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The Year Ahead, revisited
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The Year Ahead, revisited

Since we published our Year Ahead 2021, A Year of Renewal, in November, much has changed. An acceleration in the spread of the coronavirus has meant large parts of the developed world have re-entered “lockdowns,” though vaccines have also been approved and rollouts have begun. The Democrats claimed a surprise victory in the Georgia Senate race, raising prospects for additional fiscal stimulus, and increased focus on sustainability, but also higher corporate and personal taxes. Meanwhile, stock markets have risen sharply, supported by continued low interest rates and prospects for rapid economic and earnings growth in 2021, leading to concerns about potential over-exuberance.

But although a lot has changed, and events haven’t evolved precisely as envisaged, the key messages of our Year Ahead outlook have been broadly playing out as we expected. Equity markets have moved higher, driven by some of 2020’s “laggards,” such as small and mid-caps, and ex-US markets. Credit spreads have tightened. The dollar has weakened further. And companies linked to what we think will be “The Next Big Thing” in 5G, fintech, healthtech, and greentech have been in demand.

In this note, for each of our key Year Ahead messages, we remind readers of what we said back in November, note what’s happened since, and detail what we expect going forward. Broadly, our views are unchanged—we continue to expect higher equities, yields to remain low, and the dollar to weaken further, for example—but we have adapted some of our specific positioning recommendations to account for evolving valuations, risks, and opportunities.

Mark Haefele
Chief Investment Officer
Global Wealth Management
A Year of Renewal
In our Year Ahead outlook in November, we said that we expected the wide-scale rollout of a vaccine in the first half of 2021 to enable global output and corporate earnings to return to pre-pandemic highs by the end of the year. With support from monetary and fiscal stimulus, we anticipated significant corporate earnings growth as the global economy recovers, and so expected equity markets to move higher in 2021. Our view was that some of 2020’s laggards would catch up.

We recommended that investors think global, look for catch-up potential, and seek long-term winners. We also advised not being overexposed to US stocks, and diversifying into markets and sectors that have potential to catch up. Areas with the most catch-up potential, in our view, were the UK market, US midcaps, EMU small- and mid-caps, select financial and energy stocks, and the industrial and consumer discretionary sectors.

What’s happened since?
Results from Phase 3 trials have showed high efficacy rates for three coronavirus vaccines. Regulatory approvals have followed, and vaccination programs are being rolled out, in line with our expectations for widespread availability in 2Q21.

The US Congress approved a further USD 900bn stimulus package to help combat the impact of the pandemic. Contrary to our expectations, the Democrats won both seats in the Georgia Senate runoffs, giving them control of both Congress and the White House. A unified government will smooth the path to more fiscal stimulus, which is likely to be larger, and come sooner than any potential tax increases.

In December the European Central Bank extended the size and duration of its bond purchase program and the Federal Reserve strengthened its forward guidance, stating rates would stay on hold until “substantial progress” had been made toward its full employment and inflation goals.

Against this backdrop, global equities (MSCI All Country World index) have rallied 8% since mid-November and by 20% since end-October, prior to the positive vaccine news. US stocks have rallied too, but not as much, with the S&P 500 rising 16.5% since end-October and 5% since mid-November. Consequently, some of the laggards we highlighted have begun to catch up. The UK FTSE 100, for example, gained 21% and 5% over the same periods. The US Russell 2000 small-cap index, which underperformed large caps by 10 ppts between January and October 2020, has outperformed by 19 ppts since. EMU small- and mid-caps (MSCI EMU mid-cap index) have gained 24% since end-October.

What’s next?
Macroeconomic policy, vaccine developments, and equity market performance have played out as we expected. The main questions now are whether there is still scope for upside ahead and whether the “catch up” trade is over.

