UBS

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Global Economics & Strategy

The Compendium - The 10 (+1) toughest client questions we've fielded

Economics

Global

Arend Kapteyn
Economist
arend.kapteyn@ubs.com
+44-20-7567 0531

Bhanu Baweja
Strategist
bhanu.baweja@ubs.com
+44-20-7568 6833

Jonathan Pingle
Economist
jonathan.pingle@ubs.com
+1-212-713 2225

Shahab Jalinoos
Strategist
shahab.jalinoos@ubs.com
+1-212-882-5532

Alan Detmeister
Economist
alan.detmeister@ubs.com
+1-212-713 1222

Nicolas Le Roux
Strategist
nicolas.le-roux@ubs.com
+33-14-953 2118

Yu Song
Economist
S1460526010002
yu-za.song@ubs.com
+86-10-5832 8508

Matthew Mish, CFA
Strategist
matthew.mish@ubs.com
+1-203-719 1242

William Deng
Economist
william-w.deng@ubs.com
+852-2971 6765

Felix Huefner
Economist
felix.huefner@ubs.com
+49-69-1369 8280

Grace Lim
Economist
grace-k.lim@ubs.com
+65-6495 5965

Gyorgy Kovacs
Economist
gyorgy.kovacs@ubs.com
+44-20-7568 7563

Using our frameworks to answer the toughest investor questions

In this note, Team UBS tackles the most difficult questions we have received from investors. Short one-page answers are used, with a few charts to make the case. A summary of the highlights can be found on pages 2-3. We usually present 10 questions but have added an additional 'bonus' question on Hungary given the wave of client interest following the recent election outcome.

The 10 questions are:

1. What is the impact of the energy crisis on global supply chains?

2. Why have equities risen despite higher oil prices?

3. Can incoming Fed chair Warsh deliver rate cuts?

4. What are the right hedges to protect portfolios?

5. What's more important to the global economy: AI or energy?

6. Are we seeing signs of de-dollarisation?

7. How disinflationary is AI?

8. What is the fiscal response to the Iran conflict?

9. Is China reflating?

10. Will private credit infect public credit?

Bonus question:

11. Hungary: How much can the election outcome shift the macro?

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Summary of Essays

1. What is the impact of the energy crisis on global supply chains?

Global supply chain stress has increased by 1.3 standard deviations since the Middle East conflict started—the second largest two month increase since the pandemic driven spike in July 2020. The deterioration is concentrated in air freight costs, delivery times, and oil & gas shipping in Asia. By contrast, there is no clear evidence yet of volume disruption to other shipping routes or non-energy trade; orders/inventories remain stable and shipping cost metrics have increased relatively modestly. In Asia, where supply chain stress is most acute, the Philippines, Thailand and Vietnam appear most affected, but rationing has been limited so far to India (targeted gas allocations) and non-binding fuel quotas in Indonesia and Malaysia. North Asia (Korea, Taiwan, China, Japan) appears more resilient, supported by stronger inventories and prioritization of critical sectors such as semiconductors.

2. Why have equities risen despite higher oil prices?

The closure of the Strait of Hormuz has coincided with arguably a bigger and more sustained force - the AI infrastructure build out. The latter has dominated the market narrative because it has dominated earnings (S&P earnings growth is in the 91st percentile), while US growth has been resilient. AI capex could potentially be compromised by much higher electricity or financing costs but we see no evidence of that yet. While the US and North Asian markets will be supported by the strength of the AI cycle, equity markets in Europe, Japan, India and ASEAN are much more vulnerable to higher energy prices.

3. Can incoming Fed chair Warsh deliver rate cuts?

When the President posted to TruthSocial that he intended to nominate Kevin Warsh as the next Chair of the Federal Reserve Board, futures markets were pricing a 51% chance of a June rate cut. Six months later the world looks a lot different. Core PCE inflation is back above 3.0%. Committee divisions are spilling into the open. The labor market does not look all that strong but hasn't broken yet. Inflation risks beyond rising energy prices are mounting. Can he deliver rate cuts?

4. What are the right hedges to protect portfolios?

Rising Middle East tensions are fueling stagflation fears, with higher energy prices lifting inflation while weighing on growth and undermining traditional diversification. Historically, such environments have been challenging for equities, while TIPS, curve steepeners, and defensive equity positioning have offered more consistent protection. With tail hedges costly and timing uncertain, assets combining negative beta and positive carry stand out as attractive, pragmatic hedging solutions.

