fixed Income	**0.0**	**+0.0**		**0.0**	**58.0**	**+1.0**		**59.0**	**58.0**	**+1.0**		**59.0**
US Gov't FI	0.0	+0.0		0.0	13.0	–3.0		10.0	18.0	–3.0		15.0
US MBS	0.0	+0.0		0.0	0.0	+0.0		0.0	5.0	+0.0		5.0
US Treasuries (long)	0.0	+0.0		0.0	0.0	+4.0		4.0	0.0	+4.0		4.0
US Municipal FI	0.0	+0.0		0.0	30.0	+0.0		30.0	0.0	+0.0		0.0
US IG Corp FI	0.0	+0.0		0.0	0.0	+0.0		0.0	20.0	+0.0		20.0
US HY Corp FI	0.0	+0.0		0.0	15.0	+0.0		15.0	15.0	+0.0		15.0
Int'l Fixed Income	**0.0**	**+0.0**		**0.0**	**19.0**	**+0.0**		**19.0**	**19.0**	**+0.0**		**19.0**
EM FI - Local Currency	0.0	+0.0		0.0	10.0	+0.0		10.0	11.0	+0.0		11.0
EM FI - Hard Currency	0.0	+0.0		0.0	9.0	+0.0		9.0	8.0	+0.0		8.0
Equity	**77.0**	**+1.0**		**78.0**	**0.0**	**+0.0**		**0.0**	**0.0**	**+0.0**		**0.0**
US Equity	**39.0**	**+0.0**		**39.0**	**0.0**	**+0.0**		**0.0**	**0.0**	**+0.0**		**0.0**
US All cap	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Large cap Growth	7.0	+0.0		7.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Large cap Value	32.0	+0.0		32.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Large-cap total market	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
International Equity	**38.0**	**+1.0**		**39.0**	**0.0**	**+0.0**		**0.0**	**0.0**	**+0.0**		**0.0**
Int'l Developed Value	28.0	–3.0		25.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Japan	0.0	+3.0		3.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Emerging Markets	10.0	–2.0		8.0	0.0	+0.0		0.0	0.0	+0.0		0.0
China	0.0	+3.0		3.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Yield Assets	**20.0**	**+0.0**		**20.0**	**20.0**	**+0.0**		**20.0**	**20.0**	**+0.0**		**20.0**
Senior Loans	0.0	+0.0		0.0	15.0	+0.0		15.0	15.0	+0.0		15.0
Preferreds	0.0	+0.0		0.0	5.0	+0.0		5.0	5.0	+0.0		5.0
MLPs	16.0	+0.0		16.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Real Estate	4.0	+0.0		4.0	0.0	+0.0		0.0	0.0	+0.0		0.0

CIO GWM tactical deviation legend: Overweight Underweight Neutral. Change legend: ▲ Upgrade ▼ Downgrade for moderate risk profile

[1] Change is the difference in the tactical deviation column since our previous report: *UBS House View update: US-China dispute: Taking action to manage risk, published on 9 May 2019.*

[2] The current allocation column is the sum of the strategic asset allocation and the tactical deviation columns.

Source: UBS and WMA AAC, 23 May 2019. See the Performance Measurement and Appendix sections of the *UBS House View Investment Strategy Guide* for performance measurement details and information regarding sources of strategic asset allocations and their suitability, investor risk profiles, and the interpretation of the suggested tactical deviations from the strategic asset allocations.

Publication note

The All Equity and All Income portfolios complement our balanced portfolios and offer more granular implementation of our House View yield-focused portfolios. While we generally do not recommend that investors hold portfolios consisting of only stocks or only bonds, the All Equity and All Income portfolios can be used by investors who want to complement their existing holdings.

In the All Equity portfolio, tactical tilts will be based on the corresponding tilts to the Equity asset classes in our balanced portfolio (moderate risk profile, taxable yield-focused). The amount of cash in the All Equity portfolio will vary one-for-one with the overall overweight/underweight on equities in the balanced portfolio, subject to a 1% maximum tilt from the 3% cash allocation. This allows us to use the cash allocation to express a tactical preference between stocks and fixed income. A special feature of the All Equity portfolio is that it includes "carveouts": 3% allocations to our preferred sectors within US large-caps as well as our preferred countries within both international developed markets and the emerging markets. A maximum of two sectors/countries of each type may be selected for carve-outs.

The All Income portfolios include both taxable and non-taxable versions. In addition to the fixed income asset classes in the balanced portfolios, the non-taxable version incorporates an additional allocation to Mortgage Backed Securities. Tactical tilts will be based on the corresponding tilts to the Fixed Income asset classes in our balanced portfolios (moderate risk profile yield-focused, taxable or non-taxable respectively), but only when there is a preference between the fixed income asset classes. For example, an overweight on high yield corporate bonds offset by an underweight on government bonds in the balanced portfolio would be applied to the All Income portfolios. However, an overweight on US equities versus US government bonds in the balanced portfolio would not be reflected in the All Income portfolios. Further, the tilts in the All Income portfolios will typically be scaled up to twice the size of the tilts in the balanced portfolio.

