UBS House View

Investment Strategy Guide

June 2017

CIO Americas, Wealth Management

US edition

The third wave

In Context: Finding value at home and abroad

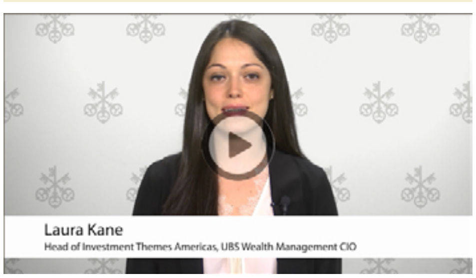
In Focus: Climbing a vol of worry

Video: Laura Kane discusses the new sustainable investment themes

UBS

CONTENTS

Video feature Laura Kane discusses the new sustainable investment themes. Click to play.



Dear reader,

This month's House View focuses on the spreading global expansion. With economic and profit growth accelerating across the globe, and political risks having grown more balanced, we are seeing a shift in the investment landscape that encourages us to broaden our horizons while looking for opportunities.

In the **Feature** article, we look at developments in China, where government policy continues to direct the difficult transition to a modern and open economic system. This transition presents both opportunities and risks to China and to the global economic picture.

This month's **In Context** article addresses our tactical asset allocation shifts. Years of US equity market domination in terms of earnings growth and market returns are now reflected in valuations, reducing the scope for continued US outperformance. In order to better position our portfolio for synchronized global growth acceleration, we elect to replace our US equity overweight with an increased overweight to global equities. And within US large-cap equities, we introduce an overweight to value over growth stocks, in order to better position the portfolio to take advantage of the current cyclical acceleration.

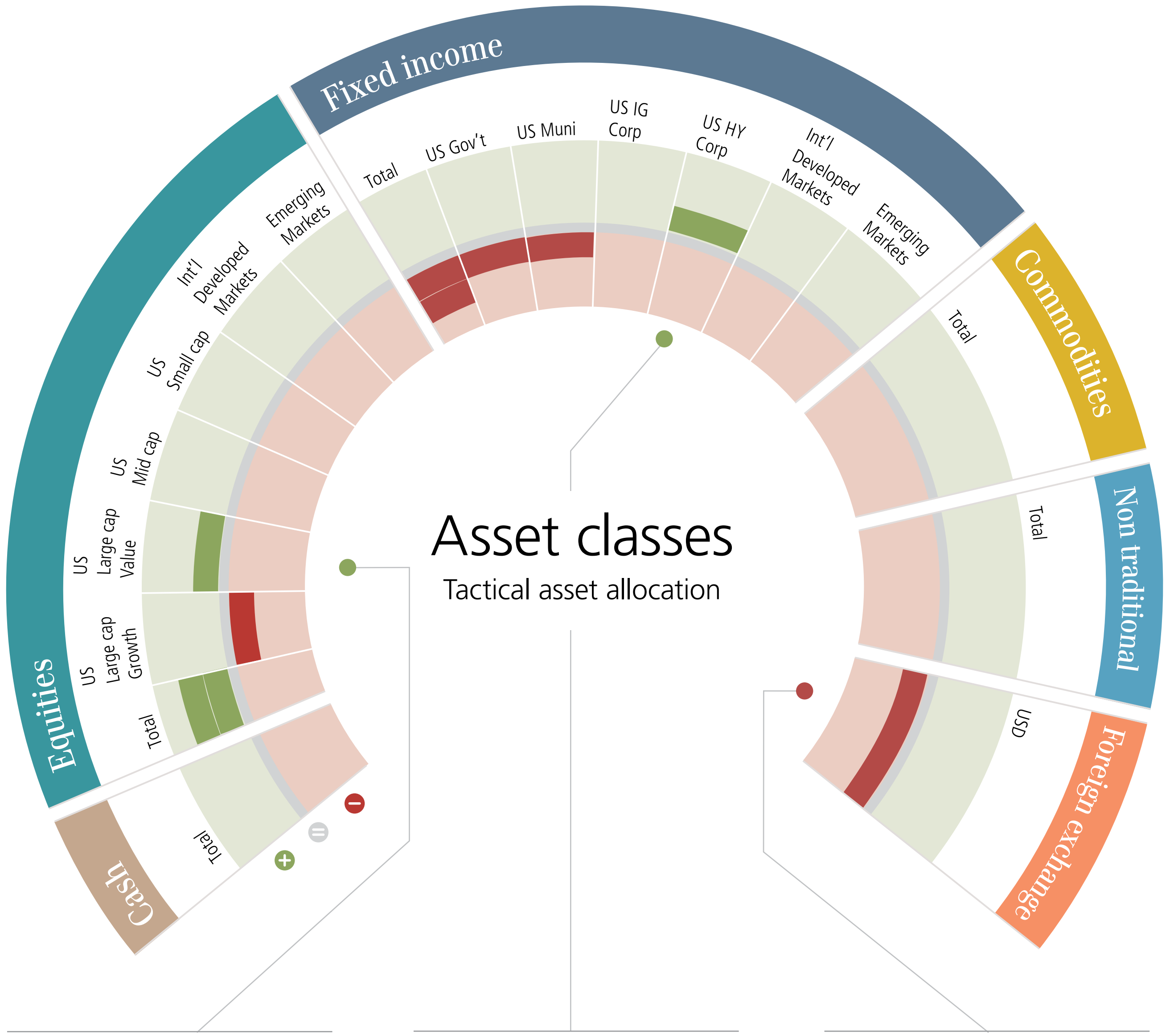
The **Top Themes Spotlight** introduces a new suite of sustainable investment themes aimed at addressing three major trends – population growth, urbanization, and aging – that are transforming our world. In order to better integrate these additions, we are also formally dividing our universe into two investment time frames: Longer-term investments, which denote secular trends that may persist through multiple business cycles; and shorter-term investments that target opportunities within the current business cycle.

Finally, in the **In Focus** article, we investigate how to interpret equity market volatility as it hovers near record lows and look at the ways in which measures such as the VIX can reflect and misinterpret the investment environment.

Our preference for risk assets is supported by an increasingly attractive fundamental backdrop. With economic and profit growth spreading across the globe and equity markets remaining attractive relative to safe-haven assets, financial markets are well-positioned to navigate periodic political risks.

Mike Ryan, CFA
Chief Investment Officer Americas,
UBS Wealth Management

We are overweight global equities and US high-yield bonds vs. government bonds.



Equities

We moved some of our equity overweight from the US to global equities and added a US value overweight.

Fixed income

We maintained our overweight to US high-yield bonds.

Currencies

We now favor the Swedish krona relative to the Swiss franc rather than vs. the Canadian dollar.

LEGEND

- Overweight: Tactical recommendation to hold more of the asset class than specified in the moderate risk strategic asset allocation (see page 26)
- Underweight: Tactical recommendation to hold less of the asset class than specified in the moderate risk strategic asset allocation (see page 26)
- Neutral: Tactical recommendation to hold the asset class in line with its weight in the moderate risk strategic asset allocation (see page 26)

Each bar represents a +/- 2% tactical tilt or part thereof (i.e., one bar = 0.5% to 2%, 2 bars = 2.5% to 4%, 3 bars = over 4%). **NOTE: TACTICAL TIME HORIZON IS APPROXIMATELY SIX MONTHS**

The third wave

China's third wave
China's influence on global investment markets is growing to rival its effects on labor and commodity markets.

Rising debt
International investors will need to pay close attention to China's policy and investment flows, at a time of uncertainty for the economy.

Going global
We add to our overweight position in global equities by removing our specific overweight in US stocks. US earnings growth remains strong but scope for outperformance is limited.

Eurozone growth
Within Europe, we now favor Eurozone stocks versus UK equities. We expect markets to focus on improving Eurozone economic conditions.

Mark Haefele
Global Chief Investment Officer
Wealth Management

Follow me on LinkedIn
linkedin.com/in/markhaefele

万事开头难 – All things are difficult before they are easy
Twenty-five years ago, China's exports were half of France's and one-quarter of Japan's. Now it is the world's largest supplier of manufactured goods. Its rise contributed to the developed world's "great moderation" in the 2000s, as cheaper goods helped keep inflation in check.

In building its roads, bridges, dams, rail networks, and cities, the country became the world's largest importer of commodities and now accounts for 57% of annual global demand for iron ore and 50% of copper. Commodity-exporting fortunes were built on supplying this demand, and today the welfare of many regions rests, in large part, on China's continued economic progress.

With the world's manufacturing industries and commodity markets transformed, the third wave of Chinese modernization is now approaching. In the years ahead, the country's capital markets will become increasingly integrated within the global financial system.

This third wave presents opportunities and risks alike. Participating in China's growth sectors, from e-commerce to clean energy, will become easier. But China's corporate debt-to-GDP ratio is approaching levels reached by Spain and Japan before their respective crises, a huge but opaque shadow banking system is raising concerns, and both policy and investment flows are likely to remain unpredictable. In this letter I look at the implications of China's third wave for global investors.

Meanwhile, in our global tactical asset allocation we make three changes:

First, although corporate earnings growth is robust and we remain confident in the US economy, the recent rise of the US stock market leaves it less scope to outperform global equities, in our view. We remove our explicit US equity overweight position and replace it with an increased overweight in global stocks, relative to government bonds.

Second, within Europe, we favor Eurozone equities relative to UK equities. UK earnings are likely to come under pressure due to a stronger pound and falling commodity prices, while investors are likely to give the Eurozone more credit for its economic growth now that the French election has passed.

Finally, we now favor the Swedish krona relative to the Swiss franc rather than versus the Canadian dollar. We expect reduced safe-haven demand for the Swiss franc to contribute to outflows from the currency, while the krona should be supported by strong GDP growth and close-to-target inflation.

The third wave

China is underrepresented relative to its size in global portfolios.

Relative to its size, China is heavily underrepresented in most international investors' portfolios. Despite having the world's second-largest equity market (with a value of around USD 7.5tr) and third-largest bond market (USD 9.4tr), it constrains capital mobility and often exhibits prodigious volatility. These factors have limited its accessibility and appeal to international investors. Currently, China constitutes just 2.5% of the MSCI All Country World Index (Fig. 1).

This separation between Chinese and international financial markets has had its advantages. Captive domestic capital enabled the country to invest for the long term, without the constant threat of capital flight. And international investors have been kept relatively insulated from the volatility in Chinese policy and markets.

But the country is becoming increasingly integrated within global markets.

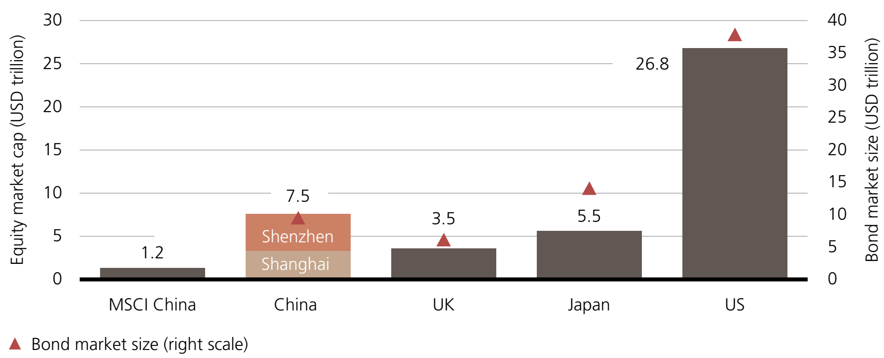
But the segregation of China's financial markets is increasingly becoming a thing of the past. As the country transitions to a consumer-led economy, its savings rate and trade surplus are declining. These changes contribute to a need for more foreign capital. As part of this drive, the government has made its exchange rate more flexible, and early this year unveiled a further 20 measures to reduce regulation on foreign investors.

International investors are gaining greater access to Chinese markets.

Recently launched Stock Connect programs enable money to move between international Hong Kong markets and mainland Shanghai or Shenzhen exchanges. Less stringent regulation on foreign-equity buying led index provider MSCI this month to again launch a consultation on including onshore A-Shares into its global equity indexes. USD 155bn of international money flowed into the Chinese bond market last year, leading major index providers Citi and Bloomberg to include China in their global indexes. And just this week authorities in Hong Kong and Beijing agreed to allow foreign investors to tap China's onshore bond market through a new "Bond Connect" program.

Fig. 1: China's equity market is now second only to the US in size; its bond market is the world's third largest.

Selected equity market capitalization and bond market size in USD trillion.