We still see room for further market upside, and have shifted our narrative toward “going more cyclical for the recovery.” Our revised end-2021 target for the S&P 500, accounting for reduced risks and an improved earnings outlook, is 4,000 in our central scenario and 4,300 in our upside case (in our downside scenario we forecast 3,200). Equity valuations are high in a historical context, particularly in the US, but can be justified in our view given the low level of interest rates, which we expect will persist.

We also see further upside for some of 2020’s laggards, and expect them to continue to “catch up,” particularly those with exposure to a cyclical recovery. At this time we like global small caps, and have shifted our sector preferences, adding a preference for financials in the Eurozone, based on low valuations and solid earnings prospects, and removing consumer discretionary.

Regionally, we continue to see better relative performance prospects outside the US. That said, after strong performance, which narrowed the UK market’s valuation discount to global equities, we have closed our preference for UK stocks, shifting our preference to emerging markets including China, where we see valuations as more attractive than global stocks. In addition, as the economic recovery gains pace, we also see oil prices moving up, and see Brent crude as another opportunity to go cyclical.

Diversify for the next leg
Hunt for yield

In our Year Ahead outlook, we said that excess capacity and accommodative central bank policy would mean rates and government bond yields would not move significantly higher in 2021. We thought the investment environment remained conducive to credit, with economic output steadily recovering, and fiscal and monetary policy helping keep defaults in check. We highlighted a preference for USD-denominated emerging market sovereign bonds and Asian high yield bonds. We also recommended being active in bonds in the segment between investment grade and high yield credit ratings, and looking for alternative sources of income, such as put writing, for those who can implement options.

What's happened since?

In December, the Fed reassured markets that rates would stay lower for longer and the ECB expanded its asset purchase program. US 10-year nominal yields traded sideways between our Year Ahead in mid-November (0.90%) and the end of 2020 (0.91%).

However, the unexpected Democratic victory in the Georgia Senate runoffs has increased expectations for an additional fiscal stimulus package, and the start of the US vaccination program is bolstering optimism over economic normalization. As a result 10-year yields have since risen modestly to 1.1%, and 10-year inflation expectations, as measured by break-evens, have risen to more than 2%. German and Japanese 10-year yields remain range-bound.

Credit spreads on USD-denominated emerging market sovereign bonds (EMBIGD) have narrowed from 379 basis points to 358 bps since mid-November, and Asian high yield bond spreads have tightened from 698bps to 631bps.

What’s next?

The additional economic boost from US fiscal stimulus will cut downside risks to growth and help speed recovery as vaccines are rolled out. We think this justifies a 10bps increase in our year-end yield forecast for US 10-year Treasuries to 1%.

However, our overall view on yields remains unchanged. The Fed continues to anchor short-term rates close to zero. In our base case, policy rates remain unchanged for several years, facilitated by a slow acceleration in inflation. While we expect economic normalization to put some upward pressure on long-term rates, we expect increases to remain modest. Loose monetary policy remains the most important driver of long-term rates. We expect any spikes in long-term yields to be restrained, in light of the Fed’s active management of interest rates and its balance sheet. Ongoing Fed asset purchases should also continue to suppress market volatility.

We continue to like USD-denominated emerging market sovereign bonds and Asian high yield bonds. We think there is room for further, albeit limited, spread compression, while yields remain attractive at 4.8% and 7.2% respectively. We also continue to recommend considering alternative strategies to boost income, including selling volatility in stocks, precious metals, and FX, and employing leverage if appropriate.
Position for a weaker dollar

In our Year Ahead outlook, we said we expected the US dollar to weaken due to a recovering global economy and a diminished interest rate differential. We noted that the large US twin fiscal and current account deficits could weigh on the dollar at the same time as US private savings are starting to fall. The economic recovery and a heightened focus on US indebtedness would likely reduce safe-haven demand for the greenback. To position for this, we said investors should diversify across G10 currencies, or into select emerging market currencies and gold.

What’s happened since?
Dollar weakness is playing out.