All equity and all income, sustainable investing

All figures in %	All equity				All fixed income, taxable				All income, non-taxable			
	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]
Cash	**5.0**	**–2.0**		**3.0**	**5.0**	**+0.0**		**5.0**	**5.0**	**+0.0**		**5.0**
Fixed Income	**0.0**	**+0.0**		**0.0**	**95.0**	**+0.0**		**95.0**	**95.0**	**+0.0**		**95.0**
MDB Bonds	0.0	+0.0		0.0	30.0	+0.0		30.0	25.0	+0.0		25.0
Sustainable munis	0.0	+0.0		0.0	0.0	+0.0		0.0	45.0	+0.0		45.0
Green bonds	0.0	+0.0		0.0	25.0	+3.0		28.0	10.0	+3.0		13.0
ESG corporate bonds	0.0	+0.0		0.0	40.0	–3.0		37.0	15.0	–3.0		12.0
Equity	**95.0**	**+2.0**		**97.0**	**0.0**	**+0.0**		**0.0**	**0.0**	**+0.0**		**0.0**
ESG thematic equities	28.0	+0.0		28.0	0.0	+0.0		0.0	0.0	+0.0		0.0
ESG leaders equities (US)	20.0	+0.0		20.0	0.0	+0.0		0.0	0.0	+0.0		0.0
ESG leaders equities (ex-US)	18.0	+2.0		20.0	0.0	+0.0		0.0	0.0	+0.0		0.0
ESG improvers equities	9.0	+0.0		9.0	0.0	+0.0		0.0	0.0	+0.0		0.0
ESG engagement equities	20.0	+0.0		20.0	0.0	+0.0		0.0	0.0	+0.0		0.0

CIO GWM tactical deviation legend: Overweight Underweight Neutral. Change legend: ▲ Upgrade ▼ Downgrade for moderate risk profile

[1] Change is the difference in the tactical deviation column since our previous report: *UBS House View update: US-China dispute: Taking action to manage risk, published on 9 May 2019*.

[2] The current allocation column is the sum of the strategic asset allocation and the tactical deviation columns.

Source: UBS and WMA AAC, 23 May 2019. See the Performance Measurement and Appendix sections of the *UBS House View Investment Strategy Guide* for performance measurement details and information regarding sources of strategic asset allocations and their suitability, investor risk profiles, and the interpretation of the suggested tactical deviations from the strategic asset allocations.

For more information on the sustainable investment asset allocation tables, read the CIO publication: *Sustainable Investing Portfolios: Investing for returns and for good*, or the Wealth Management US Asset Allocation Committee report: *Introducing the House View Sustainable Investing Strategic Asset Allocations*.

Publication note

The All Equity and All Fixed Income portfolios complement our balanced portfolios and offer more granular implementation of our House View. While we generally do not recommend that investors hold portfolios consisting of only stocks or only bonds, the All Equity and All Fixed Income portfolios can be used by investors who want to complement their existing holdings.

In the All Equity portfolio, tactical tilts will be based on the corresponding tilts to the Equity asset classes in our balanced portfolio (moderate risk profile, taxable without alternative investments). The amount of cash in the All Equity portfolio will vary one-for-one with the overall overweight/ underweight on equities in the balanced portfolio, subject to a 3% maximum tilt from the 5% cash allocation. This allows us to use the cash allocation to express a tactical preference between stocks and fixed income.

The All Fixed Income portfolios include both taxable and non-taxable versions. Tactical tilts will be based on the corresponding tilts to the Fixed Income asset classes in our balanced portfolios (moderate risk profile without alternative investments, taxable or non-taxable respectively), but only when there is a preference between the fixed income asset classes. For example, an overweight on high yield corporate bonds offset by an underweight on government bonds in the balanced portfolio would be applied to the All Fixed Income portfolios. However, an overweight on US equities versus US government bonds in the balanced portfolio would not be reflected in the All Fixed Income portfolios. Further, the tilts in the All Fixed Income portfolios will typically be scaled up to twice the size of the tilts in the balanced portfolio.