5. What's more important to the global economy: AI or energy?

Viewed in isolation, the global energy disruption is unambiguously negative. However, trade in tech is nearly 2x larger than trade in energy, and memory prices have increased 8x faster than oil since the middle of last year. We estimate that economies where AI related gains outweigh higher energy costs account for more than 50% of global GDP. Leaving aside the obvious (net energy exporters that are also AI beneficiaries), China, Korea and Taiwan are examples of energy importers where the AI gains outweigh the energy costs. That equation could change if energy prices moved meaningfully higher, if equity markets corrected on growth fears, if energy were physically rationed, or if the energy driven slump in activity affected the AI capex cycle itself.

6. Are we seeing signs of de-dollarisation?

The concept of de-dollarization has received still greater interest since Liberation Day in April 2025. The actual data, however, show only modest and ambiguous shifts: the USD's share of FX reserves is drifting lower but still historically high, FX hedging behavior has not meaningfully changed, demand for US assets remains strong due to high rates and structural advantages (e.g., AI leadership). Alternatives like the CNY face constraints such as capital controls. Although there are small signals (e.g., rising CNY payment usage and softer USD skew pricing), FX markets overall do not indicate a major structural break, implying that any move away from the dollar, if it occurs, is likely to be slow and incremental rather than imminent.

7. How disinflationary is AI?

AI adoption should lead to increased productivity, reducing labor costs and lowering inflation. However, in the near-term AI adoption appears to be pushing up US core PCE price inflation through higher prices for technology goods and through stock price rises leading to wealth effects and higher financial services prices (though the impact of AI appears much smaller on US CPI inflation and on European inflation). Historically higher productivity growth has been correlated with lower inflation, though it was not in the decade prior to the pandemic. Increases in unemployment are a common concern during waves of technological adoption, and higher unemployment could push down inflation, but unemployment did not move up for many years during the 1990s ICT boom.

8. What is the fiscal response to the Iran conflict?

Fiscal responses to the current energy shock across the countries we cover have been overall moderate so far, adding about 0.3% of global GDP. This is well below the much larger 2022/23 response (c.1% of GDP), reflecting uncertainty about the shock's duration, tighter fiscal space, but also that many measures are temporary (and may be extended at a higher cost if energy prices remain elevated). Support has been concentrated in South-East Asia and Europe, though many European countries are providing less than previously. Policies focus on measures to dampen prices (e.g. fuel tax cuts), rather than income support, limiting their impact on growth but modestly easing inflation. Debt sustainability risks look contained so far as most measures are not heavily debt-financed.

9. Is China reflating?

Likely, but not because of the oil shock. We believe China likely exited a deflationary period which lasted 3 years. We expect inflation to rise on the back of higher energy prices and then normalize to a low level. Risks remain if the April growth weakness sustains, while policy easing is likely because CPI is still low. The end of deflation should support profits and gradually lift export prices, though margin pressure may persist.

10. Will private credit infect public credit?

We expect defaults to rise significantly in private credit markets with AI-related disruption adding an incremental 3-4% in default risk with an upside skew. While leveraged loan tech spreads have seen material weakness this year, historical comparisons to the high yield shale crisis suggest that individual sector level stress often spreads to other second-order sectors with some lag, with additional risk of cross-market correlations picking up. Private and public credit markets are inherently intertwined, and the channels for spillover are often underappreciated, including via overlapping investor bases and issuer holdings across markets, reduced debt issuance, and other forms of hidden leverage in bank and non-bank lending. While private credit is not yet at a systemic tipping point, the combination of rising defaults, embedded leverage, and increasing interconnectedness suggests that risks are building.

11. Hungary: How much can the election outcome shift the macro?

Hungary has attracted a wave of client interest, following Peter Magyar's TISZA party landslide victory in April, which gave the party a constitutional parliamentary majority. We think this creates a major opportunity for Hungary to progress on key economic, political and foreign policy reforms. Markets are currently focusing on three major aspects of macroeconomic change: a) unlocking EU funds that were previously blocked under the rule-of-law considerations against Hungary—which should boost growth, help with FX reserves and fiscal consolidation; b) priming Hungary for Euro adoption by 2030; and c) relatedly, carrying out a fiscal consolidation to lower the budget deficit to 3% by 2030.