Since we published the Year Ahead, the US dollar index (DXY) is down 2.5%. The US dollar has weakened 2.6% against the euro, 3.3% against the British pound (which has benefitted from more clarity around Brexit), and 2.8% against the Swiss franc. It has also weakened 1.8% against the Chinese yuan and 1.4% against the Singapore dollar. Gold has dropped 1.7% since our publication.

Looking at the fundamentals, the US enacted a stimulus package of around USD 900bn in order to combat the COVID-19-induced economic slowdown, which will further increase the US fiscal deficit. US President-elect Joe Biden was formally confirmed as the winner of the US election, and wins in the Georgia Senate runoffs gave the Democrats control of Congress and the White House, making further future stimulus more likely. Meanwhile, vaccines were approved and the rollout has begun in many areas across the globe, bolstering the case for a global economic recovery in 2021.

What’s next?
We retain our view for further US dollar weakness in 2021. We think that as the recovery gathers pace, driven by vaccine rollouts, more cyclical currencies, like the euro, the British pound, and select oil-linked and APAC currencies have upside potential. We expect a corresponding decline in demand for safe-haven assets, such as the US dollar.

We continue to expect EURUSD to rise in 2021, albeit more slowly than in recent months. A dovish Fed, a new US administration likely to enact more stimulus, and the diminished US interest rate advantage are likely to weigh on the dollar. After a Brexit deal, the recovery should favor the significantly undervalued British pound, especially since we think UK growth and inflation will top those in the US over the next two years. We see GBPUSD at 1.43 by year-end.

Oil-linked currencies like the Australian dollar, Norwegian krone, and Russian ruble should benefit from stronger growth and higher oil prices. In Asia, we think the Thai baht, the Singapore dollar, and the Chinese yuan as well as the Indian rupee have room to run higher.

Gold, after a strong run, should now be considered as a potential hedge rather than an asset with substantial upside potential in itself. Similarly, we expect the Swiss franc to trend sideways, as a positive outlook for growth reduces the demand for safe havens.
The Decade of Transformation
Invest in The Next Big Thing

In the Decade of Transformation, we said that it would be unlikely that the top two performing sectors over the past decade (tech and consumer discretionary) would be the best performing ones over the next decade. Instead, we noted that the next decade will likely reward investing in the companies using technology to disrupt other sectors. We expected “The Next Big Thing”—market segments where over the next decade earnings could triple due to a large potential market (over USD 200bn), a disruptive catalyst to spur growth, and a cyclical catalyst to kick-start things in 2021—to materialize within the 5G rollout, fintech, healthtech, or greentech.

What’s happened since?
Although the areas we identified are all long-term investment ideas, each one has performed well since publishing, in part due to significant fiscal spending in light of the pandemic as well as technological innovation.

In 2020, 140 mobile operators launched commercial 5G networks in 59 countries, according to industry trade body GSMA, who estimate that by 2025 one third of the world’s population will be covered by 5G networks.

Fintech now boasts over 70 “unicorns,” that is, startups with a valuation above USD 1bn, according to Sifted. Bitcoin’s surge over USD 40,000, while meeting the criteria for a speculative bubble, has once again highlighted the opportunity in its underlying blockchain technology.

A Silicon Valley Bank report¹ revealed that healthcare technology firms raised a record USD 15.3bn in 2020, while in terms of deal volume, healthtech exceeded biopharma for the first time. By the end of 2020, the number of IPOs over the course of the year amounted to a total market cap of USD 9.8bn, twice as much as in 2019.

Sustainability-linked investments have also surged in light of the US election outcome and Democratic win in the Senate race in Georgia. Diversified investments in greentech, spanning across renewables, smart mobility, and clean air and carbon reduction, have performed since November.

What’s next?
We still expect “The Next Big Thing” to materialize in these four areas over the decade ahead.