Source: Bloomberg Finance L.P., UBS, as of 17 May 2017.

The growing market capitalization of Chinese companies has not yet been reflected by index providers.

As China's financial system integrates with the rest of the world's, we see three main consequences:

Markets will need to adjust to stop-go economic management from China.

First, global investors will need to get used to monitoring China's policy shifts. The country is trying to simultaneously tackle overcapacity and prevent growth from dipping below 6.5%. And if that isn't hard enough, it is also trying to prevent sharp currency moves while keeping its more than 150% corporate debt-to-GDP ratio (Fig. 2) and USD 8.5tr shadow banking sector in check. This near-impossible juggling act inevitably means stop-start policy and volatility in interest rates, the yuan, commodity demand, and economic growth.

Over the near term, China is only one factor for equity markets in a period of synchronized growth.

The weeks and months ahead will test China's ability to keep these multiple balls in the air. Although the country has steadied its capital flows, credit growth is a cause for concern, and the government is now tightening policy. Shanghai interbank lending rates have risen 50bps year-to-date, monthly total social financing fell by more than CNY 700bn in April, and commodity markets are signaling a slowdown – for example, iron ore prices are off 6.5% in the past month. Thus far, global equity markets have taken the slowdown better than "China panics" in 2015 and 2016. Steadier capital flows have provided investors with more reassurance that China can manage its economy effectively this time around. We stay overweight global equities, but will continue to monitor China's slowdown closely.

China's USD 5.1tr in savings will increasingly influence global markets as the nation's investors seek to diversify.

Second, the USD 5.1tr pool of Chinese domestic savings (Fig. 3) will increasingly influence global markets as hitherto constrained money seeks international diversification, and not just into South American soccer players. Even before the capital account has been fully liberalized, global investment from China into real estate totaled USD 33bn last year, a rise of more than 50% on the previous year. In equities, Stock Connect flows now account for around 9% of trading volume on the Hong Kong stock exchange. And the huge One Belt One Road project is gathering steam, with US 113bn (CNY 780bn) in overseas spending commitments revealed at a summit this month.

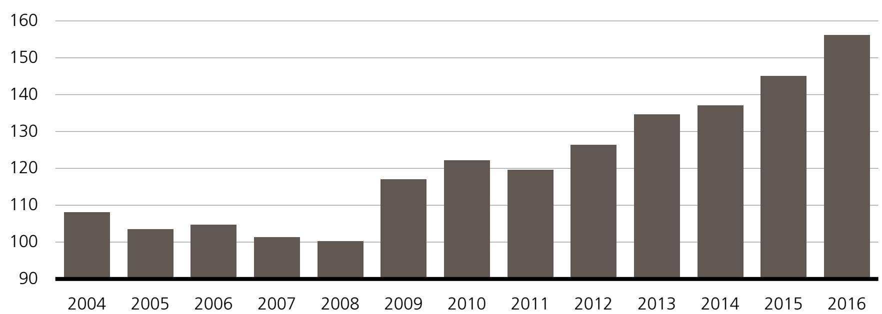
Diversification is likely to keep downward pressure on the yuan, but benefit assets that should attract Chinese savings, such as Hong Kong H-shares.

The Chinese yuan is likely to be on the wrong side of capital outflows from investors seeking international diversification. But investors who purchase assets likely to attract Chinese savings can benefit. For instance, we prefer stocks listed on the Hong Kong H-Shares market that trade at a discount to their equivalents on the Shanghai A-Shares market, as we see them as most likely to benefit from mainland investor flows.

The Chinese government has recently shifted focus toward curbing leverage.

Fig. 2: China's rising corporate debt burden is a concern.

Corporate debt as a percentage of GDP, in %

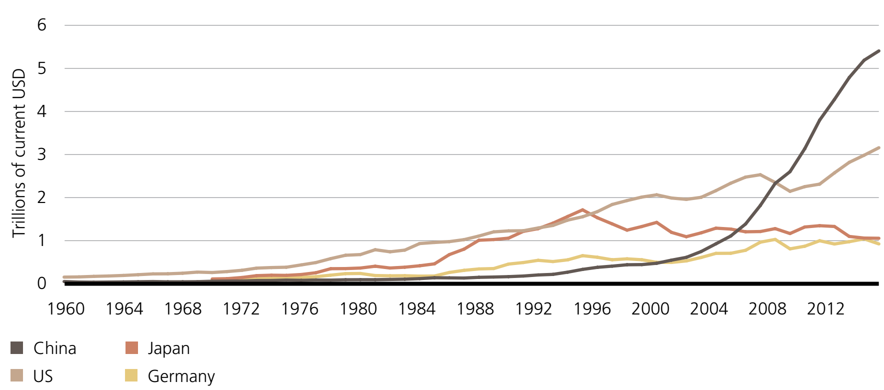


Source: Bloomberg Finance L.P., UBS, as of 31 December 2016.

China took over from the US in 2009 as the world's largest source of savings.

Fig. 3: China's savings could become a powerful driver of global markets.

Gross domestic savings in current USD trillion



Source: The World Bank Group, UBS, as of May 2017.

We expect stocks exposed to "New China" to outperform old sectors of the economy.

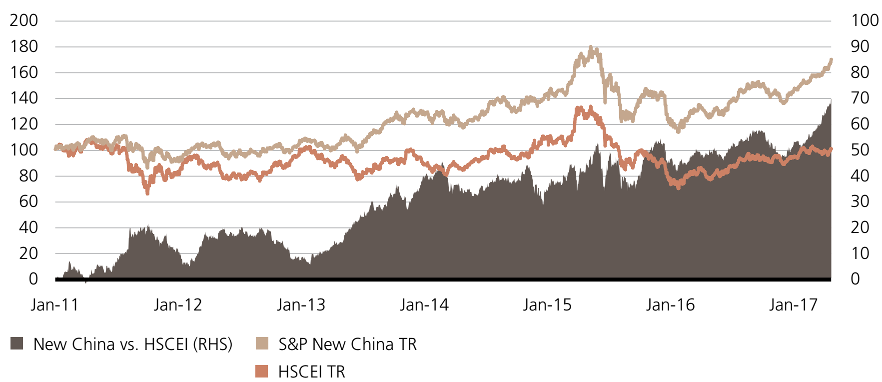
Finally, investors will need to take a more active approach to managing portfolios. An economy in transition will create winners and losers. Since 2011 stocks exposed to "New China" have outperformed those exposed to "Old China" by 7.5% annually on average (Fig. 4). As more index providers add China to emerging market and global indexes, investors will need to ensure their money is participating in China's growth, and not merely equitizing its debt. The S&P New China and MSCI China indexes favor the growth parts of China's market more so than the HSCEI and FTSE A50 indexes, which are weighted more heavily toward banks and resources.

All things are difficult before they are easy, and investors will need to be mindful of the kind of volatility China could provoke in the years ahead, as its influence on global investment markets grows to rival its effects on labor and commodity markets. Ultimately, this third wave should usher in positive changes and opportunity. Chinese investors will gain access to avenues of new investment around the world, while overseas investors will have the chance to participate in China's transformation.

Companies in China's emerging sectors have been outperforming old-economy firms.

Fig. 4: New China stocks have outperformed Old China by a large margin.

Performance of the S&P New China Sector Index and HSCEI, rebased to January 2011



Source: Bloomberg Finance L.P., UBS, as of 17 May 2017.

Tactical asset allocation
We keep a pro-risk stance in our tactical asset allocation, while making three adjustments this month:

We shift our overweight in US equities to global equities versus government bonds.

We shift our overweight in US equities to global equities, versus government bonds. Though the outlook for absolute US equity returns is positive, and backed by double-digit earnings growth, the scope for US outperformance relative to the rest of the world has declined. After a strong run, US valuations are now at a 9% premium to the rest of the world, political uncertainty is rising, and the short-term soft patch in US economic data could lead investors to view other markets in a more favorable light.

Within Europe, we favor Eurozone equities relative to UK equities. A more stable pound, deteriorating economic data, and falling commodity prices are likely to weigh on UK earnings. Meanwhile, we think markets are likely to refocus on good Eurozone economic data and improving earnings growth, now that the immediate political risk has passed.

We now favor the Swedish krona relative to the Swiss franc rather than versus the Canadian dollar. The franc is overvalued against most G10 currencies, and we believe it will see less safe-haven demand following the completion of the French election. The Swedish krona should be supported by strong economic growth and close-to-target inflation.

Mark Haefele
Global Chief Investment Officer
Wealth Management

Follow
Mark Haefele
on Linkedin
and Twitter

linkedin.com/in/markhaefele

twitter.com/UBS_CIO

UBS Investor Forum Insights

At this month's Investor Forum, participants discussed when the current market cycle would end. Most believed we are entering the later stages, but there were few catalysts to bring it to a close.

- The investment case for US equities divided participant opinion. Some suggested that US stocks were fully priced and that tighter jobs markets could erode profits as wages rise.
- However, there was broader agreement that the Federal Reserve would not rush its rate hike cycle, since the rise in US inflation is benign. A gradual pace of US monetary tightening would not derail risk assets generally nor EM assets specifically.

Finding value at home and abroad

Mike Ryan, CFA
Chief Investment Officer Americas, UBS Wealth Management

David Lefkowitz, CFA
Senior Equity Strategist Americas, UBS Wealth Management Chief Investment Office

In the years since the global financial crisis, America has earned a reputation as "the best house in a bad neighborhood" – an ironic moniker, since the crisis was catalyzed by the US housing market collapse – as America's slow-but-steady recovery has contrasted favorably against the backdrop of an uneven global economy.

This reputation has been supported by fundamentals, as S&P 500 profits have eclipsed their previous record highs and now sit over 30% higher than their pre-crisis peak. In sharp contrast, earnings for non-US equities remain over 30% *below* their record level (see Fig. 1). This fundamental divergence has been duly rewarded by a drastic and nearly uninterrupted string of US stock market outperformance. On a total return basis, the S&P 500 began making fresh all-time highs more than six years ago and now stands 89% above the previous market peak, while international equities have just recouped their financial crisis losses.

But with the global economy poised to accelerate to a real GDP growth rate of 3.7% this year – up from 3.1% last year – international earnings growth looks like it will finally keep pace with the US. In other words, the rest of the neighborhood doesn't look so bad any more. As a byproduct of this period of American domination, US equities now trade at a slightly higher-than-usual valuation premium, the US dollar is overvalued relative to trading partners' currencies, and the Federal Reserve is now some years ahead of its colleagues in the path to normalizing monetary policy.

With prospects outside of the US beginning to look more appealing, we elect to increase our overweight to global equities. However, US equities continue to look attractive, and our global equity overweight does not reflect an expectation that the US market will underperform other equity regions – after all, S&P 500 earnings per share grew by over 14% in the first quarter and profits should climb more than 10% for the full year. But it does reflect that non-US regions will generally garner a greater benefit from the cyclical improvement in the global economy. The US tends to be a bit more defensive than its international peers, and US earnings are relatively less leveraged to the current global growth reacceleration.

To reflect this, and better position for the cyclical acceleration, we are introducing an overweight to US large-cap value over large-cap growth. Value-oriented stocks are more cyclical than their growth peers and should outperform as economic and profit growth accelerates (see Fig. 2). This shift looks especially timely with value stocks now trading at appealing valuations after sharply underperforming growth stocks so far this year. This call is further supported by our overweight to the energy and financials sectors, which comprise 40% of the Russell 1000 Value Index.

Although the energy sector has lagged this year as faster-than-expected US production growth has weighed on oil prices, global energy investment spending still looks quite low. This suggests that production growth will not be able to keep up with demand growth and the rebalancing in the oil markets is more a question of when, not if. In fact, global oil inventories are already shrinking from bloated levels, suggesting that oil market fundamentals are on the right track and oil prices should rise over time.

Although long-term interest rates remain higher than last year's post-Brexit lows, they have drifted lower this year. As a result, the financials sector has given back some of its late-2016 outperformance. Nonetheless, with inflation firming and nominal GDP growth accelerating, interest rates appear to have an upward bias. And the balance of policy risks seems skewed in the sector's favor, with tailwinds from additional Fed rate increases, potential tax reform, and a likely easier regulatory burden.