1. What is the impact of the energy crisis on global supply chains?

Arend Kapteyn
Pierre Lafourcade
Grace Lim
Cristian Nedelscu

Our supply chain tracker has so far deteriorated about 1.3-1.4 standard deviations (a third of the supply chain stress in '21/'22).

We relaunched last week our Global Supply Chain Stress index (see here), which we had last published during the pandemic, to assess disruptions stemming from the Middle East conflict. The latest May reading shows the index rose by 1.3 (median) to 1.4 (average) standard deviations over March-April—the second-largest two-month increase since the pandemic-driven spike in July 2020 (Figure 1). The increase is concentrated in airfreight (costs up 2.3 standard deviations), delivery times (up 1.7 standard deviations), and oil and gas shipping activity in Asia (nearly a 5 ½ standard deviation deterioration). By contrast, there is no clear evidence yet of volume disruptions across other shipping routes or non-energy trade. Ratios of orders to inventories remain stable, and our five cargo shipping cost measures have risen only modestly (around 0.9 standard deviations, see Figure 3 for detail).

The supply chain stress is so far concentrated in disruption of Asian oil/gas shipping traffic, air freight costs and delivery times. The stress appears narrower than in '21/'22.

Our index complements those produced by the New York Fed and the World Bank (here and here). We judge the former to be loading too heavily on PMI data (21 series out of 27 vs 10 out of 23 for our indicator), while the latter is a pure shipping tracker with no price data, and it tracks container ships exclusively. This was the appropriate metric for the pandemic shock because the supply constraints were mostly related to stranded ships in ports. We would argue that today, the constraint is on the flow of oil and gas across the globe, with a lead on the flow of goods. Accordingly, our satellite tracking of ships focuses on the movement of oil and LNG tankers in Asian waters, where supply chain bottlenecks are currently most acute.

There is little sign of disruption to non-oil & gas shipping traffic.

In our April 30 note, we showed how global oil/gas shipping traffic had fallen by 13% from pre-Middle East conflict levels—closely matching the disruption through the Strait of Hormuz—and how the various regions were trying to reroute ships to find alternative energy supplies. Figure 2 examines whether that energy shock is spilling over into broader shipping activity. A key question is whether fuel shortages are beginning to weigh on overall trade flows, providing an additional transmission channel to global supply chains. PMI delivery times have already lengthened, but it remains unclear how much reflects product shortages versus shipping constraints.

We estimate oil/gas shipping traffic to be running 16% below normal, and non-oil & gas just 3% below normal.

The way we measure shipping activity is with our "momentum" measure of global shipping traffic—defined as tonnes of cargo multiplied by nautical miles travelled per day. We've aggregated the daily data at a monthly frequency (May is the average of the daily data month-to-date), and z-scored it over the full sample. Oil and gas shipping has continued to deteriorate, now around 4 standard deviations below normal. By contrast, non-energy shipping weakened through April (-2 standard deviations) but has partially recovered in May (now around -0.7 standard deviations). In level terms, non-energy related shipping/ cargo traffic fell 5% in March (vs the prior 12m average) and 13% in April but is now back to just 3% below normal. In Asia, where energy shortages appear most acute, non-energy volumes were 10% below normal in April but are now running slightly above normal. In the Gulf, however, non-energy shipping remains severely disrupted (around 83% below normal), reflecting the broader impact of the Strait of Hormuz bottleneck on both energy and non-energy flows.

In Asia, the Philippines, Thailand and Vietnam appear most affected (alongside India which has already introduced some rationing), and Korea, Taiwan, Japan and China the least.

In our note "Fuel stress in Asia: how are economies coping?", we examined disruptions across Asia, where the markets estimate supply chains to be under the most strain. Perhaps unexpectedly, fuel availability has remained relatively stable, after reports of petrol stations running dry peaked in mid-March. This reflects temporary buffers—such as inventories, shipping lags, supplier substitution, and government intervention—rather than improved supply conditions. Rationing has been limited so far: India has introduced targeted gas allocation, while Indonesia and Malaysia have implemented non-binding fuel quotas. Although downstream segments like transport fuels and power generation remain broadly supplied, stress is emerging further along the value chain. Force majeure declarations and disruptions have led to shortages in chemicals (including plastics, PVC, and fertilizers), signalling broader strain, while forward schedules point to cuts in regional and domestic air traffic. Regionally, North Asia (Korea, Taiwan, Japan, China) appears more resilient, supported by stronger inventories and prioritization of critical sectors such as semiconductors. In ASEAN, the Philippines appears most affected, with rotational brown-outs over the past week driven by a combination of heatwaves and supply disruptions, followed by Thailand and Vietnam.