We expect a wave of interest in 5G technology enabling myriad business models, spurring the growth of a new generation of platform leaders capable of harnessing 5G. A IHS Markit study revealed that about USD 13.2tr worth of economic value could be generated from 5G applications by 2035.

The pandemic has triggered a shift toward contactless and mobile payments, and e-commerce. We expect fintech firms to enjoy earnings growth rates in the mid-to-high teens over the next decade, making the industry one of the fastest-growing globally.

The pandemic has simultaneously increased patient focus on health outcomes and reduced people’s ability to access care and governments’ capacity to pay for that care. We think healthtech will play a critical role in improving the efficiency and quality of healthcare in the decade ahead.

2020 was a watershed year for global climate policy. The EU and Japan pledged to go carbon neutral by 2050 and China promised to do the same by 2060. Although these are long-term targets, we expect governments to start acting in 2021, opening up attractive investment opportunities. The Blue Sweep of the White House and Congress will add additional US support for these measures too, and bolster the global focus on climate change and sustainability.

Buy into sustainability

In the Decade of Transformation, we wrote that governments, businesses, and individuals would drive a shift toward sustainable investment strategies in the decade ahead. We said many of the highest-growth opportunities are set to be sustainability-linked, such as greentech, while ESG leaders would be better placed to thrive in a post-pandemic world. We saw green bonds and multilateral development bank bonds as solid alternatives to their traditional counterparts. And impact investment strategies offer an opportunity for those looking to have a measurable positive social and environmental impact alongside market-rate financial returns.

What’s happened since?
Sustainable strategies outperformed traditional strategies in 2020. For example, The MSCI KLD 400 social index delivered returns of 21% last year, 3 ppts more than the S&P 500. Even if passing a USD 2trn climate change plan is likely to be challenging, the US election results bode well for the climate change agenda and sustainable investment strategies as a whole. It is encouraging to note that the December COVID-19 stimulus bill provided support for greentech and environmental themes.

Within greentech, battery-electric vehicles and renewable energy have received a lot of attention. with the S&P global clean energy index up 49% since publishing our Year Ahead. Meanwhile, water futures are now being traded in California, underlining the issue of water scarcity the world faces.

By the end of 2020, according to Bloomberg data, the green bond market hit the USD 1trn mark, with more than USD 400bn worth of ESG labeled bonds were issued over the course of the year, including USD 215bn worth of green bonds.

Finally, as a new US administration comes in, the impact investing community offered a list of public policy proposals to “leverage impact investing to support a just & equitable recovery.”

What’s next?
Sustainable investing remains our preferred solution for clients looking to invest globally. Carbon neutral pledges, and a promise of a return to the Paris Climate Agreement from the US, should ensure that government policies continue to try to tackle climate change and other sustainability-linked challenges. This regulatory support should not only benefit ESG leader and ESG improver strategies, but also offer long-term growth opportunities, in our view.

As we highlight in “The Next Big Thing,” we think companies in the greentech space, ranging from smart mobility to renewable energy, should benefit strongly. In addition to greentech opportunities, other sustainable investment opportunities exist in water supply systems and precision agriculture. Rising demand for clean water is creating an urgent need to replace aging infrastructure and invest in more efficient water supply systems—supporting companies across the water value chain, and more broadly companies involved in the food revolution.

In a post-pandemic, more local world, we believe companies that reduce their environmental footprint, strengthen their supply chain relationships, and those embracing diversity and remote working are likelier to benefit.

We expect green bonds to continue to show relative resilience during volatile market periods, and climate-related efforts from the EU should also support the segment. Similarly, multilateral development bank bonds offer quality and a yield pickup during a low-yield environment, in our view.

Finally, investors can add impact to their portfolios through private funds with an explicit sustainable development focus, or in engagement funds that help public companies achieve key sustainable outcomes, although we note that investments in private funds do not come without risks.
Diversify into private markets

We said we expect returns on traditional assets to be lower in the Decade of Transformation. In this context, we said private markets, although not without risk, may offer an effective way to enhance portfolio returns and diversification. The asset class has historically generated higher returns than listed markets, although it requires committing over a longer-term investment horizon.

