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News Release

UBS Year Ahead 2022: A year of discovery

UBS, the world's leading global wealth manager, is expecting a year of discovery that will reveal what a new "normal" looks like, after two years marked by lockdown and reopening. 2022 is expected to be a year of two halves, with high rates of economic growth and inflation in the first half, giving way to lower growth and inflation in the second. In the decade ahead, investors should seek opportunities in the net-zero carbon transition and the "ABC" of disruptive technologies – artificial intelligence, big data, and cybersecurity.

Zurich, 18 November 2021 – Central banks will likely reduce their emergency monetary accommodation, as the economic effects of the pandemic increasingly subside. However, tighter policy is not expected to prevent positive equity market returns, according to UBS Global Wealth Management's Chief Investment Office Year Ahead 2022 outlook.

The report's core recommendations for the year ahead include:

- **Buy the winners of global growth.** Economic growth will likely remain above trend for the first half of 2022, benefitting cyclicals, including Eurozone and Japanese equities, US mid-caps, global financials, commodities, and energy stocks.
- **Seek opportunities in healthcare.** Although growth is set to be strong in early 2022, favoring cyclical sectors, a slowdown over the course of the year should start to favor more defensive parts of the market, such as healthcare.
- **Seek unconventional yield** as interest rates, bond yields, and credit spreads remain low by historical standards. US senior loans, synthetic credit, private credit, and dividend-paying stocks, look attractive.
- **Position for a stronger US dollar** as a combination of Fed tapering and slowing global growth favor the greenback, relative to currencies bound to looser monetary policies, such as the euro, yen, and Swiss franc.

Within bond markets Asia high yield offers attractive yields, and, heading into 2022, UBS maintains its preference for sustainable investments for private clients investing globally.

Mark Haefele, Chief Investment Officer at UBS Global Wealth Management, said: "As pandemic-related drivers of economic growth begin to subside, we embark on a journey of discovery to see whether we are entering a new longer-term economic regime. We start the year with a positive stance on the 'winners from global growth', including Eurozone equities, and on the US dollar. Over the longer-term, we see opportunities in disruptive technologies, the net-zero carbon transition, and in the power of alternatives to unlock return and manage volatility."

A decade of transformation

In the decade ahead, investors face a world that is experiencing increased technological disruption, aging populations, monetary and fiscal coordination, and de-globalization, as well as stronger political calls for wealth re-distribution and environmental action. The pandemic has accelerated the advancement of many of

these themes, creating uncertainty, but also compelling long-term investment opportunities. For example, the combined revenues of the “ABC technologies”, artificial intelligence, big data, and cybersecurity, are expected to grow from USD 384 billion in 2020 to USD 620 billion in 2025. Capturing growth in these areas will require investors to look beyond just mega-cap tech stocks and focus on mid-cap names that could prove to be “the next big thing”, as well as using private equity to gain exposure to early-stage growth companies.

Meanwhile, the net-zero carbon transition looks set to prove to be one of the most consequential investment trends of the coming decade. Attaining net-zero is expected to require global investment in renewables of USD 50 trillion for each decade until 2050, with 50% of emission reductions needing to come from underdeveloped technologies. This creates opportunity across greentech, clean air and carbon reduction solutions, and carbon trading strategies.

Scenario analysis

Themes	Upside scenario	Central scenario	Downside scenario
Inflation	Inflation fears abate, or elevated inflation is accompanied by positive economic growth. Major central banks keep rates at low levels but start reducing asset purchases on an accelerated timeline, as the recovery beats expectations.	US inflation stays at elevated levels into early 2022 before gradually falling towards 2% by mid-2022. Major central banks reduce accommodation gradually but maintain an easing bias. The Fed finishes tapering by mid-2022.	Inflation rises more persistently while growth disappoints. Energy prices spike and remain persistently high at least until mid-2022. The Fed surprises the market with more aggressive tightening.
Growth	Growth stays well above long-term trend.	Growth decelerates but remains above long-term trend.	Growth decelerates earlier and more sharply than expected.
Fiscal	Higher-than-expected fiscal spending continues to support the global economy.	Fiscal impulse fades as governments account for economic recovery.	Diminishing fiscal impulse unable to compensate for economic weakness.
COVID-19	The current COVID-19 wave fades and/or economic restrictions are broadly lifted faster-than-expected.	Economic reopening continues at a gradual pace throughout 2022. Current COVID-19 wave does not escalate to the extent it is seen to require new lockdowns.	Consumption does not fully recover, e.g. due to more resistant COVID-19 mutations, continued public fear, or recurrent economic restrictions.
China	COVID-19-related restrictions start to be lifted after the Winter Olympics. Regulatory crackdown eases.	Chinese growth stabilizes. COVID-19-related restrictions start to be lifted in 2Q 2022.	Continued and greater-than-expected COVID-19 restrictions mean China’s economic reopening delayed until 2H 2022. More broad-based property market crisis and/or further regulatory tightening.
Geopolitics	A partial rollback of existing trade tariffs raises global growth.	The US takes a multilateral and predictable approach to trade policy.	Renewed US-China tensions over trade and/or Taiwan.

Asset class forecasts for June 2022

Asset class	Upside scenario	Central scenario	Downside scenario
S&P 500	5,200	5,000	4,000
EuroStoxx 50	5,000	4,750	3,700
MSCI EM	1,450	1,400	1,100
SMI	13,800	13,000	10,600
TOPIX	2,320	2,250	1,800
US IG spread*	45bps / 0%	80bps / -0.5%	150bps / -1%
US HY spread*	270bps / +2%	350bps / 0%	550bps / -10%
EMBIG spread*	300bps / +1%	360bps / 0%	550bps / -9%
EURUSD	1.18	1.12	1.09
Gold	USD 1,450-1,550/oz	USD 1,750/oz	USD 1,950-2,050/oz

* During periods of market stress, credit bid-offer spreads tend to widen and result in larger ranges. Percentage changes refer to expected total return (t.r.) for the indicated spread levels.

Note: asset class targets above refer to the respective macro scenarios. Individual asset prices can be influenced by factors not reflected in the macro scenarios.

Links

www.ubs.com/cio-yearahead

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UBS Group AG and UBS AG

Media contact

Switzerland: +41-44-234 85 00
 UK: +44-207-567 47 14
 Americas: +1-212-882 58 58
 APAC: +852-297-1 82 00

www.ubs.com/media

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