Taxable ultra-high net worth investor

with non-traditional assets

Investor risk profile	Conservative				Moderately conservative				Moderate				Moderately aggressive				Aggressive			
Directional change / All figures in %	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]
Cash	**3.0**	**–1.0**		**2.0**	**3.0**	**–1.5**		**1.5**	**3.0**	**–2.0**		**1.0**	**3.0**	**–2.0**		**1.0**	**3.0**	**–2.0**		**1.0**
Fixed Income	**56.0**	**+0.0**		**56.0**	**47.0**	**+0.0**		**47.0**	**30.0**	**+0.0**		**30.0**	**19.0**	**+0.0**		**19.0**	**5.0**	**+0.0**		**5.0**
US Fixed Income	**54.0**	**+0.0**		**54.0**	**45.0**	**+0.0**		**45.0**	**28.0**	**+0.0**		**28.0**	**17.0**	**+0.0**		**17.0**	**5.0**	**+0.0**		**5.0**
US Gov't FI	2.0	–1.0		1.0	2.0	–1.5		0.5	2.0	–2.0		0.0	2.0	–2.0		0.0	0.0	+0.0		0.0
US Treasuries (long)	0.0	+1.0		1.0	0.0	+1.5		1.5	0.0	+2.0		2.0	0.0	+2.0		2.0	0.0	+2.0		2.0
US Municipal FI	48.0	+0.0		48.0	39.0	+0.0		39.0	24.0	+0.0		24.0	13.0	+0.0		13.0	5.0	–2.0		3.0
US IG Corp FI	4.0	+0.0		4.0	2.0	+0.0		2.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US HY Corp FI	0.0	+0.0		0.0	2.0	+0.0		2.0	2.0	+0.0		2.0	2.0	+0.0		2.0	0.0	+0.0		0.0
Int'l Fixed Income	**2.0**	**+0.0**		**2.0**	**2.0**	**+0.0**		**2.0**	**2.0**	**+0.0**		**2.0**	**2.0**	**+0.0**		**2.0**	**0.0**	**+0.0**		**0.0**
Int'l Developed FI	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
EM FI[3]	2.0	+0.0		2.0	2.0	+0.0		2.0	2.0	+0.0		2.0	2.0	+0.0		2.0	0.0	+0.0		0.0
EM FI - Hard Currency	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Equity	**16.0**	**+1.0**		**17.0**	**25.0**	**+1.5**		**26.5**	**37.0**	**+2.0**		**39.0**	**48.0**	**+2.0**		**50.0**	**62.0**	**+2.0**		**64.0**
US Equity	**10.0**	**+0.0**		**10.0**	**14.0**	**+0.0**		**14.0**	**20.0**	**+0.0**		**20.0**	**27.0**	**+0.0**		**27.0**	**35.0**	**+0.0**		**35.0**
US All cap	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Large cap Growth	3.5	+0.0		3.5	5.0	+0.0		5.0	7.0	+0.0		7.0	9.5	+0.0		9.5	12.0	+0.0		12.0
US Large cap Value	3.5	+0.0		3.5	5.0	+0.0		5.0	7.0	+0.0		7.0	9.5	+0.0		9.5	12.0	+0.0		12.0
US Mid cap	2.0	+0.0		2.0	2.0	+0.0		2.0	4.0	+0.0		4.0	5.0	+0.0		5.0	7.0	+0.0		7.0
US Small cap	1.0	+0.0		1.0	2.0	+0.0		2.0	2.0	+0.0		2.0	3.0	+0.0		3.0	4.0	+0.0		4.0
International Equity	**6.0**	**+1.0**		**7.0**	**11.0**	**+1.5**		**12.5**	**17.0**	**+2.0**		**19.0**	**21.0**	**+2.0**		**23.0**	**27.0**	**+2.0**		**29.0**
Int'l Developed Markets	6.0	+0.0		6.0	8.0	+0.0		8.0	12.0	+0.0		12.0	15.0	+0.0		15.0	19.0	+0.0		19.0
Japan	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0
Emerging Markets	0.0	+0.0		0.0	3.0	+0.5		3.5	5.0	+1.0		6.0	6.0	+1.0		7.0	8.0	+1.0		9.0
Non-traditional	**25.0**	**+0.0**		**25.0**	**25.0**	**+0.0**		**25.0**	**30.0**	**+0.0**		**30.0**	**30.0**	**+0.0**		**30.0**	**30.0**	**+0.0**		**30.0**
Hedge Funds	10.0	+0.0		10.0	10.0	+0.0		10.0	10.0	+0.0		10.0	5.0	+0.0		5.0	0.0	+0.0		0.0
Private Equity	10.0	+0.0		10.0	10.0	+0.0		10.0	15.0	+0.0		15.0	20.0	+0.0		20.0	25.0	+0.0		25.0
Private Real Estate	5.0	+0.0		5.0	5.0	+0.0		5.0	5.0	+0.0		5.0	5.0	+0.0		5.0	5.0	+0.0		5.0

CIO GWM tactical deviation legend: Overweight Underweight Neutral. Change legend: ▲ Upgrade ▼ Downgrade for moderate risk profile

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[2] The current allocation column is the sum of the strategic asset allocation and the tactical deviation columns.

[3] EM FI is a blend of 50% local currency, 50% hard currency.

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Tax-exempt institutional investor