We said that the current economic environment, one shaped by the negative economic fallout of the pandemic, low interest rates, and rapid technological change, offers a broad range of opportunities for private market managers, including: investing in dislocations, enhanced yield, and long-term growth.

What’s happened since?

The latter part of the year provided further illustrations of the opportunity set for distressed investing, as well as the demand for secular growth opportunities.

Data revealed that in 2020, US filings for corporate bankruptcy jumped to the highest level since 2009 as COVID-19 hit numerous sectors. The most severely affected businesses included those hurt most by mobility restrictions i.e. those in the retail, energy, and consumer sectors, with a total of 244 filings according to Bloomberg data.

Meanwhile, by the end of the year, the market for US initial public offerings had had its best year since 2000, whether measured by the total value of IPO issuance or first-day returns. Activity for China-domiciled companies has been comparable.

What’s next?

We continue to think that illiquid asset classes, such as private equity and private real estate, despite the inherent risk investment brings, can help investors to enhance long-term portfolio growth potential.

Rapidly recovering equity markets, the strong performance of growth stocks, and investor demand for secular growth were all contributory factors to last year’s “hot” IPO market, with a high percentage of issuing companies benefiting from the latter two factors.

Private equity is a key source of capital for innovative companies and so, against a backdrop of strong competition for available public opportunities, can provide investors with a further way to access longer-term growth themes including 5G, fintech, healthtech, and greentech.

To fully harness the potential benefits from investing in private markets, it remains important to diversify across strategies and fund vintages. To preserve the risk characteristics of an overall portfolio, we recommend that investors who are buying private equity funds exchange one unit of listed equity for one unit of private equity. We estimate that private equity allocations, as a percentage of an overall portfolio, of up to 10% for investors with a balanced risk profile or up to 20% for the most risk-tolerant investors are appropriate.

Investors do of course need to be tolerant of the additional risks associated with private market investing, which include locking up capital for extended periods of time. Private equity funds may also require investors to commit funds on a predetermined schedule, making cash flow planning critical. Private equity investing typically incurs higher fees and transaction costs than public investments demand.
Key scenarios and asset class impact

<table>
<thead>
<tr>
<th>Investment ideas</th>
<th>Top ideas</th>
<th>Upside</th>
<th>Central</th>
<th>Downside</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Diversify into private markets</td>
<td>1. Protect against the downside</td>
<td>2. Ease into markets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Scenarios

- Developed countries’ GDP returns to pre-pandemic levels by end-2021.
- Central banks stay accommodative, but start to consider tightening in late 2021 or early 2022 (good tapering).
- Discretionary fiscal impulse continues to support the economy.
- Lower real rates and a weaker dollar boost global growth over the next 12 months.
- Vaccine rollout accelerates. Sufficient part of the key risk group will be vaccinated in 1Q.
- A partial rollback of existing trade tariffs raises global growth.
- Developed countries’ GDP returns to pre-pandemic levels in 2022.
- Central banks stay accommodative.
- Real rates remain low and stable over the next 12 months.
- Fiscal impulse fades moderately and gradually, as governments adapt to economic recovery.
- Recurring COVID-19 waves likely, but limited public fear and restrictions fade gradually with sufficient vaccinations by mid-21.
- Global trade is more nuanced and the US takes a targeted approach.
- Diminishing fiscal impulse unable to compensate for economic weakness.
- Initially, monetary policy is supportive, but eventually tapers as inflation rises (bad tapering).
- Vaccine availability is delayed, or vaccines show lower efficacy than initially thought.
- Growth is hurt by renewed global trade tensions such as US vs. China.
- An asset price bubble inflating in 2021 and bursting eventually later.