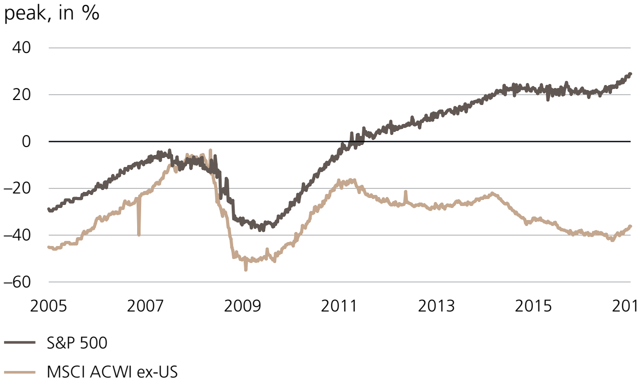
Understandably, there is some skepticism surrounding the current cyclical acceleration. The post-crisis economic recovery has been marred by a series of false starts and economic soft patches. In Europe, markets have been wracked again and again by a slow-moving political risk that remains largely unresolved. Emerging markets are navigating a difficult transition period as China weans itself off of commodity-intensive industries in favor of a more sustainable consumption-based economy.

However, we would not underestimate the positive impact of a durable cyclical improvement. Not only does this push perceived structural problems to the back-burner, but also it can policymakers breathing room to address some of the long-term challenges. Recall that a similar dynamic has played out here in the US. Concerns about US government debt sustainability that agitated investors in the early years of the recovery from the financial crisis have faded as the recovery has proved to be durable.

With structural concerns still top of mind in non-US regions, investors can take advantage of attractive valuations and undervalued international currencies, not to mention the potential for non-US earnings to enjoy a sustained period of solid growth. With European political risk dissipating, global economic growth accelerating, and commodity prices bottoming, global equities are well-positioned to outperform US government bonds. This environment – which will likely result in higher oil prices and interest rates – also bodes well for US large-cap value stocks.

Fig 1: Non-US profits have lagged and have "catch-up" potential

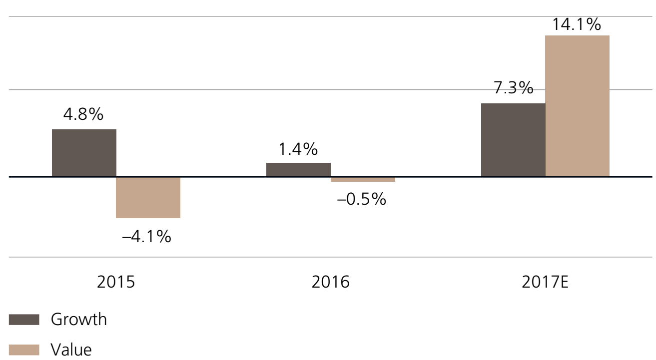
Trailing 12-month earnings per share (in USD), indexed to pre-crisis peak, in %



Source: Datastream, UBS, as of 15 May 2017

Fig 2: Value stocks' earnings growth is poised to accelerate

EPS growth with consensus estimates for S&P 500 Growth and Value Indices



Source: FactSet, UBS, as of 15 May 2017

Preferred investment views

↗ Recent upgrades
↘ Recent downgrades

Most preferred	Least preferred
Equities	
• Global equities (↗) • Eurozone (↗) • North American energy independence • Transformational technologies • Golden years for Baby Boomers	• UK (↘)
Bonds	
• US high yield corporate • US senior loans	• US government bonds
Currencies	
• EUR • SEK	• USD • CHF (↘)
Cash	

As of 18 May 2017

At a Glance

Economy

Fading political risks in Europe in the wake of the French presidential elections, coupled with solid global earnings trends, have boosted risk assets and benefited our risk-on stance. The earnings recovery, which had been led by the US, is broadening to other regions, while the valuation of global equities is close to its long-term average. We are thus adjusting our equities allocation accordingly by shifting our preference from the US to diversified global markets. While US equities remain attractive, we think it is time to include other regions in the mix. For instance, Eurozone assets provide good return potential, which is why we are introducing an overweight in the region's equity market vs. the UK and hold onto our longer-standing preference for the euro over the US dollar.

⊕ Equities

We are shifting our preference from the US to diversified global markets. Corporate earnings are rising in most regions, supported by strengthening consumer demand, rising company capex, and higher commodity prices compared to a year ago. The valuation of global equities is close to its long-term average, with a trailing price-earnings ratio of 18x. We are also opening an overweight on Eurozone equities against UK stocks. The improving global growth favors Eurozone shares, which are more sensitive to the business cycle. UK earnings expectations, particularly within the energy and materials sectors, could disappoint. We also hold an overweight position in global equities and US high-yield (HY) bonds relative to US government bonds.

⊖ Fixed income

We remain overweight on US HY bonds due to the relatively attractive yield of over 6% and improving corporate fundamentals. As the impact of the commodity-related default cycle fades, the default rate has dropped to 3.4%. We expect it to continue to drop toward 2.5% over the next 12 months. Euro HY spreads tightened toward post-crisis lows following the French elections. With the yield to maturity now at a new all-time low of 3.6%, we see limited upside.

Foreign exchange

We retain our preference for the euro versus the US dollar, given the current undervaluation of the euro, the "catch-up" potential of Eurozone economic growth, and monetary policy and investor positioning. And while Sweden's Riksbank is likely to turn more hawkish on its monetary policy throughout the year, the good global investment backdrop should see the defensive low-yielding Swiss franc (CHF) weaken. We therefore now favor the Swedish krona relative to the Swiss franc rather than versus the Canadian dollar.

Month in Review

US financial markets were calmer than ever to begin the month, with the VIX index, a measure of US market turbulence, falling to its lowest level since 1993. This was interrupted temporarily on 17 May, when US markets suffered their worst losses of the year amid increased political uncertainty following the firing of FBI director James Comey.

Economic data was mixed throughout the month. The April payroll report surprised to the upside, countering a weak 1Q GDP reading. FOMC members continued to reinforce the message that further monetary tightening isn't far away, and markets reacted by largely pricing in a June rate hike.

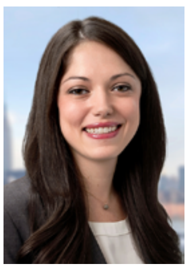
In Europe, fear over the spread of populism were at least temporarily tempered with centrist Emmanuel Macron's win over Marine Le Pen in the French election. This defeat was the latest in a series of setbacks for anti-EU nationalists, who have fallen short in Holland, Austria, and Finland this year.

Oil prices were on a roller-coaster throughout May. In the beginning of the month, prices hit their lowest level since last November due to pressure from rising output in the US, and a potential return of interrupted supply. Oil prices did begin to recover due to large inventory drawdowns in the US and support from Saudi Arabia and Russia for a potential extension of the OPEC/non-OPEC production-cut deal.

Investing for a better world

Introducing new sustainable themes

Three major trends – population growth, urbanization, and aging – are contributing to environmental and social challenges that we must address to ensure access to basic resources and services for current and future generations. This month we introduce 16 new sustainable investment themes aimed at investing in long-term solutions to these challenges.



Laura Kane, CFA
Head of Investment Themes Americas

Important trends
The world we live in today will look very different a decade from now. It was only 10 years ago that we did not have the smartphones that allow us to hail a cab, order a pizza, and video call our friends just by tapping our fingertips. **While some aspects of the future are beyond our imagination, there are some trends we can anticipate and start to prepare for today**.

Major trends we're eyeing

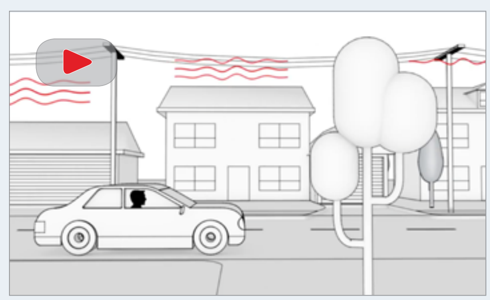
- **Population growth**: The world's population will rise to 10 billion by 2050, from 7.4 billion today. Most of this growth will occur in low- and middle-income countries.
- **Urbanization**: According to the United Nations, 9% of the world's population will live in just 41 megacities by 2030.
- **Aging**: The demographic aged 60+ will exceed those less than 25 in developed countries by 2030.

Investing for the future
These long-term trends are creating strain on natural resources such as food, energy, and water and increasing demand for basic services like education, healthcare, and sanitation. As a result, companies that help to meet these needs over the long term are expected to experience better-than-GDP revenue growth in the coming decade and beyond.

In recognition of this compelling investment opportunity, **we are introducing 16 new long-term investment themes**. These themes are considered part of a sustainable investing approach, given their focus on positive social or environmental outcomes, in addition to financial returns. These new themes complement our existing thematic offering by adding more options for sustainability-minded investors to express their values and interests in their portfolios.

Energy efficiency

Online video feature



Click anywhere in this box for more in-depth information and a video feature on "Energy efficiency."

Or go to www.ubs.com/lti

50%

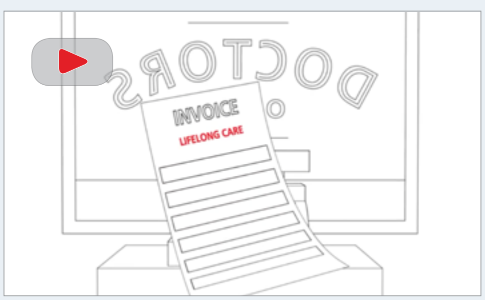
Amount of the world's population living in cities that has accounted for a disproportionate 75% of energy consumption and 80% of greenhouse gas emissions.

How do we categorize our themes?
All of our investment themes within our 'Themes Universe' fall into one of two time horizons. The first, longer-term investments, are defined as themes that may persist through multiple business cycles, which means they will play out over a decade or longer. These themes are based on secular trends that we expect to endure regardless of short-term economic fluctuations. Typically these trends relate to technological innovation, the availability and distribution of resources, and societal shifts. Our longer-term themes are expressed through equity market investments.

Given the long-term nature of trends relating to sustainability challenges, our new sustainable themes fall within our longer-term investment category. These themes are earmarked with an icon to differentiate them from our other longer-term opportunities.

Emerging markets healthcare

Online video feature



Click anywhere in this box for more in-depth information and a video feature on "Emerging markets healthcare."

Or go to www.ubs.com/lti

6%
of GDP

Emerging markets public healthcare spending, compared to 14% of developed markets' GDP.

Conversely, shorter-term investments are opportunities that we expect to unfold within the current business cycle. These themes are based on cyclical trends, such as business cycle shifts, policy changes, international relations, and temporary market dislocations. Our shorter-term themes lend themselves to opportunities across various asset classes. For example, expectations for rising interest rates are reflected in a number of our fixed-income themes.

How does thematic investing fit into our sustainable investing framework?
CIO has defined three broad approaches to sustainable investing which lend themselves to various investor motivations.

The first is **exclusion**, in which investors determine what activities they wish to avoid financing (i.e., tobacco, weapons), and firms engaged in those activities are removed from portfolios. This approach typically suits investors who want to "sleep better at night" knowing they are not supporting activities that contradict their values.

Integration centers on systematically combining environmental, social and governance (ESG) information with traditional financial considerations to guide investment decisions. Integration is suitable for investors who want to improve their risk/return and those that want to make a positive difference in the world.

The third is called **impact investing**, where the objective is to have a positive and measurable impact on society or the environment in addition to achieving a financial return. This approach is best for investors who want to have a positive impact on the environment or society.

Sustainable themes align with the motivations to improve risk-adjusted return and to have a positive impact on society or the environment. Our investment themes can be expressed in public markets using an integration approach or in private markets through impact investment opportunities.

Read about all our themes in the Themes universe on the next page.

Themes universe

LONGER-TERM INVESTMENTS *Click any theme title to go to the full report.*

Technology

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

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

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.

Transformation technology
Digital data, automation, cyber security, and wireless innovation are disruptive forces that are transforming the economy.

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.

North American energy independence
As North America trends toward energy independence, we believe certain energy-related sectors stand to benefit.

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

Baby boomers
As Baby Boomers age and retire, we expect various segments of the economy to benefit disproportionately.

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.

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.

The rising Millennials
Given Millennials' sheer size, we believe this demographic will have an outsized impact on the US economy.

SHORTER-TERM INVESTMENTS *Click any theme title to go to the full report.*

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 interest-only securities
Mortgage interest-only securities 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.

Equity

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

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

US technology
The US technology sector currently trades at attractive valuations given secular growth opportunities within the sector.