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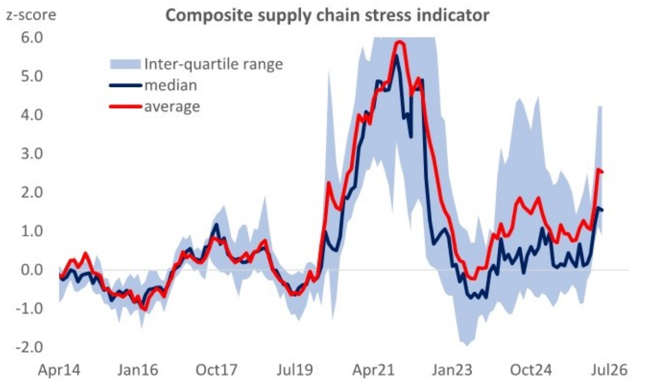
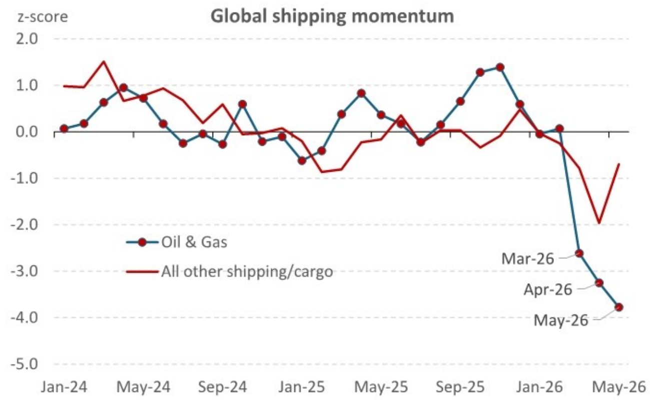
Figure 1: Global Supply Chain Tracker - roughly 1.2 stdev deterioration since February