with non-traditional assets

Directional change	Investor risk profile	Conservative				Moderately conservative				Moderate				Moderately aggressive				Aggressive			
	All figures in %	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]	Strategic asset allocation	Tactical deviation	Change[1]	Current allocation[2]
	Cash	**3.0**	**–1.0**		**2.0**	**3.0**	**–1.5**		**1.5**	**3.0**	**–2.0**		**1.0**	**3.0**	**–2.0**		**1.0**	**3.0**	**–2.0**		**1.0**
	Fixed Income	**55.0**	**+0.0**		**55.0**	**41.0**	**+0.0**		**41.0**	**29.0**	**+0.0**		**29.0**	**16.0**	**+0.0**		**16.0**	**9.0**	**+0.0**		**9.0**
	US Fixed Income	**50.0**	**+0.0**		**50.0**	**39.0**	**+0.0**		**39.0**	**27.0**	**+0.0**		**27.0**	**14.0**	**+0.0**		**14.0**	**9.0**	**+0.0**		**9.0**
	US Gov't FI	36.0	–1.0		35.0	28.0	–1.5		26.5	18.0	–2.0		16.0	11.0	–2.0		9.0	9.0	–2.0		7.0
	US Treasuries (long)	0.0	+1.0		1.0	0.0	+1.5		1.5	0.0	+2.0		2.0	0.0	+2.0		2.0	0.0	+2.0		2.0
	US Municipal FI	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
	US IG Corp FI	9.0	+0.0		9.0	7.0	+0.0		7.0	6.0	+0.0		6.0	0.0	+0.0		0.0	0.0	+0.0		0.0
	US HY Corp FI	5.0	+0.0		5.0	4.0	+0.0		4.0	3.0	+0.0		3.0	3.0	+0.0		3.0	0.0	+0.0		0.0
	Int'l Fixed Income	**5.0**	**+0.0**		**5.0**	**2.0**	**+0.0**		**2.0**	**2.0**	**+0.0**		**2.0**	**2.0**	**+0.0**		**2.0**	**0.0**	**+0.0**		**0.0**
	Int'l Developed FI	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
	EM FI[3]	5.0	+0.0		5.0	2.0	+0.0		2.0	2.0	+0.0		2.0	2.0	+0.0		2.0	0.0	+0.0		0.0
	EM FI - Hard Currency	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
	Equity	**12.0**	**+1.0**		**13.0**	**26.0**	**+1.5**		**27.5**	**38.0**	**+2.0**		**40.0**	**51.0**	**+2.0**		**53.0**	**58.0**	**+2.0**		**60.0**
	US Equity	**8.0**	**+0.0**		**8.0**	**13.0**	**+0.0**		**13.0**	**19.0**	**+0.0**		**19.0**	**25.0**	**+0.0**		**25.0**	**28.0**	**+0.0**		**28.0**
	US All cap	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
	US Large cap Growth	3.0	+0.0		3.0	4.5	+0.0		4.5	6.5	+0.0		6.5	8.5	+0.0		8.5	9.5	+0.0		9.5
	US Large cap Value	3.0	+0.0		3.0	4.5	+0.0		4.5	6.5	+0.0		6.5	8.5	+0.0		8.5	9.5	+0.0		9.5
	US Mid cap	2.0	+0.0		2.0	3.0	+0.0		3.0	4.0	+0.0		4.0	5.0	+0.0		5.0	6.0	+0.0		6.0
	US Small cap	0.0	+0.0		0.0	1.0	+0.0		1.0	2.0	+0.0		2.0	3.0	+0.0		3.0	3.0	+0.0		3.0
	International Equity	**4.0**	**+1.0**		**5.0**	**13.0**	**+1.5**		**14.5**	**19.0**	**+2.0**		**21.0**	**26.0**	**+2.0**		**28.0**	**30.0**	**+2.0**		**32.0**
	Int'l Developed Markets	4.0	+0.0		4.0	9.0	+0.0		9.0	13.0	+0.0		13.0	18.0	+0.0		18.0	21.0	+0.0		21.0
	Japan	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0	0.0	+1.0		1.0
	Emerging Markets	0.0	+0.0		0.0	4.0	+0.5		4.5	6.0	+1.0		7.0	8.0	+1.0		9.0	9.0	+1.0		10.0
	Non-traditional	**30.0**	**+0.0**		**30.0**	**30.0**	**+0.0**		**30.0**	**30.0**	**+0.0**		**30.0**	**30.0**	**+0.0**		**30.0**	**30.0**	**+0.0**		**30.0**
	Hedge Funds	13.0	+0.0		13.0	13.0	+0.0		13.0	13.0	+0.0		13.0	10.0	+0.0		10.0	0.0	+0.0		0.0
	Private Equity	10.0	+0.0		10.0	11.0	+0.0		11.0	12.0	+0.0		12.0	15.0	+0.0		15.0	25.0	+0.0		25.0
	Private Real Estate	7.0	+0.0		7.0	6.0	+0.0		6.0	5.0	+0.0		5.0	5.0	+0.0		5.0	5.0	+0.0		5.0

CIO GWM tactical deviation legend: Overweight Underweight Neutral. Change legend: ▲ Upgrade ▼ Downgrade for moderate risk profile

[1] Change is the difference in the tactical deviation column since our previous report: *UBS House View update: US-China dispute: Taking action to manage risk, published on 9 May 2019*.

[2] The current allocation column is the sum of the strategic asset allocation and the tactical deviation columns.

[3] EM FI is a blend of 50% local currency, 50% hard currency.

Source: UBS and WMA AAC, 23 May 2019. See the Performance Measurement and Appendix sections of the *UBS House View Investment Strategy Guide* for performance measurement details and information regarding sources of strategic asset allocations and their suitability, investor risk profiles, and the interpretation of the suggested tactical deviations from the strategic asset allocations.

Portfolio analytics

The portfolio analytics shown for each risk profile's benchmark allocations are based on estimated forward-looking return and standard deviation assumptions (capital market assumptions), which are based on UBS proprietary research. The development process includes a review of a variety of factors, including the return, risk, correlations and historical performance of various asset classes, inflation, and risk premium. These capital market assumptions do not assume any particular investment time horizon. Please note that these assumptions are not guarantees and are subject to change. UBS has changed its risk and return assumptions in the past and may do so in the future. Neither UBS nor your Financial Advisor is required to provide you with an updated analysis based upon changes to these or other underlying assumptions.

In order to create the analysis shown, the rates of return for each asset class are combined in the same proportion as the asset allocations illustrated (e.g., if the asset allocation indicates 40% equities, then 40% of the results shown for the allocation will be based upon the estimated hypothetical return and standard deviation assumptions shown below).