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

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

Global growth and inflation should pick up speed in 2017. Monetary policy is extremely accommodative globally and is gradually gaining traction. In the US, we expect moderate growth over the rest of the year despite some weakness in the first quarter. A tighter labor market should promote wage growth, supporting consumer spending and the housing market. Overseas, economic conditions are improving in most countries. Chinese growth will gradually slow after a good first quarter.

Global growth in 2017 expected to be 3.7%

	Real GDP growth in %			Inflation in %		
	2016F	2017F	2018F	2016F	2017F	2018F
US	1.6	2.2	2.4	1.3	2.0	1.9
Canada	1.1	2.3	2.7	1.5	1.8	2.0
Brazil	-3.6	1.3	2.6	8.7	4.1	4.8
Japan	1.0	1.6	1.4	-0.1	0.6	1.2
Australia	2.5	2.4	2.7	1.3	2.3	1.9
China	6.7	6.7	6.2	2.0	2.3	2.0
India	7.1	7.2	7.8	4.5	4.1	4.9
Eurozone	1.7	1.7	1.4	0.2	1.7	1.7
Germany	1.8	1.7	1.4	0.4	1.8	1.8
France	1.1	1.4	1.6	0.3	1.2	1.1
Italy	1.0	0.9	0.8	-0.1	1.7	1.5
Spain	3.2	2.8	2.0	-0.3	2.3	1.4
UK	1.8	1.4	0.7	0.7	2.6	2.8
Switzerland	1.3	1.4	1.6	-0.4	0.4	0.9
Russia	-0.2	1.3	1.7	7.0	4.2	4.0
World	3.1	3.7	3.7	2.6	3.0	2.8

Source: Reuters EcoWin, IMF, UBS, as of 18 May 2017
Note: In developing the CIO economic forecasts, CIO economists worked 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
Economist

House view

Probability: 75%

The US Federal Reserve has been relatively explicit in its intention to raise rates twice more this year. The next rate increase seems likely over the summer. The balance sheet-to-GDP ratio should continue to decline "naturally" as its latter element grows faster than its former in nominal terms. Fed minutes have demonstrated a clear interest in a move to a more aggressive (passive) quantitative policy tightening, allowing bonds to mature without being fully reinvested. We expect passive quantitative tightening to start in the fourth quarter of this year.

↗ Positive scenario

Probability: 10%

Additional policy easing
The Fed falls further behind the curve as inflation increases, with real interest rates falling more rapidly. The ECB launches additional policy easing, reversing the language of recent public announcements and signaling a stronger emphasis on the potential to ease policy further. The Bank of Japan (BoJ) comes under pressure to engineer currency depreciation.

↘ Negative scenario

Probability: 15%

More rapid policy tightening
The inflation effect of US fiscal stimulus leads to a stronger Fed response and a combination of tight monetary and loose fiscal policy (similar to what occurred during Ronald Reagan's presidency). Higher labor market costs and some commodity price pressures lead to higher European inflation, generating early signals of a more rapid tapering of ECB quantitative easing (possibly as early as this year).

Political risks

Paul Donovan
Global Chief Economist, WM

House view

Probability: 70%

While the French presidential election has reduced one form of political risk, other political risks have risen. The US, Europe and Asia all offer specific political challenges. We don't expect markets to emphasize these risks in a macro sense, but there is the potential for relative asset performance to be affected.

↗ Positive scenario

Probability: 10%

The sharp improvement in labor market conditions for low-skilled workers leads to wage increases that either are accompanied by better credit access or compensate for the loss of credit access since 2008; this eases income and consumption inequality. Governments and economists successfully communicate the net economic benefits of global trade and diversity.

↘ Negative scenario

Probability: 20%

Nationalist tendencies are encouraged by single-issue politics and social media. Fake news stories are insufficiently countered by facts. Traditional party structures fail to address the demands of large sections of the electorate, encouraging populism. Election outcomes are increasingly unpredictable as opinion polls offer less and less guidance. Established parties adopt policies that appeal to populist supporters, raising uncertainty about mainstream policy programs. Lower income groups' standards of living are hurt by populist policies and rising food and energy prices, fueling further demands for radical and unpredictable change.

US earnings growth reaches cruising altitude

Jeremy Zirin, CFA
Head, Investment Strategy, WMA

David Lefkowitz, CFA
Senior Equity Strategist

House view

Probability: 60%

Earnings rose 14% in 1Q17, the fastest growth in six years. The improving profit trend is underpinned by solid US consumer spending, a rebound in US manufacturing activity as energy investment spending and emerging market demand bottom out, and a more favorable environment for financials. Leading indicators of profit growth such as bank lending standards remain supportive.

↗ Positive scenario

Probability: 20%

Trump's policies boost earnings more than expected

The Trump administration's policies, especially corporate tax reform, generate faster profit growth. Higher interest rates and deregulation further boost financial sector earnings. Investment spending picks up.

↘ Negative scenario

Probability: 20%

Downturn in sentiment

Trade and geopolitical tensions flare up as a result of the Trump administration's policy priorities, depressing business and consumer sentiment. Wage pressures, without improving consumer and business demand, could hurt profit margins and earnings growth rates. Persistently low short-term interest rates and renewed declines in long-term interest rates could pressure financial sector earnings.

Key dates

24 May 2017
FOMC minutes
The Fed left policy unchanged at the FOMC meeting on 3 May. Minutes from that meeting may reveal when and how the Fed will begin to shrink its balance sheet.

30 May 2017
Personal income and spending for April
In addition to the important data on income and spending, this report includes the personal consumption expenditures (PCE) price index, the inflation measure on which the Fed focuses.

1 June 2017
ISM Manufacturing for May
The Institute for Supply Management (ISM) Manufacturing Purchasing Managers Index (PMI) improved after the election but the PMI and other measures of conditions in the manufacturing sector have retreated recently. We expect the strength of the dollar and softening auto sales to limit growth in manufacturing output.

2 June 2017
Labor report for May
In addition to the headline-grabbing data on nonfarm payrolls, it is important to pay attention to measures of labor market tightness such as the unemployment rate, the underemployment rate, and average hourly earnings.

5 June 2017
ISM Non-manufacturing for May
The ISM Non-manufacturing PMI improved to 57.5 in April, a solid reading consistent with moderate economic growth. The employment sub-index was relatively weak, perhaps reflecting companies' difficulty finding workers.

Equities

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

Equity markets are off to a strong start for the year, delivering strong performance across all regions. With faster global economic growth driving higher revenues and earnings, we believe that global equity markets can continue to trend higher. We remain overweight global equities vs. government bonds.

Eurozone

overweight

We are overweight Eurozone equities. Eurozone companies are benefiting strongly from the positive domestic and global growth environment. With their comparably high operating leverage, the return of inflation, and still-abundant liquidity, earnings are expected to grow in low double-digits for the full year. The recent earnings season results have developed favorably thus far. The market-friendly outcome of the French presidential election has cleared the way for fundamentals to play out. Our most preferred sectors are energy, materials, and financials.

EURO STOXX (index points, current: 385)	Six-month target
House view	**405**
↗ Positive scenario	450
↘ Negative scenario	315

Japan

neutral

We are neutral on Japanese equities. We forecast 1% earnings growth in FY17 (which ends in March 2018) after earnings grew 7% in FY16. We expect USDJPY to remain largely flat around 110 for the next 12 months and currency movements are unlikely to support corporate earnings. That said, we believe the downside risk for the Japanese equity market is somewhat limited by the relatively large purchases by domestic investors like the BoJ. We prefer share-buyback and high-dividend-yield stocks as well as companies that benefit from the tightening labor market.

TOPIX (index points, current: 1576)	Six-month target
House view	**1615**
↗ Positive scenario	1750
↘ Negative scenario	1300

Emerging markets

neutral

We are neutral on emerging market (EM) equities in our global portfolio. EM economic activity numbers are stabilizing, and manufacturing sentiment is turning more positive. Corporate earnings growth is improving across EM regions. EM equities are trading at a discount to their developed market counterparts. Geopolitical tensions, potential trade friction, and USD strength are downside risks. Our most preferred markets are China, Indonesia, Thailand, Russia, Turkey, and Brazil; our least preferred markets are Taiwan, Malaysia, and South Africa.

MSCI EM (index points, current: 1009)	Six-month target
House view	**1035**
↗ Positive scenario	1125
↘ Negative scenario	800

UK

underweight

We are underweight UK equities. Forward valuation is broadly in line with its 20-year average, based on consensus expectations of at least of 22% earnings growth this year, but we see downside risk to consensus expectations. The boost from the weak pound is overestimated and should fade completely by 3Q. The majority of forecast earnings growth is incumbent on a commodity recovery, which seems less certain after commodity prices' weak start to the year. The UK economy is expected to slow, holding back the 30% exposure to domestic revenues, and the UK market's more defensive sector makeup leaves it less leveraged to global growth.

FTSE 100 (index points, current: 7503)	Six-month target
House view	**7600**
↗ Positive scenario	8150
↘ Negative scenario	6200

Note: Current values as of 17 May 2017

US equities

With corporate profit recoveries now taking hold around the world, the outlook for foreign equity markets has brightened. We therefore are removing our preference for US stocks vs. non-US equities. We continue to expect US equities to appreciate from current levels and outperform government bonds. Improving global growth should also benefit US value over growth stocks, particularly after the sharp year-to-date underperformance for the value segment. Our preferred sectors are energy, technology, financials, and healthcare.

US equities overview

neutral

1Q earnings and revenue growth were better than expected and the strongest in six years. Leading indicators such as bank credit availability, new orders for capital goods, and unemployment claims suggest that healthy economic and solid earnings growth will be sustained. Market valuations are above average, but should be well supported by durable growth and low inflation. Recent turmoil in Washington could delay corporate tax reform. However, the primary driver of market gains since the election has been the globally synchronized economic and profits recovery, which will likely be sustained regardless of events in D.C. Our six-month S&P 500 price target is 2,450.

US equities – sectors

Energy stocks appear compelling at current low valuation levels. The tightening of the supply/demand balance in the oil markets seems to be more a question of "when" and not "if." Very limited global investment spending on oil projects over the past two years suggests production growth will eventually slow. With valuations relative to the S&P 500 near 40-year lows, energy remains our most preferred sector. We are also overweight technology, financials, and healthcare and underweight two "expensive defensive" sectors – utilities and consumer staples.

US equities – size

We are overweight large-caps and have a neutral allocation to both mid- and small-caps. Typically, large-caps outperform small- and mid-caps in the latter stages of the equity market cycle as leverage builds and wage gains disproportionately pressure profit margins for smaller-sized companies. While the current cycle is likely to be extended for some time, we believe the risk-reward tradeoff is more attractive for large-caps at current valuations.

US equities – style

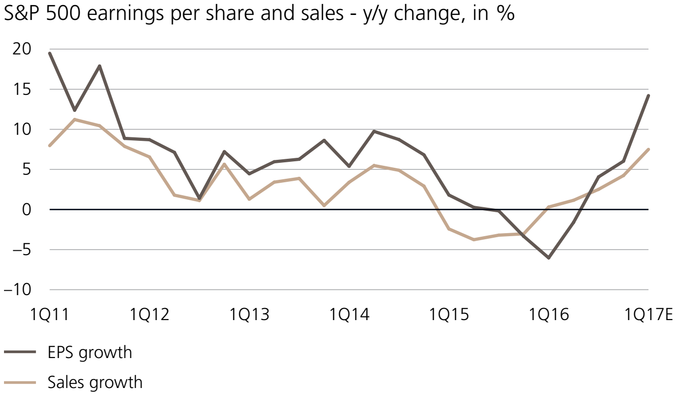
Within US large-caps, we introduce a tactical preference for value stocks over growth stocks. After sharp year-to-date underperformance, we expect value stocks to rebound and outperform growth stocks over the next six months, driven by higher oil prices, rising interest rates, and a sustained pickup in economic activity. These developments support value-oriented market segments, particularly in the energy and financial sectors.

