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News Release

UBS unveils Year Ahead outlook for 2019

Zurich, 06 December 2018 – Investors will need to weather more volatility in order to capture opportunities in 2019, according to the Year Ahead report from UBS, the world's leading wealth manager. Global economic growth will decelerate next year to 3.6% from 3.8% in 2018, and company earnings will grow at a slower rate. However, a 2019 recession still looks unlikely, and the price of many financial assets has already moved to reflect uncertain prospects.

UBS Global Wealth Management's Chief Investment Office (CIO) enters the year with an overweight position in global equities. However, as the market cycle matures, investors should diversify and hedge their portfolios to guard against volatility as well as political and other risks. They should also take advantage of growth in fields like sustainable and impact investing, and pockets of value where financial asset prices are excessively low.

Mark Haefele, Chief Investment Officer at UBS Global Wealth Management, says: "Investors should retain positions in global equities but plan for market volatility. A slight slowdown in economic and earnings growth doesn't mean no growth, and the recent sell-off has left a number of assets more attractively valued, but investors must also take into account the tense geopolitical environment as well as monetary policy tightening."

To read the Year Ahead in full, visit ubs.com/cio.

Clients' and professional investors' outlooks diverge

In its investment process, CIO seeks to test its ideas against professional investors' views. Surveys of professional investors and wealthy US-based individuals reveal divergent outlooks for the year ahead.

- Close to half of professional investors see the US lagging global markets next year, while two-thirds of individual investors surveyed expect US stocks to match or beat global equities.
- Nearly half of the professionals surveyed anticipate the US dollar declining versus the euro, compared with less than one-sixth of individual investors.
- The most popular asset class for professional investors entering the new year is emerging market equities. For individual investors the top pick is US stocks. Professional investors are nevertheless more optimistic than individual investors on how much upside remains in the US equity bull market.
- Few professionals regard US political risk as a bigger threat than US-China trade tensions and higher interest rates. Individual investors are more concerned about US political risks than professionals are.
- When asked when the next recession will start, the most common answer among professional investors is 2021. Half of the individual investors surveyed expect the next recession to start within two years.

Investment recommendations

CIO recommends that investors should retain an overweight position in global equities as we enter 2019. Nevertheless, they should also hedge against volatility by holding overweight positions in medium-duration US government bonds and the Japanese yen, as well as focusing on quality companies and avoiding excessive credit risk. They should also look to neglected areas of the market, including value stocks in the US and

emerging markets, energy equities globally, and shares of financial companies in the US and China. Sustainable and impact investing continues to provide longer-term growth opportunities, as do emerging market and Japanese stocks, and US dollar-denominated emerging market sovereign bonds.

Americas

The US Federal Reserve should approach the end of its tightening cycle in 2019, while the support from US fiscal stimulus should wane. In this context, the US's twin fiscal and current account deficits will likely weigh on the US dollar. Within Latin America, investors should keep an eye on Brazil, where the incoming administration has proposed a range of reforms that could improve the country's fiscal sustainability.

Europe, Middle East, and Africa (EMEA) & Switzerland

The European Central Bank should start to normalize interest rates in 2019, which would support the euro against the greenback. A clear recovery by the euro is needed before the Swiss National Bank will hike rates, although the Swiss franc has limited scope to depreciate against the euro. Within emerging EMEA, CIO sees the recent sell off in crude oil prices as overdone, and expects prices to rise towards USD 85 / barrel over the next six to 12 months, supporting prospects for the Middle East. However, investors should continue to diversify globally to avoid idiosyncratic political risks in emerging EMEA as well as the Eurozone and the UK, which is scheduled to leave the European Union next year.

Asia Pacific

The Chinese yuan should continue to decline, easing 5% in trade-weighted terms against a backdrop of ongoing US-China trade tensions, slowing Chinese economic growth, and a diminishing current account surplus. By contrast, in the wake of Japan's Abenomics program, the yen is more than 30% undervalued relative to its estimated equilibrium on a purchasing power parity basis. Japanese bond yields could also rise as the Bank of Japan embarks on a slow normalization of monetary policy.

About UBS

UBS provides financial advice and solutions to wealthy, institutional and corporate clients worldwide, as well as private clients in Switzerland. UBS' strategy is centered on our leading global wealth management business and our premier universal bank in Switzerland, enhanced by Asset Management and the Investment Bank. The bank focuses on businesses that have a strong competitive position in their targeted markets, are capital efficient, and have an attractive long-term structural growth or profitability outlook.

UBS is present in all major financial centers worldwide. It has offices in 52 countries, with about 34% of its employees working in the Americas, 34% in Switzerland, 18% in the rest of Europe, the Middle East and Africa and 14% in Asia Pacific. UBS Group AG employs approximately 61,000 people around the world. Its shares are listed on the SIX Swiss Exchange and the New York Stock Exchange (NYSE).

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