You should understand that the analysis shown and assumptions used are hypothetical estimates provided for your general information. The results are not guarantees and pertain to the asset allocation and/or asset class in general, not the performance of specific securities or investments. Your actual results may vary significantly from the results shown in this report, as can the performance of any individual security or investment.

Risk Profile	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	All-Equity	All-Fixed Income / All-Income
Taxable with non-traditional assets							
Estimated Return	3.7%	4.4%	5.1%	5.8%	6.3%	N/A	N/A
Estimated Risk	3.5%	5.7%	8.2%	11.0%	13.5%	N/A	N/A
Taxable without non-traditional assets							
Estimated Return	3.4%	4.0%	4.8%	5.5%	6.2%	6.6%	2.8%
Estimated Risk	3.5%	5.7%	8.1%	11.0%	13.3%	14.9%	2.6%
Taxable yield-focused							
Estimated Return	4.3%	5.0%	5.6%	6.2%	6.8%	7.1%	4.1%
Estimated Risk	4.3%	6.3%	8.4%	10.4%	12.3%	14.0%	4.1%
Taxable sustainable investing							
Estimated Return	3.8%	4.5%	5.0%	5.6%	5.9%	6.2%	3.5%
Estimated Risk	4.1%	6.4%	8.4%	11.0%	12.8%	14.2%	4.2%
Non-taxable with non-traditional assets							
Estimated Return	4.2%	4.8%	5.4%	5.9%	6.4%	N/A	N/A
Estimated Risk	4.2%	6.0%	8.3%	11.0%	13.5%	N/A	N/A
Non-taxable without non-traditional assets							
Estimated Return	4.1%	4.7%	5.3%	5.9%	6.3%	6.6%	3.7%
Estimated Risk	4.7%	6.5%	8.7%	11.4%	13.3%	14.9%	4.1%
Non-taxable yield-focused							
Estimated Return	3.9%	5.2%	5.8%	6.3%	6.9%	7.1%	4.4%
Estimated Risk	4.0%	6.5%	8.5%	10.5%	12.3%	14.0%	4.3%
Non-taxable sustainable investing							
Estimated Return	4.0%	4.6%	5.1%	5.6%	6.0%	6.2%	3.3%
Estimated Risk	4.4%	6.5%	8.5%	11.1%	12.8%	14.2%	3.7%
Ultra High Net Worth (taxable)							
Estimated Return	4.4%	4.8%	5.6%	6.2%	6.9%	N/A	N/A
Estimated Risk	4.9%	6.3%	8.6%	10.5%	12.7%	N/A	N/A
Institutional (non-taxable)							
Estimated Return	4.8%	5.3%	5.8%	6.4%	6.9%	N/A	N/A
Estimated Risk	5.1%	6.9%	8.6%	10.7%	12.1%	N/A	N/A

Asset Class Capital Market Assumptions	Annual total return	Annual risk
US Cash	3.0%	0.2%
US Government Fixed Income	3.1%	4.0%
US Municipal Fixed Income	2.6%	2.8%
US Corporate Investment-Grade Fixed Income	3.9%	5.6%
US Corporate High-Yield Fixed Income	5.1%	9.1%
International Developed Markets Fixed Income	3.3%	8.1%
Emerging Markets Fixed Income	5.2%	9.1%
US Large-cap Equity	5.7%	15.8%
US Mid-cap Equity	6.1%	18.2%
US Small-cap Equity	6.3%	20.3%
International Developed Markets Equity	7.6%	16.3%
Emerging Markets Equity	8.9%	21.8%
Hedge Funds	5.4%	6.2%
Private Equity	8.7%	12.9%
Private Real Estate	6.0%	11.6%

Additional asset allocation models

US equity sector allocation, in %

	S&P 500 Benchmark allocation[1]	CIO GWM tactical deviation[2]				Current allocation[3]
		Numeric		Symbol		
		Previous	Current	Previous	Current	
Communication Services	10.4	+0.0	+1.0	n	+	11.4
Consumer Discretionary	10.2	+0.0	+0.0	n	n	10.2
Consumer Staples	7.4	+0.0	+0.0	n	n	7.4
Energy	5.2	+0.0	+0.0	n	n	5.2
Financials	13.2	+1.0	+1.0	+	+	14.2
Health Care	14.0	+0.0	+0.0	n	n	14.0
Industrials	9.4	–1.0	–1.0	–	–	8.4
Information Technology	21.2	+1.0	+0.0	+	n	21.2
Materials	2.6	+0.0	+0.0	n	n	2.6
Real Estate	3.1	+0.0	+0.0	n	n	3.1
Utilities	3.3	–1.0	–1.0	–	–	2.3

Source: UBS, as of 23 May 2019.

For US equity sub-sector recommendations please see the "Equity Preference List" for each sector. These reports are published on a monthly basis and can be found on the Online Services website in the Research > Equities section.
The benchmark allocation, as well as the tactical deviations, are intended to be applicable to the US equity portion of a portfolio across investor risk profiles.