S&P 500 (index points, current: 2357)	Six-month target
House view	**2450**
↗ Positive scenario	2750
↘ Negative scenario	1900

Note: Current values as of 17 May 2017

Fastest earnings and sales growth since 2011

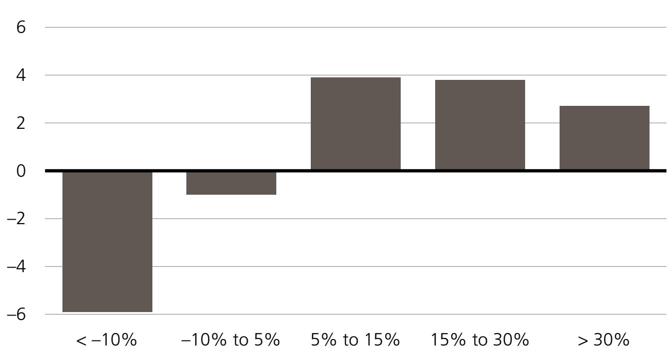
S&P 500 earnings per share and sales - y/y change, in %



Source: FactSet, UBS, as of 17 May 2017

Value tends to outperform when S&P 500 EPS growth is solid

Performance of Russell 1000 Value vs Growth (y/y) by level of S&P 500 EPS growth (y/y), since 1981 exlcuding the tech bubble (1998–2002), in %



Source: Bloomberg, FactSet, UBS as of 18 May 2017

Bonds

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

Yields dipped briefly after weak economic data, including 1Q GDP and March inflation. Yields recovered as Fed speakers made clear they see 1Q weakness as temporary and rate hikes as continuing, but then dipped again on account of US political risk. We expect long-term USD yields to move slightly higher and the yield curve to flatten as the Fed gradually raises rates, including a likely June hike.

Government bonds

underweight

With disappointing inflation data and uncertainty regarding the current administration, US Treasuries are poised to stay within the range of 2.2-2.6%. We anticipate a June rate hike, and depending on the communication interest rates should resume their gradual rise higher. The recent volatility surrounding President Trump and the decreasing confidence that policy changes will occur in the near term will prevent rates from abruptly rising.

US 10-YEAR YIELD (current: 2.2%)	Six-month target
House view	**2.5%**
↗ Positive scenario	2.0–2.1%
↘ Negative scenario	2.8–3.1%

US high yield corporate bonds

overweight

We remain overweight HY bonds due to their attractive income and lower default outlook. Despite volatility in oil prices, HY spreads tightened over the past month as oil weakness stemmed from supply, rather than demand concerns. The trailing 12-month default rate fell to 3.4% in April, and we expect it to trend down to 2.5% in 12 months. HY enjoys a yield cushion as spreads can absorb an additional 50 basis points (bps) of widening over six months before underperforming Treasuries. We also favor senior loans that offer a floating coupon rate. Rising 3-month USD LIBOR should benefit coupon income.

USD HY SPREAD (current: 384bps*)	Six-month target
House view	**380–420bps**
↗ Positive scenario	350bps
↘ Negative scenario	1,100bps

*Data based on BAML High Yield indexes

Note: Current values As of 17 May 2017

US investment grade corporate bonds

neutral

We remain neutral on investment-grade (IG) corporate bonds as we see spreads trading in a range over the next six months. Total returns will likely be fueled by IG's coupon income, with the projected rise in Treasury yields weighing on returns. IG's average yield of 3.2% provides attractive income over government bonds, in our view. Credit risks are mitigated by a moderately growing US economy, better earnings growth, and still-low funding conditions. We favor financials (US banks) over non-financials and we recommend that investors position maturities within 10 years.

US IG SPREAD (current: 118bps*)	Six-month target
House view	**120–140bps**
↗ Positive scenario	115bps
↘ Negative scenario	275bps

*Data based on BAML IG corporate index

Emerging market bonds

neutral

Emerging market (EM) credit has delivered low-to-mid-single digit returns this year on the back of lower spreads and stable Treasury yields. We expect support for EM sovereign spreads from improving fundamentals but anticipate some widening in EM corporates given less appealing valuations. Supportive energy conditions should bode well for EM credit but risks associated with US policies, global trade, immigration and geopolitics remain sources of concern. We remain neutral on EM credit in globally diversified portfolios and favor sovereign and select high-yield credits.

EMBIG div / CEMBI div SPREAD* (current: 307bps / 285bps)	Six-month target
House view	**300bps / 300bps**
↗ Positive scenario	280bps / 250bps
↘ Negative scenario	500bps / 530bps

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

Municipal bonds

underweight

Away from Puerto Rico's record-breaking debt crisis, the market technicals have remained favorable. Muni new issue supply remains scarce. At the same time, muni mutual funds continued to attract assets. Tax-exempts have now posted a positive return for five straight months. Year-to-date, munis are up 2.5%. Heading into the summer months, we believe munis will perform relatively well, supported in part by anticipated heavy reinvestment capital. That said, tax reform risk bears monitoring. Current AAA 10-year muni-to-Treasury yield ratio: 89.9% (last month: 92.9%).

Non-US developed fixed income

neutral

Over the past month, non-US developed bond markets had mostly positive performance. In particular, the 10-year Bund yield moved lower on France's election risk and the decline in Treasury yields. The dollar also had mixed performance against other major currencies. Non-US bond yields remain at very unattractive levels, with many bonds offering negative yields. However, we expect the dollar to weaken over the next 6-12 months, offsetting the yield disadvantage. We do not recommend a strategic asset allocation position on the asset class.

Additional US taxable fixed income (TFI) segments

Agency bonds

We remain underweight agencies as we find more value in mortgage-backed securities (MBS) and IG corporates. Agency debt has returned 1.2% year-to-date and the investor demand for both bullet and step-up callable agency debt remains strong; the range-bound environment which CIO anticipates over the next six months bodes well for higher-yielding assets. For investors that require the conservative risk profile of agency debt, step-up coupons offer the best potential returns. Current spread is +14bps to the 5-year (versus +15bps last month)

Mortgage-backed securities (MBS)

We maintain our neutral allocation in MBS and wait for further indication that MBS spreads will deviate from their yearly range. MBS current coupons have been in tight spread range for over a year, and have allowed investors to add incremental yield with very little volatility. The recent rhetoric of balance sheet reduction, poses a risk by adding incremental mortgage supply into the marketplace. MBS have underperformed mortgage credit this year as the credit expansion continues. Current spread is +96bps to the 5-year and 10-year Treasury blend (versus +98bps last publication)

Preferred securities

Preferreds have enjoyed an uninterrupted rally since mid-March, adding to impressive year-to-date gains, but rates and spreads are unlikely to continue providing tailwinds. Volatility may return, such that wider spreads and exchange-traded funds (ETFs) outflows negatively impact performance. We expect the preferred market to follow a "two steps forward, one step back"-type of performance pattern. By and large, USD 1,000 par fixed-to-floating-rate preferreds (F2Fs) are less susceptible to ETF flow volatility and offer a better yield/duration proposition. We favor those with high back-end reset spreads.

Treasury inflation-protected securities (TIPS)

We returned to a neutral position in Treasury inflation-protected securities (TIPS) at the end of March. The consecutive below-expectation inflation print in CPI has pushed the break-even inflation rates in TIPS to lows not seen since last November. Although oil prices have retraced ~8% from their year-to-date low, the lack of momentum in inflation has forced the underperformance of TIPS. From a longer-term perspective, TIPS should outperform US Treasuries and we are keeping a close eye on our neutral view. Current 5-year break-even inflation rate of 1.72% (1.87% last month)

Note: Current values as of 17 May 2017

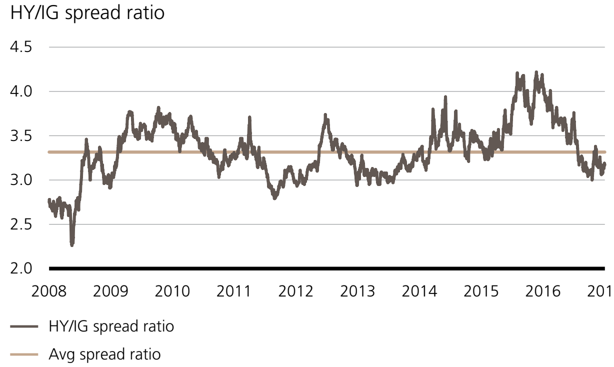
UBS CIO interest rate forecasts

Americas	17-May-17	3 mths	6 mths	12 mths
USD 3M Libor	1.2	1.5	1.8	2.0
USD 2Y Treas.	1.2	1.6	1.8	2.0
USD 5Y Treas.	1.7	2.1	2.2	2.3
USD 10Y Treas.	2.2	2.5	2.5	2.5
USD 30Y Treas.	2.9	3.1	3.1	3.1

Source: UBS, as of 18 May 2017

High yield has outperformed investment grade

HY/IG spread ratio



Source: BAML, UBS, as of 16 May 2017

Commodities and other asset classes

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

Concerns over stronger commodity supply and weaker purchasing managers' indices have been weighing on commodities lately. Broadly diversified commodity indices are down 5% year-to-date, led by the energy sector. We believe that the investment cycle will broaden and strengthen in the coming months. Even in the US, the investment side of GDP showed a strong year-on-year acceleration. This and good European economic numbers give us confidence that global GDP growth can still gain traction and support commodity demand in 2H17.

Commodities

neutral

Precious metals We expect gold prices to fall in the short term as investors underprice the possibility of two additional Federal Reserve rate hikes this year and because political risks have eased. Over six to 12 months, we expect gold to trade around USD 1,250/oz. We still like gold's insurance appeal over this horizon as potential US policy missteps and geopolitical flare-ups are likely. A weaker USD and better Asian demand should support gold as well. However, this should be offset by likely ECB tapering, greater macro stability, and higher US real interest rates.

GOLD (current: USD 1,261/oz)	Six-month target
House view	**USD 1,250/oz**
↗ Positive scenario	USD 1,400/oz
↘ Negative scenario	USD 1,100/oz

Crude oil OPEC's efforts to cut oil inventories and support prices have suffered a setback; prices broke the USD 50/bbl psychological barrier in early May. This sell-off was triggered by frustration on the part of investors over the slow pace of US oil inventory adjustment, along with broader commodity weakness as leading economic data softened. Our base case is unchanged: OPEC will extend its production cut on 25 May, and strong seasonal demand should see the pace of inventory drawdown rise. We still see prices reaching USD 60/bbl in 3Q17.

BRENT (current: USD 52/bbl)	Six-month target
House view	**USD 60/bbl**
↗ Positive scenario	USD 65-70/bbl
↘ Negative scenario	USD 35-40/bbl

Base metals Higher oil prices and firmer demand for industrial metals should set the stage for a recovery in base metal prices from recent levels. Moreover, Chinese capacity adjustments in aluminum and labor-related production outages in copper should respectively benefit both metals. Chinese monetary policy tightening efforts are a risk factor to monitor in 2H17.

Agriculture Investors' positioning in agricultural commodities shows a bearish tilt, particularly in grains, oilseeds, and sugar. Global weather agencies still believe that the chances of an El Niño/La Niña event are 50-50 in the near term, though recent severe weather in the US suggests that an El Niño episode is underway.

Other asset classes

Listed real estate Earnings are expected to rise by only 4.5% per annum in 2017-18 based on internal growth opportunities, some positive rental reversion, and still-improving refinancing conditions. This growth rate may fall below 4% in 2019 as the global real estate cycle abates further. Our assumption is, however, that movements in bond yields do not negatively surprise in the absence of a needed acceleration in rental growth. The 3.7% dividend yield will likely remain the key performance driver.

RUGL Index (current: USD 4,623)	Six-month target
House view	**USD 4,500**
↗ Positive scenario	USD 4,850
↘ Negative scenario	USD 4,100

Note: Current values as of 17 May 2017

Foreign exchange

Thomas Flury, Strategist

We favor the euro versus the US dollar. After years of the EUR being undervalued against the USD, we expect a correction. The EUR is supported by a growing current account surplus, while the US has to finance a sizable current account deficit. Meanwhile, the ECB is gradually stepping away from its very accommodative monetary policy. We also prefer the Swedish krona (SEK) over the Swiss franc (CHF).

USD

underweight The US Federal Reserve hiked its policy rate in March, and we expect the next hike in June. However, the Fed should tighten policy only very gradually. Political tensions in the Trump administration are currently adding to negative sentiment on the USD.

EUR

overweight The ECB seems to have started discussing the end of its easing measures, which should support a long-term EUR rebound. The ECB should turn more positive in June, as French elections have passed, and should announce an end of asset purchases later in the year. This, the solid global economic growth, and the strong undervaluation should help the euro to appreciate.

GBP

neutral UK economic data has remained resilient, while the pound is highly undervalued. British Prime Minister Theresa May has triggered the Brexit process. We expect that the transition out of the EU will take years, preventing a "cliff" situation, but also expect the negotiations starting in 3Q to be difficult. After the strong rally of GBP over recent weeks, we see little near-term upside but expect a further recovery against the USD over the next 12 months.