Asset class impact (targets for December 2021)

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Upside</th>
<th>Central</th>
<th>Downside</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>4,300</td>
<td>4,000</td>
<td>3,200</td>
</tr>
<tr>
<td>Euro Stoxx 50</td>
<td>4,100</td>
<td>3,800</td>
<td>3,000</td>
</tr>
<tr>
<td>MSCI EM</td>
<td>1,600</td>
<td>1,450</td>
<td>1,050</td>
</tr>
<tr>
<td>SMI</td>
<td>12,000</td>
<td>11,300</td>
<td>9,500</td>
</tr>
<tr>
<td>USD IG spread</td>
<td>50bps</td>
<td>80bps</td>
<td>200bps</td>
</tr>
<tr>
<td>USD HY spread</td>
<td>320bps</td>
<td>400bps</td>
<td>700bps</td>
</tr>
<tr>
<td>EMBIG spread</td>
<td>280bps</td>
<td>340bps</td>
<td>550bps</td>
</tr>
<tr>
<td>EUR USD</td>
<td>1.32</td>
<td>1.27</td>
<td>1.22</td>
</tr>
<tr>
<td>Gold</td>
<td>USD 1,500–1,600/oz</td>
<td>USD 1,800/oz</td>
<td>USD 2,000–2,100/oz</td>
</tr>
</tbody>
</table>

Note: Asset class targets above refer to the respective macro scenarios. Individual asset prices can be influenced by factors not reflected in the macro scenarios.
Source: UBS, as of 14 January 2021
## Asset class forecasts

### Commodities

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Spot</th>
<th>Jun 2021</th>
<th>Dec 21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brent crude oil (USD/bbl)</td>
<td>56.1</td>
<td>60.0</td>
<td>63.0</td>
</tr>
<tr>
<td>WTI crude oil (USD/bbl)</td>
<td>52.9</td>
<td>57.0</td>
<td>60.0</td>
</tr>
<tr>
<td>Gold (USD/oz)</td>
<td>1,845</td>
<td>1,900</td>
<td>1,800</td>
</tr>
<tr>
<td>Silver (USD/oz)</td>
<td>25.2</td>
<td>29.0</td>
<td>27.0</td>
</tr>
<tr>
<td>Copper (USD/mt)</td>
<td>8,009</td>
<td>9,500</td>
<td>8,500</td>
</tr>
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</table>

Source: UBS, as of 13 January 2021

### Currencies (Developed Markets)

<table>
<thead>
<tr>
<th>Currency Pair</th>
<th>Spot</th>
<th>Jun 2021</th>
<th>Dec 21</th>
<th>PPP</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURUSD</td>
<td>1.21</td>
<td>1.25</td>
<td>1.27</td>
<td>1.29</td>
</tr>
<tr>
<td>USDJPY</td>
<td>104</td>
<td>105</td>
<td>107</td>
<td>76</td>
</tr>
<tr>
<td>GBPUUSD</td>
<td>1.37</td>
<td>1.40</td>
<td>1.43</td>
<td>1.54</td>
</tr>
<tr>
<td>USDCHF</td>
<td>0.89</td>
<td>0.87</td>
<td>0.87</td>
<td>0.93</td>
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<tr>
<td>EURCHF</td>
<td>1.08</td>
<td>1.09</td>
<td>1.11</td>
<td>1.19</td>
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<tr>
<td>EURGBP</td>
<td>0.89</td>
<td>0.89</td>
<td>0.89</td>
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<tr>
<td>AUDUSD</td>
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<td>0.80</td>
<td>0.66</td>
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<tr>
<td>USDCAD</td>
<td>1.27</td>
<td>1.25</td>
<td>1.22</td>
<td>1.21</td>
</tr>
<tr>
<td>EURSEK</td>
<td>10.12</td>
<td>10.20</td>
<td>10.10</td>
<td>9.66</td>
</tr>
<tr>
<td>EURNOK</td>
<td>10.28</td>
<td>10.40</td>
<td>10.30</td>
<td>10.83</td>
</tr>
</tbody>
</table>