1 The benchmark allocation is based on S&P 500 weights.
2 See "Deviations from strategic asset allocation " in the Appendix of UBS House View for an explanation regarding the interpretation of the suggested tactical deviations from benchmark. The "current" column refers to the tactical deviation that applies as of the date of this publication. The "previous" column refers to the tactical deviation that was in place at the date of the previous edition of the previous edition of UBS House View or the last UBS House View Update.
3 The current allocation column is the sum of the S&P 500 benchmark allocation and CIO GWM tactical deviation columns.

International developed markets (non-US) equity module, in %

	Benchmark allocation[1]	CIO GWM tactical deviation[2]		Current allocation[2]
		Previous	Current	
EMU / Eurozone	30.0	–10.0	–10.0	20.0
UK	14.0	–14.0	–14.0	0.0
Japan	22.0	+10.0	+10.0	32.0
Australia	6.0	+5.0	+5.0	11.0
Canada	9.0	+10.0	+10.0	19.0
Switzerland	9.0	–9.0	–9.0	0.0
Other	10.0	+8.0	+8.0	18.0

Source: UBS, as of 23 May 2019

International developed markets (non-US) fixed income module, in %

	Benchmark allocation[1]	CIO GWM tactical deviation[2]		Current allocation[2]
		Previous	Current	
EMU / Eurozone	38.0	+0.0	+0.0	38.0
UK	8.0	+0.0	+0.0	8.0
Japan	31.0	+0.0	+0.0	31.0
Other	23.0	+0.0	+0.0	23.0

Source: UBS, as of 23 May 2019

1 For the first table on this page, the benchmark allocation is based on S&P 500 weights. For the second and third tables on this page, the benchmark allocation refers to a moderate risk profile and represents the relative market capitalization weights of each country or region.
2 See "Deviations from strategic asset allocation or benchmark allocation" in the appendix for an explanation regarding the interpretation of the suggested tactical deviations from benchmark. The "current" column refers to the tactical deviation that applies as of the date of this publication. The "previous" column refers to the tactical deviation that was in place at the date of the previous edition of UBS House View or the last UBS House View Update.
3 The current allocation column is the sum of the CIO GWM tactical deviation columns and (the S&P 500 benchmark allocation for the first table on this page) (the benchmark allocation for the second and third tables on this page).

Tactical asset allocation performance measurement

The performance calculations shown in Table A commence on 25 January 2013, the first date upon which the Investment Strategy Guide was published following the release of the new UBS WMA strategic asset allocation (SAA) models. The performance is based on the SAA without non-traditional assets for a moderate risk profile investor, and the SAA with the tactical shift (see detailed asset allocation tables where the SAA with the tactical shift is referred to as "current allocation"). Performance is calculated utilizing the returns of the indices identified in Table B as applied to the respective allocations in the SAA and the SAA with the tactical shift. For example, if US mid-cap equity is allocated 10% in the SAA and 12% in the SAA with the tactical shift, the US mid-cap equity index respectively contributed to 10% and 12% of the results shown. Prior to 25 January 2013, CIO Wealth Management published tactical asset allocation recommendations in the *Investment Strategy Guide* using a different set of asset classes and sectors. The performance of these tactical recommendations is reflected in Table C of the February 2017 House View *Investment Strategy Guide*.

The performance attributable to the CIO GWM tactical deviations is reflected in the column in Table A labeled "Excess return," which shows the difference between the performance of the SAA and the performance of the SAA with the tactical shift. The "Information ratio" is a risk-adjusted performance measure, which adjusts the excess returns for the tracking error risk of the tactical deviations. Specifically the information ratio is calculated as the ratio of the annualized excess return over a given time period and the annualized standard deviation of daily excess returns over the same period. Additional background information regarding the computation of the information ratio figures provided below are available upon request.

The calculations assume that the portfolios are rebalanced upon publication of the models in the CIO Letter or House View Update. The computations assume portfolio rebalancing upon such intra-month changes as well. Performance shown is based on total returns, but does not include transaction costs, such as commissions, fees, margin interest, and interest charges. Actual total returns adjusted for such transaction costs will be reduced. A complete record of all the recommendations upon which this performance report is based is available from UBS Financial Services Inc. upon written request. Past performance is not an indication of future results.

Table A: Moderate-risk taxable investor performance measurement (25 January 2013 to present) – See NOTE next page