CHF

underweight The Swiss National Bank (SNB) will likely try to stabilize the combined value of USDCHF and EURCHF. Safe-haven flows have started to leave Switzerland following the French elections and the CHF has become increasingly attractive as a funding currency for carry trades. We expect USDCHF to stabilize below parity.

JPY

neutral The BoJ fixed the yield curve by setting the target for the 10-year rate to around zero and keeping the policy rate at negative 10 basis points. The rise in global yields has pushed Japan 10-year yields above zero, and a further increase could force the BoJ to step up its bond purchases to keep Japanese yields fixed. We expect the JPY to strengthen moderately versus the USD while weakening relative to the euro.

Other developed market currencies

overweight We maintain a long position in the SEK. This is newly financed by a short position in the CHF; previously, the long SEK was financed with a short Canadian dollar (CAD). Sweden's Riksbank is likely to turn more hawkish on its monetary policy throughout the year as the economy is improving steadily and inflation is gradually rising.

UBS CIO FX forecasts

	3M	6M	12M	PPP*
EURUSD	1.12	1.15	1.20	1.26
USDJPY	110	110	110	76
USDCAD	1.35	1.32	1.28	1.21
AUDUSD	0.74	0.76	0.78	0.70
GBPUSD	1.28	1.30	1.36	1.60
NZDUSD	0.68	0.71	0.73	0.61
USDCHF	0.98	0.99	0.97	0.96
EURCHF	1.10	1.14	1.16	1.21
GBPCHF	1.26	1.29	1.31	1.54
EURJPY	123	127	132	95
EURGBP	0.88	0.88	0.88	0.78
EURSEK	9.20	9.00	8.80	9.08
EURNOK	9.10	9.10	8.90	9.91

Source: Thomson Reuters, UBS, as of 18 May 2017
Note: Past performance is not an indication of future returns.
*PPP = Purchasing Power Parity

Climbing a Vol of Worry

Jason Draho, PhD
Head of Tactical Asset Allocation Americas, UBS Wealth Management Chief Investment Office

Stock market tranquility can be unnerving, judging by the ubiquitous coverage of the VIX volatility index recently falling to a 24-year low. Rather than indicating that the outlook is all clear, low volatility is often interpreted as a sign that complacent investors must be underestimating market risks. The even more recent surge in volatility – triggered by the revelation that President Trump may have tried to influence the FBI's investigation of former National Security Advisor Michael Flynn's ties to Russia – could be viewed as evidence of investors making this mistake.

That's a possibility, but it also puts more value on the VIX index being an informative market signal than is perhaps warranted. Talk of volatility being "too low" relative to the perceived market risks is not a new story. Investment pundits often flag low volatility as a warning sign for markets, forecasting that it will rise. In fact, volatility has trended lower, while US equity markets have climbed to record highs over this wall of "vol" worry.

The low volatility (non-) puzzle
The VIX's being near a record low naturally begs the question of why it's so low. Multiple explanations have been offered, with no single reason being sufficient. Market technicals and economic fundamental are two factors that likely play a large role in suppressing volatility.
The technical factor is that realized equity price volatility is dragging down implied volatility. As low as VIX – a measure of market-implied volatility – has been, the decline in the realized volatility is even more striking. For instance, the 100-day realized volatility for US stocks is at its lowest level since the 1960s. This decline is partly due to the steep drop in correlations between individual stock returns since the US presidential election. The overall market index is less volatile when individual stocks aren't moving as closely in tandem. This matters for the VIX because investors put a lot of weight on recent realized volatility to price equity options. The result is that the VIX has almost mechanically tracked realized volatility lower, as shown in Fig. 1. As long as realized volatility stays low, so should the VIX.

The fundamental explanation for a low VIX is that the macroeconomic environment is relatively benign, despite ample policy risk. It may not feel that way because the level of US GDP growth has been underwhelming since 2009. But it has been steady around 2% annually, without any major growth surprises, either positive or negative. Our outlook for the rest of 2017 and 2018 calls for this growth trend to continue, if not improve modestly. Such consistency in economic conditions gives comfort to investors that equity surprises are also likely to be relatively muted. In fact, equity volatility has historically declined later in economic expansions.

VIX: a noisy signal

A very low VIX shouldn't be too surprising, given these macroeconomic and technical conditions. Whether it's too low and doesn't properly reflect market risks is another question. At its core, the VIX reflects uncertainty about how large market movements will be. There's no easy answer as to whether the market is too certain, in part because any assessment of market risks is inherently subjective. But this dilemma doesn't really matter – as shown in Fig. 2 the VIX level does not have any predictive power for forward-looking returns.

Part of the issue is that markets are increasingly being characterized by long periods of relative calm, occasionally punctuated by brief but extreme price moves. Consequently, VIX tends to be either low (during the periods of market calm) or briefly high (after it surges when a risk event happens). One implication is that while volatility can appear unusually low most of the time, the volatility of volatility is actually quite high – when markets move, they move a lot. These risk events are hard to predict, but this doesn't mean that a low VIX is a reason to be concerned.

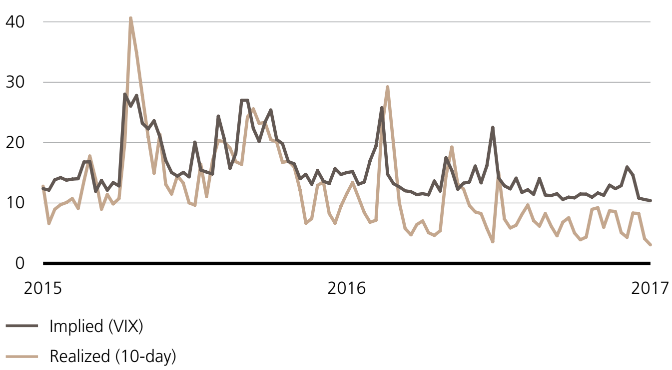
Don't get VIXterminated

The bottom line for investors is that they should focus on economic and earnings fundamentals, and not worry about what a low VIX might be reflecting. Extended periods of low volatility can condition investors to expect the market calm to continue in perpetuity, setting the stage for disappointment or panic when markets are disquieted. Investors seeking long-term capital growth must accept that occasional temporary bouts of volatility are a necessary part of the investment experience. This mindset can help them maintain a focus on long-term goals and view mispriced markets as an opportunity.

Surges in volatility are inevitable, but they should remain short-lived in the current environment of globally synchronized economic expansion and acceleration in earnings growth. As long as these fundamentals remain solid, markets are likely to climb this vol of worry.

Fig. 1: The VIX level tends to track realized volatility

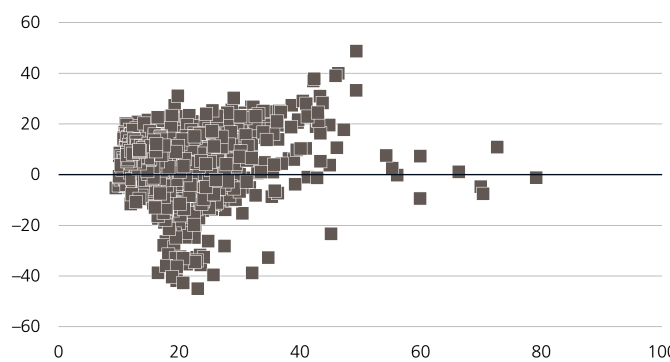
Realized and implied volatility for the S&P 500



Source: Bloomberg, UBS, as of 16 May 2017

Fig. 2: Volatility does not predict returns

6-month S&P 500 forward return (vertical) based on starting VIX (horizontal), in %



Source: Bloomberg, UBS, as of 16 May 2017

Key forecasts

As of 18 May 2017

⊕ Overweight
⊜ Neutral
⊖ Underweight

Asset class	TAA[1]	Change	Benchmark	Value	m/m perf. in %[2]	6-month forecast House View	Positive scenario	Negative scenario
EQUITIES	⊕							
US	⊜	↘	S&P 500	2357	1.2%	2450	2750	1900
Eurozone	⊕	↗	Euro Stoxx	385	4.1%	405	450	315
UK	⊖	↘	FTSE 100	7503	2.4%	7600	8150	6200
Japan	⊜	–	Topix	1576	8.0%	1615	1750	1300
Switzerland	⊜	–	SMI	9002	4.3%	9200	9800	7500
Emerging Markets	⊜	–	MSCI EM	1009	5.0%	1035	1125	800
BONDS	⊖	–						
US Government bonds	⊖	–	10yr Treasury yield	2.2%	0.2%	2.5%	2.0%	2.8%
US Corporate bonds	⊜	–	BAML IG spread	118 bps	0.8%	120-140 bps	115 bps	275 bps
US High yield bonds	⊕	–	BAML US HY spread	384 bps	1.1%	380-420 bps	350 bps	1100 bps
EM Sovereign	⊜	–	EMBI Diversified spread	307 bps	1.1%	300 bps	280 bps	500 bps
EM Corporate	⊜	–	CEMBI Diversified spread	285 bps	1.9%	300 bps	250 bps	530 bps
OTHER ASSET CLASSES								
Gold	⊜	–	Spot price	1261 /oz.	-1.9%	1250	1400	1100
Brent crude oil	⊜	–	Spot price	52.21 /bbl.	-6.6%	60	65-70	35-40
Listed real estate	⊜	–	RUGL Index	4623	-1.3%	4500	4850	4100
CURRENCIES			Currency pair					
USD	⊖	–		NA	NA	NA	NA	NA
EUR	⊕	–	EURUSD	1.12	5.1%	1.15	NA	NA
GBP	⊜	–	GBPUSD	1.30	3.6%	1.30	NA	NA
JPY	⊜	–	USDJPY	111	2.0%	110	NA	NA
CHF	⊖	↘	USDCHF	0.98	-2.6%	0.99	NA	NA

Source: Bloomberg, UBS
[1] TAA = Tactical asset allocation, [2] Month over month
Note: Current values as of 17 May 2017; currency values as of 18 May 2017.
Past performance is no indication of future performance. Forecasts are not a reliable indicator of future performance.

Detailed asset allocation

taxable with non-traditional assets

Change this month	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**	**+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**
	Fixed Income	**69.0**	**-2.0**		**67.0**	**50.0**	**-2.5**		**47.5**	**33.0**	**-3.0**		**30.0**	**17.0**	**-3.0**		**14.0**	**5.0**	**-3.0**		**2.0**
	US Fixed Income	**67.0**	**-2.0**		**65.0**	**48.0**	**-2.5**		**45.5**	**31.0**	**-3.0**		**28.0**	**15.0**	**-3.0**		**12.0**	**5.0**	**-3.0**		**2.0**
	US Gov't	17.0	-2.5		14.5	2.0	-2.0		0.0	2.0	-2.0		0.0	2.0	-2.0		0.0	2.0	-2.0		0.0
	US Municipal	46.0	+0.0		46.0	42.0	-1.5		40.5	27.0	-2.0		25.0	11.0	-2.0		9.0	3.0	-2.0		1.0
	US IG Corp	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	0.0	+0.5		0.5	2.0	+1.0		3.0	2.0	+1.0		3.0	2.0	+1.0		3.0	0.0	+1.0		1.0
	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 Markets	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
	Emerging Markets	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
	Equity	**13.0**	**+2.0**		**15.0**	**27.0**	**+2.5**		**29.5**	**44.0**	**+3.0**		**47.0**	**64.0**	**+3.0**		**67.0**	**85.0**	**+3.0**		**88.0**
▲	**Global Equity[3]**	**0.0**	**+2.0**	**+1.0**	**2.0**	**0.0**	**+2.5**	**+1.0**	**2.5**	**0.0**	**+3.0**	**+1.0**	**3.0**	**0.0**	**+3.0**	**+1.0**	**3.0**	**0.0**	**+3.0**	**+1.0**	**3.0**
▼	**US Equity**	**8.0**	**+0.0**	**-1.0**	**8.0**	**16.0**	**+0.0**	**-1.0**	**16.0**	**25.0**	**+0.0**	**-1.0**	**25.0**	**37.0**	**+0.0**	**-1.0**	**37.0**	**46.0**	**+0.0**	**-1.0**	**46.0**
▼	US Large cap Growth	2.5	-0.5	-1.0	2.0	5.5	-1.0	-1.5	4.5	8.5	-1.0	-1.5	7.5	13.0	-1.0	-1.5	12.0	16.0	-1.0	-1.5	15.0
▲	US Large cap Value	2.5	+0.5		3.0	5.5	+1.0	+0.5	6.5	8.5	+1.0	+0.5	9.5	13.0	+1.0	+0.5	14.0	16.0	+1.0	+0.5	17.0
	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**	**+0.0**		**5.0**	**11.0**	**+0.0**		**11.0**	**19.0**	**+0.0**		**19.0**	**27.0**	**+0.0**		**27.0**	**39.0**	**+0.0**		**39.0**
	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
	Emerging Markets	0.0	+0.0		0.0	3.0	+0.0		3.0	6.0	+0.0		6.0	8.0	+0.0		8.0	11.0	+0.0		11.0
	Commodities	**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**
	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

Tactical deviation legend: Overweight Underweight Neutral. Change legend: ▲ Upgrade ▼ Downgrade

[1] Change is the difference between the tactical deviation column in the previous month and the current month.