Source: UBS, as of 13 January 2021

### Currencies (Emerging Markets)

<table>
<thead>
<tr>
<th>Currency Pair</th>
<th>Spot</th>
<th>Jun 2021</th>
<th>Dec 21</th>
</tr>
</thead>
<tbody>
<tr>
<td>USDCNY</td>
<td>6.5</td>
<td>6.2</td>
<td>6.2</td>
</tr>
<tr>
<td>USDDIDR</td>
<td>14,059</td>
<td>13,800</td>
<td>13,800</td>
</tr>
<tr>
<td>USDINR</td>
<td>72.9</td>
<td>71.0</td>
<td>70.0</td>
</tr>
<tr>
<td>USDKRW</td>
<td>1,098</td>
<td>1,100</td>
<td>1,060</td>
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<tr>
<td>USDRUB</td>
<td>74</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>USDTRY</td>
<td>7.4</td>
<td>7.0</td>
<td>7.6</td>
</tr>
<tr>
<td>USDZAR</td>
<td>5.3</td>
<td>5.0</td>
<td>5.0</td>
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<tr>
<td>USDMXN</td>
<td>19.9</td>
<td>19.5</td>
<td>19.5</td>
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Source: UBS, as of 13 January 2021
Asset class forecasts

<table>
<thead>
<tr>
<th>Asset class and economic forecasts</th>
<th>Rates and bonds</th>
<th>Base rates</th>
<th>10-year yields (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current</td>
<td>Jun 2021</td>
<td>Dec 21</td>
</tr>
<tr>
<td><strong>USD</strong></td>
<td>0.13</td>
<td>0.09</td>
<td>0.09</td>
</tr>
<tr>
<td><strong>EUR</strong></td>
<td>-0.50</td>
<td>-0.50</td>
<td>-0.50</td>
</tr>
<tr>
<td><strong>CHF</strong></td>
<td>-0.75</td>
<td>-0.75</td>
<td>-0.75</td>
</tr>
<tr>
<td><strong>GBP</strong></td>
<td>0.10</td>
<td>0.10</td>
<td>0.10</td>
</tr>
<tr>
<td><strong>JPY</strong></td>
<td>-0.02</td>
<td>-0.10</td>
<td>-0.10</td>
</tr>
</tbody>
</table>

Source: UBS, as of 13 January 2021

Economic forecasts

<table>
<thead>
<tr>
<th>GDP (%)</th>
<th>Inflation (%)</th>
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<tbody>
<tr>
<td><strong>Americas</strong></td>
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<tr>
<td>US</td>
<td>-3.5</td>
</tr>
<tr>
<td>Brazil</td>
<td>-4.2</td>
</tr>
<tr>
<td>Canada</td>
<td>-5.5</td>
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<tr>
<td><strong>Europe</strong></td>
<td></td>
</tr>
<tr>
<td>Eurozone</td>
<td>-7.2</td>
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<tr>
<td>Germany</td>
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<tr>
<td>France</td>
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<tr>
<td>Italy</td>
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<tr>
<td>Spain</td>
<td>-11.3</td>
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<tr>
<td>UK</td>
<td>-10.5</td>
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<tr>
<td>Russia</td>
<td>-3.5</td>
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<tr>
<td>Switzerland</td>
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<tr>
<td><strong>Asia</strong></td>
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<td>China</td>
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<tr>
<td>Japan</td>
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<td>India</td>
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<td>South Korea</td>
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<td>Developed markets</td>
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<tr>
<td>Emerging markets</td>
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</tr>
<tr>
<td>World</td>
<td>-3.5</td>
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</table>

E= Estimate
Source: UBS, as of 13 January 2021
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 GWM 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 GWM 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.

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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 treatment under the federal tax laws. 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.
January 2021 – The Year Ahead, revisited

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