	SAA	SAA with tactical shift	Excess return	Information ratio (annualized)	MSCI ACWI Index (total return)	Barclays Capital US Aggregate bond index (total return)
25 January 2013 to 31 March 2013	0.79%	0.83%	0.04%	0.9	2.39%	0.11%
2Q 2013	–2.18%	–2.14%	0.04%	0.3	–0.42%	–2.33%
3Q 2013	3.60%	3.86%	0.26%	2.4	7.90%	0.57%
4Q 2013	3.05%	3.23%	0.18%	2.9	7.31%	–0.14%
1Q 2014	2.56%	2.53%	–0.03%	–0.2	1.08%	1.84%
2Q 2014	3.44%	3.49%	0.05%	0.3	5.04%	2.04%
3Q 2014	–1.54%	–1.71%	–0.16%	–1.2	–2.31%	0.17%
4Q 2014	0.47%	0.73%	0.26%	1.3	0.41%	1.79%
1Q 2015	1.38%	1.69%	0.31%	2.1	2.31%	1.61%
2Q 2015	–0.18%	–0.19%	–0.01%	–0.1	0.35%	–1.68%
3Q 2015	–4.67%	–5.08%	–0.41%	–2.4	–9.45%	1.23%
4Q 2015	1.61%	1.67%	0.06%	0.5	5.03%	–0.57%
1Q 2016	2.11%	1.72%	–0.39%	–3.7	0.24%	3.03%
2Q 2016	2.81%	2.88%	0.08%	1.1	0.99%	2.21%
3Q 2016	2.50%	2.60%	0.10%	1.5	5.30%	0.46%
4Q 2016	–1.33%	–1.13%	0.21%	3.4	1.19%	–2.98%
1Q 2017	3.93%	4.07%	0.14%	2.5	6.91%	0.82%
2Q 2017	3.01%	3.11%	0.10%	1.6	4.27%	1.45%
3Q 2017	3.07%	3.18%	0.11%	2.1	5.18%	0.85%
4Q 2017	3.14%	3.25%	0.12%	3.3	5.73%	0.39%
1Q 2018	–0.71%	–0.74%	–0.03%	–0.2	–0.96%	–1.46%
2Q 2018	0.68%	0.47%	–0.21%	–2.5	0.53%	–0.16%
3Q 2018	1.97%	2.03%	0.06%	1.5	4.28%	0.02%
4Q 2018	–5.98%	–6.27%	–0.29%	–3.1	–12.75%	1.64%
1Q 2019	7.49%	7.95%	0.46%	7.1	12.18%	2.94%
2019 year to date	8.10%	8.42%	0.33%	3.4	12.36%	3.40%
Since inception (25 January 2013)	35.52%	36.62%	1.10%	0.4	63.41%	15.00%

Source: UBS, as of 22 May 2019, Note: Performance after 27 February 2017 based on updated SAA weights as shown in Table B

Tactical asset allocation performance measurement

Table B: SAA for moderate risk profile investor, and underlying indices (all figures in %)

25 Jan 2013 to present	Previous SAA weights (25 Jan 2013 – 27 Feb 2017)	New SAA weights (27 Feb 2017 onward)
US Cash (Barclays Capital US Treasury – Bills [1–3 M])	0.0	5.0
US Large-Cap Growth (Russell 1000 Growth)	7.0	10.0
US Large-Cap Value (Russell 1000 Value)	7.0	10.0
US Mid-Cap (Russell Mid Cap)	6.0	5.0
US Small-Cap (Russell 2000)	3.0	3.0
International Dev. Equities (MSCI EAFE)	10.0	15.0
Emerging Markets Equities (MSCI EMF)	7.5	6.0
US Government Fixed Income (Bloomberg Barclays US Agg Government)	5.0	2.0
US Municipal Fixed Income (Bloomberg Barclays Municipal Bond)	35.0	40.0
US Investment-Grade Fixed Income (Bloomberg Barclays US Agg Credit)	3.0	0.0
US Corporate High-Yield Fixed Income (Bloomberg Barclays US Agg Corp HY)	4.0	2.0
International Dev. Fixed Income (Bloomberg Barclays Global Agg xUS)	4.0	0.0
Emerging Markets Fixed Income (50% Bloomberg Barclays EM Gov and 50% BarCap Global EM (USD))	3.5	2.0
Commodities (Dow Jones-UBS Commodity Index)	5.0	0.0

Additional indices
US Gov't 10 year (Bloomberg Barclays US Treasury Bellwethers 10 Year)
US Treasuries (long) (ICE U.S. Treasury 20+ Years Bond Index)
US TIPS (Bloomberg Barclays US Inflation Linked Bonds 1–10 Year)
US MBS (Bloomberg Barclays US MBS)
EM Local Currency FI (Bloomberg Barclays Emerging Markets Local Currency)
EM Hard Currency FI (Bloomberg Barclays EM Hard Currency Aggregate)
Global Equity (MSCI All Country World)
Int'l Developed Value (MSCI EAFE Value)
Senior Loans (S&P/LSTA U.S. Leveraged Loan 100)
Preferreds (BofA Merrill Lynch Fixed Rate Preferred Securities)
MLPs (Alerian MLP)
US Real Estate (FTSE NAREIT Equity REIT)
International Dev. Fixed Income (Bloomberg Barclays Global Agg xUS)
Emerging Markets Fixed Income (50% Bloomberg Barclays EM Gov and 50% Bloomberg Barclays Global EM (USD))
Commodities (Dow Jones-UBS Commodity Index)
ESG Thematic Equities (MSCI All Country World)
ESG Engagement Equities (MSCI All Country World)
ESG Improvers Equities (MSCI All Country World)
ESG Leaders Equities (US) (Russell 1000)
ESG Leaders Equities (ex-US) (MSCI All Country World ex USA)
MDB Bonds (Bloomberg Barclays US Agg Government)
Sustainable Municipal Fixed Income (Bloomberg Barclays Municipal Bond)
Green Bonds (80% Bloomberg Barclays US Agg Government and 20% Bloomberg Barclays US Agg Credit)
ESG Corporate Bonds (Bloomberg Barclays US Agg Credit)

Table A NOTE
Historical performance measurement

Prior to 25 January 2013, CIO GWM published tactical asset allocation recommendations in the *Investment Strategy Guide* using a different set of asset classes and sectors. The performance of these tactical recommendations is reflected in Table C of the February 2017 House View *Investment Strategy Guide*. You can obtain a copy of the February 2017 House View from Online Services, or from your UBSFS financial advisor.