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

[3] The MSCI All Country World Index is used as the benchmark for global equity.

Source: WMA AAC, UBS, as of 18 May 2017. See appendix for 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.

Detailed asset allocation

taxable without non-traditional assets

Change this month	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**	**+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**
	Fixed Income	**79.0**	**-2.0**		**77.0**	**63.0**	**-2.5**		**60.5**	**46.0**	**-3.0**		**43.0**	**27.0**	**-3.0**		**24.0**	**10.0**	**-3.0**		**7.0**
	US Fixed Income	**77.0**	**-2.0**		**75.0**	**61.0**	**-2.5**		**58.5**	**44.0**	**-3.0**		**41.0**	**25.0**	**-3.0**		**22.0**	**10.0**	**-3.0**		**7.0**
	US Gov't	17.0	-2.5		14.5	2.0	-2.0		0.0	2.0	-2.0		0.0	2.0	-2.0		0.0	5.0	-4.0		1.0
	US Municipal	56.0	+0.0		56.0	55.0	-1.5		53.5	40.0	-2.0		38.0	21.0	-2.0		19.0	5.0	+0.0		5.0
	US IG Corp	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	0.0	+0.5		0.5	2.0	+1.0		3.0	2.0	+1.0		3.0	2.0	+1.0		3.0	0.0	+1.0		1.0
	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 Markets	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
	Emerging Markets	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
	Equity	**16.0**	**+2.0**		**18.0**	**32.0**	**+2.5**		**34.5**	**49.0**	**+3.0**		**52.0**	**68.0**	**+3.0**		**71.0**	**85.0**	**+3.0**		**88.0**
▲	**Global Equity[3]**	**0.0**	**+2.0**	**+1.0**	**2.0**	**0.0**	**+2.5**	**+1.0**	**2.5**	**0.0**	**+3.0**	**+1.0**	**3.0**	**0.0**	**+3.0**	**+1.0**	**3.0**	**0.0**	**+3.0**	**+1.0**	**3.0**
▼	**US Equity**	**10.0**	**+0.0**	**-1.0**	**10.0**	**20.0**	**+0.0**	**-1.0**	**20.0**	**28.0**	**+0.0**	**-1.0**	**28.0**	**40.0**	**+0.0**	**-1.0**	**40.0**	**46.0**	**+0.0**	**-1.0**	**46.0**
▼	US Large cap Growth	3.5	-0.5	-1.0	3.0	7.0	-1.0	-1.5	6.0	10.0	-1.0	-1.5	9.0	14.0	-1.0	-1.5	13.0	16.0	-1.0	-1.5	15.0
▲	US Large cap Value	3.5	+0.5		4.0	7.0	+1.0	+0.5	8.0	10.0	+1.0	+0.5	11.0	14.0	+1.0	+0.5	15.0	16.0	+1.0	+0.5	17.0
	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**	**+0.0**		**6.0**	**12.0**	**+0.0**		**12.0**	**21.0**	**+0.0**		**21.0**	**28.0**	**+0.0**		**28.0**	**39.0**	**+0.0**		**39.0**
	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
	Emerging Markets	0.0	+0.0		0.0	3.0	+0.0		3.0	6.0	+0.0		6.0	8.0	+0.0		8.0	11.0	+0.0		11.0
	Commodities	**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**

Tactical deviation legend: Overweight Underweight Neutral. Change legend: ▲ Upgrade ▼ Downgrade

[1] Change is the difference between the tactical deviation column in the previous month and the current month.

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

[3] The MSCI All Country World Index is used as the benchmark for global equity.

Source: WMA AAC, UBS, as of 18 May 2017. See appendix for 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.

Detailed asset allocation
non-taxable with non-traditional assets

Change this month	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**	**+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**
	Fixed Income	**69.0**	**-2.0**		**67.0**	**50.0**	**-2.5**		**47.5**	**33.0**	**-3.0**		**30.0**	**17.0**	**-3.0**		**14.0**	**5.0**	**-3.0**		**2.0**
	US Fixed Income	**64.0**	**-2.0**		**62.0**	**45.0**	**-2.5**		**42.5**	**29.0**	**-3.0**		**26.0**	**14.0**	**-3.0**		**11.0**	**5.0**	**-3.0**		**2.0**
	US Gov't	35.0	-2.5		32.5	25.0	-3.5		21.5	16.0	-4.0		12.0	7.0	-4.0		3.0	5.0	-4.0		1.0
	US Municipal	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	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	5.0	+0.5		5.5	5.0	+1.0		6.0	5.0	+1.0		6.0	5.0	+1.0		6.0	0.0	+1.0		1.0
	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 Markets	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
	Emerging Markets	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
	Equity	**10.0**	**+2.0**		**12.0**	**25.0**	**+2.5**		**27.5**	**42.0**	**+3.0**		**45.0**	**62.0**	**+3.0**		**65.0**	**85.0**	**+3.0**		**88.0**
▲	**Global Equity[3]**	**0.0**	**+2.0**	**+1.0**	**2.0**	**0.0**	**+2.5**	**+1.0**	**2.5**	**0.0**	**+3.0**	**+1.0**	**3.0**	**0.0**	**+3.0**	**+1.0**	**3.0**	**0.0**	**+3.0**	**+1.0**	**3.0**
▼	**US Equity**	**6.0**	**+0.0**	**-1.0**	**6.0**	**14.0**	**+0.0**	**-1.0**	**14.0**	**22.0**	**+0.0**	**-1.0**	**22.0**	**33.0**	**+0.0**	**-1.0**	**33.0**	**45.0**	**+0.0**	**-1.0**	**45.0**
▼	US Large cap Growth	2.0	-0.5	-1.0	1.5	5.0	-1.0	-1.5	4.0	8.0	-1.0	-1.5	7.0	12.0	-1.0	-1.5	11.0	16.0	-1.0	-1.5	15.0
▲	US Large cap Value	2.0	+0.5		2.5	5.0	+1.0	+0.5	6.0	8.0	+1.0	+0.5	9.0	12.0	+1.0	+0.5	13.0	16.0	+1.0	+0.5	17.0
	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**	**+0.0**		**4.0**	**11.0**	**+0.0**		**11.0**	**20.0**	**+0.0**		**20.0**	**29.0**	**+0.0**		**29.0**	**40.0**	**+0.0**		**40.0**
	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
	Emerging Markets	0.0	+0.0		0.0	3.0	+0.0		3.0	6.0	+0.0		6.0	8.0	+0.0		8.0	11.0	+0.0		11.0
	Commodities	**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**
	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

Tactical deviation legend: Overweight Underweight Neutral. Change legend: ▲ Upgrade ▼ Downgrade

[1] Change is the difference between the tactical deviation column in the previous month and the current month.

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

[3] The MSCI All Country World Index is used as the benchmark for global equity.

Source: WMA AAC, UBS, as of 18 May 2017. See appendix for 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.

Detailed asset allocation

non-taxable without non-traditional assets

Change this month	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**	**+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**
	Fixed Income	**79.0**	**-2.0**		**77.0**	**63.0**	**-2.5**		**60.5**	**46.0**	**-3.0**		**43.0**	**27.0**	**-3.0**		**24.0**	**10.0**	**-3.0**		**7.0**
	US Fixed Income	**74.0**	**-2.0**		**72.0**	**58.0**	**-2.5**		**55.5**	**42.0**	**-3.0**		**39.0**	**24.0**	**-3.0**		**21.0**	**10.0**	**-3.0**		**7.0**
	US Gov't	35.0	-2.5		32.5	25.0	-3.5		21.5	16.0	-4.0		12.0	7.0	-4.0		3.0	5.0	-4.0		1.0
	US Municipal	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	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	5.0	+0.5		5.5	5.0	+1.0		6.0	5.0	+1.0		6.0	5.0	+1.0		6.0	0.0	+1.0		1.0
	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 Markets	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
	Emerging Markets	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
	Equity	**16.0**	**+2.0**		**18.0**	**32.0**	**+2.5**		**34.5**	**49.0**	**+3.0**		**52.0**	**68.0**	**+3.0**		**71.0**	**85.0**	**+3.0**		**88.0**
▲	**Global Equity[3]**	**0.0**	**+2.0**	**+1.0**	**2.0**	**0.0**	**+2.5**	**+1.0**	**2.5**	**0.0**	**+3.0**	**+1.0**	**3.0**	**0.0**	**+3.0**	**+1.0**	**3.0**	**0.0**	**+3.0**	**+1.0**	**3.0**
▼	**US Equity**	**10.0**	**+0.0**	**-1.0**	**10.0**	**18.0**	**+0.0**	**-1.0**	**18.0**	**26.0**	**+0.0**	**-1.0**	**26.0**	**35.0**	**+0.0**	**-1.0**	**35.0**	**45.0**	**+0.0**	**-1.0**	**45.0**
▼	US Large cap Growth	3.5	-0.5	-1.0	3.0	6.5	-1.0	-1.5	5.5	9.0	-1.0	-1.5	8.0	12.0	-1.0	-1.5	11.0	16.0	-1.0	-1.5	15.0
▲	US Large cap Value	3.5	+0.5		4.0	6.5	+1.0	+0.5	7.5	9.0	+1.0	+0.5	10.0	12.0	+1.0	+0.5	13.0	16.0	+1.0	+0.5	17.0
	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**	**+0.0**		**6.0**	**14.0**	**+0.0**		**14.0**	**23.0**	**+0.0**		**23.0**	**33.0**	**+0.0**		**33.0**	**40.0**	**+0.0**		**40.0**
	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
	Emerging Markets	0.0	+0.0		0.0	4.0	+0.0		4.0	6.0	+0.0		6.0	9.0	+0.0		9.0	11.0	+0.0		11.0
	Commodities	**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**

Tactical deviation legend: Overweight Underweight Neutral. Change legend: ▲ Upgrade ▼ Downgrade

[1] Change is the difference between the tactical deviation column in the previous month and the current month.

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

[3] The MSCI All Country World Index is used as the benchmark for global equity.

Source: WMA AAC, UBS, as of 18 May 2017. See appendix for 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.

Detailed asset allocation
all equity and all fixed income models

	All equity				All fixed income, taxable				All fixed income, non-taxable			
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]
Cash	**5.0**	**-3.0**		**2.0**	**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**
US Fixed Income	**0.0**	**+0.0**		**0.0**	**92.5**	**+0.0**		**92.5**	**89.0**	**+0.0**		**89.0**
US Gov't	0.0	+0.0		0.0	19.0	-2.0		17.0	33.0	-2.0		31.0
US MBS	0.0	+0.0		0.0	0.0	+0.0		0.0	9.0	+0.0		9.0
US Municipal	0.0	+0.0		0.0	71.0	+0.0		71.0	0.0	+0.0		0.0
US IG Corp	0.0	+0.0		0.0	0.0	+0.0		0.0	41.0	+0.0		41.0
US HY Corp	0.0	+0.0		0.0	2.5	+2.0		4.5	6.0	+2.0		8.0
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 Markets	0.0	+0.0		0.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Emerging Markets	0.0	+0.0		0.0	2.5	+0.0		2.5	6.0	+0.0		6.0
Equity	**95.0**	**+3.0**		**98.0**	**0.0**	**+0.0**		**0.0**	**0.0**	**+0.0**		**0.0**
Global Equity[3]	**0.0**	**+3.0**	**+1.0**	**3.0**	**0.0**	**+0.0**		**0.0**	**0.0**	**+0.0**		**0.0**
US Equity	**53.0**	**+0.0**	**-1.0**	**53.0**	**0.0**	**+0.0**		**0.0**	**0.0**	**+0.0**		**0.0**
US Large cap Growth	7.0	-1.0	-1.5	6.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Large cap Value	7.0	+1.0	+0.5	8.0	0.0	+0.0		0.0	0.0	+0.0		0.0
US Large-cap total market	23.0	-3.0		20.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Energy Sector	0.0	+3.0		3.0	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**	**+0.0**		**42.0**	**0.0**	**+0.0**		**0.0**	**0.0**	**+0.0**		**0.0**
Int'l Developed Markets	30.0	+0.0		30.0	0.0	+0.0		0.0	0.0	+0.0		0.0
Emerging Markets	12.0	-6.0		6.0	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
Brazil	0.0	+3.0		3.0	0.0	+0.0		0.0	0.0	+0.0		0.0

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 "carve-outs": 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.