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 (e.g., overweight, neutral, underweight stances for asset classes and market segments relative to their benchmark allocation) 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 nine members, representing top market and investment expertise from across all divisions of UBS:

- Mark Haefele (Chair)
- Jorge Mariscal
- Mike Ryan
- Simon Smiles
- Tan Min Lan
- Themis Themistocleous
- Paul Donovan
- Bruno Marxer (*)
- Andreas Koester

WMA Asset Allocation 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 Asset Allocation Committee (WMA AAC). WMA AAC is responsible for the development and monitoring of UBS WMA's strategic asset allocation models and capital market assumptions. The WMA AAC sets parameters for the CIO Americas, WM Investment Strategy Group to follow during the translation process of the GIC's House Views and the incorporation of US-specific asset class views into the US-specific tactical asset allocation models.

WMA Asset Allocation Committee composition
The WMA Asset Allocation Committee comprises nine members:

- Mike Ryan
- Michael Crook
- Brian Rose
- Jeremy Zirin
- Jason Draho
- Tom McLoughlin
- Leslie Falconio
- Laura Kane
- David Lefkowitz

(*) Business area (bc there only is one this time around) distinct from Chief Investment Office Americas, Wealth Management

Cautionary statement regarding forward-looking statements

This report contains statements that constitute "forward-looking statements," including but not limited to statements relating to the current and expected state of the securities market and capital market assumptions. While these forward-looking statements represent our judgments and future expectations concerning the matters discussed in this document, a number of risks, uncertainties, changes in the market, and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to (1) the extent and nature of future developments in the US market and in other market segments; (2) other market and macro-economic developments, including movements in local and international securities markets, credit spreads, currency exchange rates and interest rates, whether or not arising directly or indirectly from the current market crisis; (3) the impact of these developments on other markets and asset classes. UBS is not under any obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

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Explanations about asset classes

Sources of strategic asset allocations and investor risk profiles
Strategic asset allocations represent the longer-term allocation of assets that is deemed suitable for a particular investor. The strategic asset allocation models discussed in this publication, and the capital market assumptions used for the strategic asset allocations, were developed and approved by the WMA AAC.

The strategic asset allocations are provided for illustrative purposes only and were designed by the WMA AAC for hypothetical US investors with a total return objective under five different Investor Risk Profiles ranging from conservative to aggressive. In general, strategic asset allocations will differ among investors according to their individual circumstances, risk tolerance, return objectives and time horizon. Therefore, the strategic asset allocations 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 these weightings should be applied or modified according to your individual profile and investment goals.

The process by which the strategic asset allocations were derived is described in detail in the publication entitled "Strategic Asset Allocation (SAA) Methodology and Portfolios." Your Financial Advisor can provide you with a copy.

Deviations from strategic asset allocation or benchmark allocation
The recommended tactical deviations from the strategic asset allocation or benchmark allocation are provided by the Global Investment Committee and the Investment Strategy Group within CIO Americas, Wealth Management. They reflect the short- to medium-term assessment of market opportunities and risks in the respective asset classes and market segments. Positive/zero/negative tactical deviations correspond to an overweight/neutral/underweight stance for each respective asset class and market segment relative to their strategic allocation. The current allocation is the sum of the strategic asset allocation and the tactical deviation.

Note that the regional allocations on the Equities and Bonds pages in UBS House View are provided on an unhedged basis (i.e., it is assumed that investors carry the underlying currency risk of such investments) unless otherwise stated. Thus, the deviations from the strategic asset allocation reflect the views of the underlying equity and bond markets in combination with the assessment of the associated currencies. The detailed asset allocation tables integrate the country preferences within each asset class with the asset class preferences in UBS House View.

Asset allocation does not assure profits or prevent against losses from an investment portfolio or accounts in a declining market.

Scale for tactical deviation charts

Symbol	Description/Definition	Symbol	Description/Definition	Symbol	Description/Definition
+	moderate overweight vs. benchmark	–	moderate underweight vs. benchmark	n	neutral, i.e., on benchmark
++	overweight vs. benchmark	– –	underweight vs. benchmark	n/a	not applicable
+++	strong overweight vs. benchmark	– – –	strong underweight vs. benchmark		

Source: UBS

Statement of risk

Equities - Stock market returns are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions and other important variables.

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-U.S. tax consequences of owning any securities referenced in this report.

Preferred securities - Prospective investors should consult their tax advisors concerning the federal, state, local, and non-U.S. 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.

Municipal bonds - Although historical default rates are very low, all municipal bonds carry credit risk, with the degree of risk largely following the particular bond's sector. Additionally, all municipal bonds feature valuation, return, and liquidity risk. Valuation tends to follow internal and external factors, including the level of interest rates, bond ratings, supply factors, and media reporting. These can be difficult or impossible to project accurately. Also, most municipal bonds are callable and/or subject to earlier than expected redemption, which can reduce an investor's total return. Because of the large number of municipal issuers and credit structures, not all bonds can be easily or quickly sold on the open market.

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 socio-political 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: Understanding 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 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 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.

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