Tactical deviation legend: Overweight Underweight Neutral. Change legend: ▲ Upgrade ▼ Downgrade

[1] Change is the difference between the tactical deviation column in the previous month and the current month.

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

[3] The MSCI All Country World Index is used as the benchmark for global equity.

Source: WMA AAC, UBS, as of 18 May 2017. See appendix for 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
Taxable with non-traditional assets					
Estimated Return	3.2%	4.3%	5.4%	6.5%	7.4%
Estimated Risk	3.9%	6.1%	8.6%	11.3%	13.9%
Taxable without non-traditional assets					
Estimated Return	2.9%	3.9%	5.0%	6.2%	7.2%
Estimated Risk	4.0%	6.1%	8.5%	11.2%	13.6%
Non-taxable with non-traditional assets					
Estimated Return	3.6%	4.6%	5.6%	6.6%	7.4%
Estimated Risk	4.2%	6.1%	8.6%	11.3%	13.8%
Non-taxable without non-traditional assets					
Estimated Return	3.5%	4.4%	5.4%	6.5%	7.3%
Estimated Risk	4.5%	6.5%	8.8%	11.6%	13.6%

Asset Class	Capital Market Assumptions	
	Annual total return	Annual risk
US Cash	2.1%	0.5%
US Government Fixed Income	1.9%	4.0%
US Municipal Fixed Income	1.8%	4.1%
US Corporate Investment Grade Fixed Income	2.8%	5.0%
US Corporate High Yield Fixed Income	4.8%	9.2%
International Developed Markets Fixed Income	1.8%	7.9%
Emerging Markets Fixed Income	4.2%	10.5%
US Large-cap Equity	7.1%	15.7%
US Mid-cap Equity	7.6%	18.3%
US Small-cap Equity	7.8%	20.1%
International Developed Markets Equity	9.4%	16.5%
Emerging Markets Equity	8.8%	24.1%
Commodities	4.4%	19.2%
Hedge Funds	5.5%	6.7%
Private Equity	12.0%	12.7%
Private Real Estate	9.8%	10.5%

Additional asset allocation models

US equity sector allocation, in %

For US equity subsector 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.

	S&P 500 Benchmark allocation[1]	CIO Americas, WM tactical deviation[2]				Current allocation[3]
		Numeric		Symbol		
		Previous	Current	Previous	Current	
Consumer Discretionary	12.4	+0.0	+0.0	n	n	12.4
Consumer Staples	9.4	-2.0	-2.0	– –	– –	7.4
Energy	6.3	+2.0	+2.0	++	++	8.3
Financials	13.9	+1.0	+1.0	+	+	14.9
Healthcare	13.9	+1.0	+1.0	+	+	14.9
Industrials	10.1	-1.0	-1.0	–	–	9.1
Information Technology	22.9	+1.0	+1.0	+	+	23.9
Materials	2.8	+0.0	+0.0	n	n	2.8
Real Estate	2.9	+0.0	+0.0	n	n	2.9
Telecom	2.2	+0.0	+0.0	n	n	2.2
Utilities	3.2	-2.0	-2.0	– –	– –	1.2

NOTE: The benchmark allocations, as well as the tactical deviations, are intended to be applicable to the US equity portion of a portfolio across investor risk profiles.
Source: UBS, as of 18 May 2017.

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

	Benchmark allocation[1]	CIO Americas, WM tactical deviation[2]		Current allocation[3]
		Previous	Current	
EMU / Eurozone	28.0	+0.0	+10.0	38.0
UK	17.0	+0.0	-10.0	7.0
Japan	22.0	+0.0	+0.0	22.0
Australia	7.0	+0.0	+0.0	7.0
Canada	9.0	+0.0	+0.0	9.0
Switzerland	8.0	+0.0	+0.0	8.0
Other	9.0	+0.0	+0.0	9.0

Source: UBS, as of 18 May 2017

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

	Benchmark allocation[1]	CIO Americas, WM tactical deviation[2]		Current allocation[3]
		Previous	Current	
EMU / Eurozone	42.0	+10.0	+10.0	52.0
UK	9.0	+0.0	+0.0	9.0
Japan	32.0	-5.0	-5.0	27.0
Other	17.0	-5.0	-5.0	12.0

Source: UBS, as of 18 May 2017

Footnotes
[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 Americas, WM 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 Americas, WM 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 profile performance measurement (25 January 2013 to present) – See NOTE next page

	SAA	SAA with tactical shift	Excess return	Information ratio (annualized)	Russell 3000 stock 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	5.59%	0.11%
2Q 2013	-2.18%	-2.14%	0.04%	0.3	2.69%	-2.33%
3Q 2013	3.60%	3.86%	0.26%	2.4	6.35%	0.57%
4Q 2013	3.05%	3.23%	0.18%	2.9	10.10%	-0.14%
1Q 2014	2.56%	2.53%	-0.03%	-0.2	1.97%	1.84%
2Q 2014	3.44%	3.49%	0.05%	0.3	4.87%	2.04%
3Q 2014	-1.54%	-1.71%	-0.16%	-1.2	0.01%	0.17%
4Q 2014	0.47%	0.73%	0.26%	1.3	5.24%	1.79%
1Q 2015	1.38%	1.69%	0.31%	2.1	1.80%	1.61%
2Q 2015	-0.18%	-0.19%	-0.01%	-0.1	0.14%	-1.68%
3Q 2015	-4.67%	-5.08%	-0.41%	-2.4	-7.25%	1.23%
4Q 2015	1.61%	1.67%	0.06%	0.5	6.27%	-0.57%
1Q 2016	2.11%	1.72%	-0.39%	-3.7	0.97%	3.03%
2Q 2016	2.81%	2.88%	0.08%	1.1	2.63%	2.21%
3Q 2016	2.50%	2.60%	0.10%	1.5	4.40%	0.46%
4Q 2016	-1.33%	-1.13%	0.21%	3.4	4.21%	-2.98%
2017 year to date	5.81%	5.93%	0.12%	2.3	5.55%	2.21%
Since inception (25 January 2013)	21.63%	22.42%	0.79%	0.4	70.86%	9.78%

Source: UBS, as of 17 May 2017
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 (BarCap US Agg Government)	5.0	2.0
US Municipal Fixed Income (BarCap Municipal Bond)	35.0	40.0
US Investment Grade Fixed Income (BarCap US Agg Credit)	3.0	0.0
US Corporate High Yield Fixed Income (BarCap US Agg Corp HY)	4.0	2.0
International Dev. Fixed Income (BarCap Global Agg xUS)	4.0	0.0
Emerging Markets Fixed Income (50% BarCap EM Gov and 50% BarCap Global EM (USD))	3.5	2.0
Commodities (Dow Jones-UBS Commodity Index)	5.0	0.0

Note: The performance of our tactical overweight on TIPS will be measured by the Bloomberg Barclays US Inflation Linked Bonds 1 to 10 Year Total Return Index, and the tactical overweight on Global Equity by the MSCI All Country World Index.
Source: UBS

Table A NOTE
Historical performance measurement

Prior to 25 January 2013, CIO Americas, WM 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 is comprised of 10 members, representing top market and investment expertise from across all divisions of UBS:

- Mark Haefele (Chair)
- Mark Andersen
- 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 is comprised of five members:

- Mike Ryan
- Michael Crook
- Richard Hollmann (*)
- Brian Rose
- Jeremy Zirin

(*) Business areas 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.

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 sociopolitical 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.

Disclaimer

Research publications from Chief Investment Office Americas, Wealth Management, formerly known as CIO Wealth Management Research, are published by UBS Wealth Management and UBS Wealth Management Americas, Business Divisions of UBS AG or an affiliate thereof (collectively, UBS). In certain countries UBS AG is referred to as UBS SA. This publication is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein does not constitute a personal recommendation or take into account the particular investment objectives, investment strategies, financial situation and needs of any specific recipient. It is based on numerous assumptions. Different assumptions could result in materially different results. We recommend that you obtain financial and/or tax advice as to the implications (including tax) of investing in the manner described or in any of the products mentioned herein. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS). All information and opinions as well as any prices indicated are current only as of the dateof this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to thoseexpressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria. At any time, investment decisions (including whether to buy, sell or hold securities) made by UBS and its employees may differ from or be contrary to the opinions expressed in UBS research publications. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, divisions or affiliates of UBS. Futures and options trading is considered risky. Past performance of an investment is no guarantee for its future performance. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in FX rates may have an adverse effect on the price, value or income of an investment. This report is for distribution only under such circumstances as may be permitted by applicable law.

Distributed to US persons by UBS Financial Services Inc. or UBS Securities LLC, subsidiaries of UBS AG. UBS Switzerland AG, UBS Deutschland AG, UBS Bank, S.A., UBS Brasil Administradora de Valores Mobiliarios Ltda, UBS Asesores Mexico, S.A. de C.V., UBS Securities Japan Co., Ltd, UBS Wealth Management Israel Ltd and UBS Menkul Degerler AS are affiliates of UBS AG. UBS Financial Services Incorporated of PuertoRico is a subsidiary of UBS Financial Services Inc. UBS Financial Services Inc. accepts responsibility for the content of a report prepared by a non-US affiliate when it distributes reports to US persons. All transactions by a US person in the securities mentioned in this report should be effected through a US-registered broker dealer affiliated with UBS, and not through a non-US affiliate. The contents of this report have not been and will not be approved by any securities or investment authority in the United States or elsewhere. UBS Financial Services Inc. is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule.

UBS specifically prohibits the redistribution or reproduction of this material in whole or in part without the prior written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect.

Version as per May 2017.

Publication details

Publisher
UBS Financial Services Inc.
CIO Americas, Wealth Management
1285 Avenue of the Americas, 20th Floor
New York, NY 10019

This report was published
on 19 May 2017.

Lead authors
Mark Haefele
Mike Ryan

Authors (in alphabetical order)
Paul Donovan
Jason Draho
Leslie Falconio
Thomas Flury
Ricardo Garcia-Schildknecht
Wayne Gordon
Markus Irngartinger
Laura Kane
David Lefkowitz
Barry McAlinden
Kathleen McNamara
Brian Rose
Dominic Schnider
Philipp Schoettler
Frank Sileo
Giovanni Staunovo
Thomas Veraguth
Jeremy Zirin

Editor
Kate Hazelwood

Project Management
Paul Leeming
John Collura
Matt Siegel

Desktop Publishing
Cognizant Group – Basavaraj Gudihal,
Srinivas Addugula, Pavan Mekala
and Virender Negi

UBS House View Monthly Call

A unique opportunity to hear the House View explained and to interact directly with CIO Americas, WM's thought leaders.

The next call will be on:
Thursday, June 1 at 1:00 PM ET / 10:00 AM PT

Dial in: 1-877-200-4456
Passcode: 46502#

Also from CIO Americas Wealth Management


POTUS 45

Investment implications of likely Trump Administration priorities
CIO Wealth Management Research | 26 April 2017

Quick guide		
Introduction	Below	A funding challenge for new infrastructure spending
Infrastructure needs	Page 2	Needs are many, across all infrastructure categories
Civic capital	Page 5	A small but likely growing financing solution
Implications	Pages 6–7	US equities Minimal current impact US fixed income Relevant for munis, not rates
Implication matrix	Page 8	Summary of the likelihood and impact of potential policy changes
The first 100 days	Page 9	A look back at Trump's first 100 days

New spending plans:
It's a funding challenge

UBS Financial Services Inc.
www.ubs.com/financialservicesinc

UBS Financial Services Inc. is a subsidiary of UBS AG.

UBS