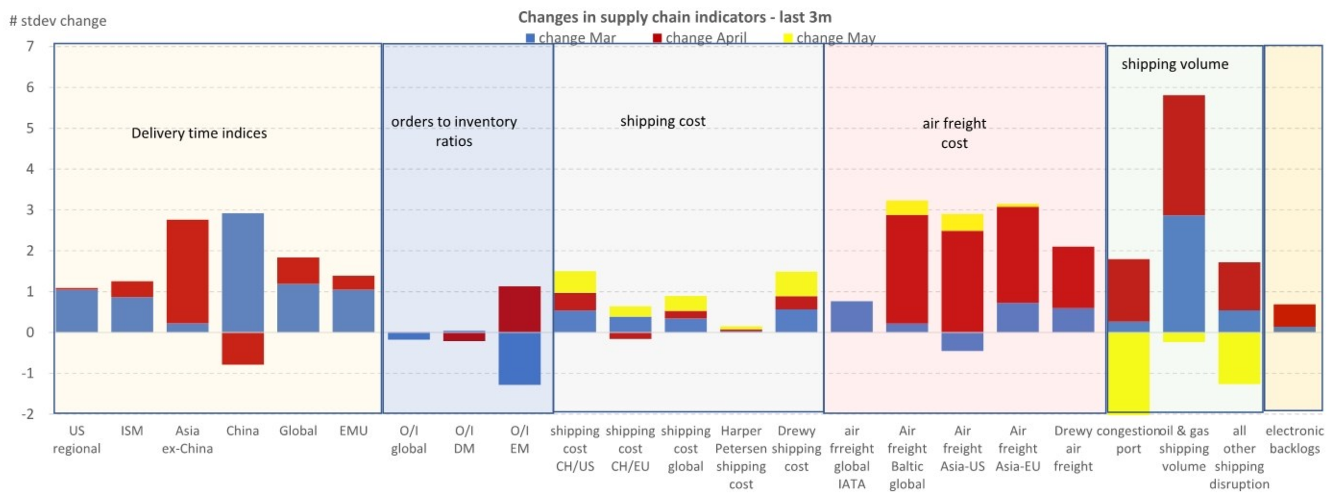
Source: UBS, Haver, Bloomberg

Figure 2: Global shipping momentum: oil & gas versus everything else



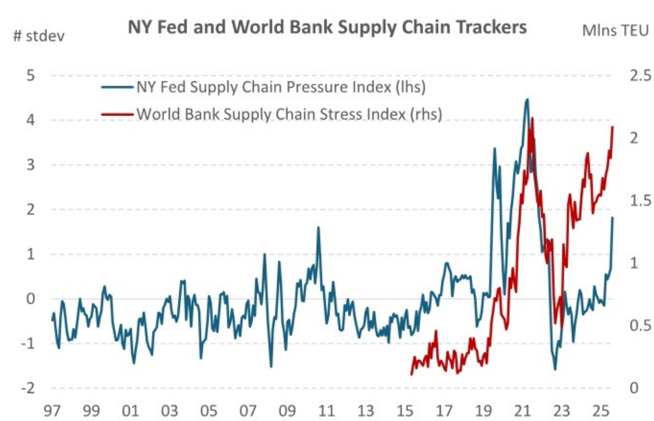
Source: LSEG/Refinitiv, UBS calculations [chart shows tonnes of cargo multiplied by nautical miles travelled per day]

Figure 3: Global supply chain tracker - changes last 3 months by component (in # of stdev)



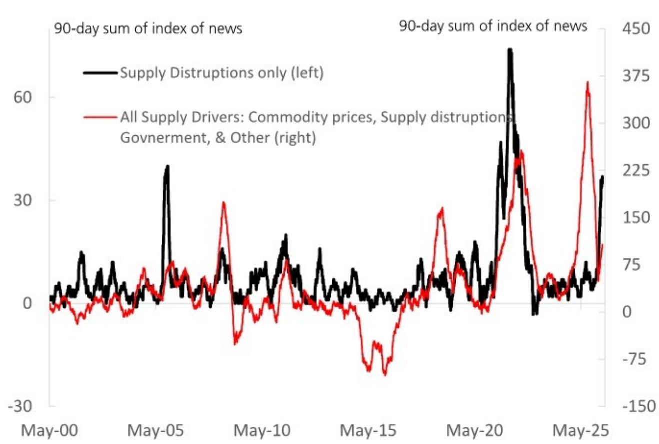
Source: UBS, Haver, Bloomberg

Figure 4: Alternative supply chain trackers



Source: UBS, Haver

Figure 5: The BIS index of news of supply drivers of inflation sentiment has been rising



Source: BIS, Haver, UBS

2. Why have equities risen despite higher oil prices?

Bhanu Baweja
Keith Parker
Gerry Fowler
Andrew Garthwaite

Despite a 53% rise in pump prices, US GDP is at trend, S&P500 earnings are deep in the right tail.

Strong AI investment and continued positive wealth effects have meant that both hard and soft data in US have held up better than may have been feared. Despite a 53% rise in the national average gas price, US real GDP and the national ISM sit squarely at the median of their distributions. More noteworthy is the fact that expectations of 12m forward earnings growth are now 20%, or the 91st %ile of a 38 year distribution (Figure 6). This kind of growth is typically seen immediately after recessions, not after earnings have already risen at a CAGR of 19.6% in the prior 24 months. Semiconductors, Tech Hardware and Industrials, among the most cyclical of sectors, have detached from the flow of nominal GDP, swept up by a more powerful structural influence of Hyperscaler capex (Figure 7). SPX Q1 EPS beat by 12%+ and grew 28% y/y, driven by Tech+ sales and EPS growth of 25% y/y and 60%, respectively.

Few signs so far of energy or financing costs compromising hyperscaler capex.

The question is whether Tech+ and AI capex can sustain the torrid growth as the Strait of Hormuz closure leads to higher energy costs, supply chain disruptions and higher financing costs. We estimate total direct and indirect oil & gas cost for Semis & Equip is just ~60bp using Leontif input-output decomposition. Tech Hardware exposure is ~2.5%. Amid supply risks, TSMC is best in class in managing supply chains while hyperscalers have proven themselves adept at managing continued bottlenecks across components. Higher rates can create indigestion in credit markets with $240bn of hyperscaler debt issuance expected this year. But IG inflows are stronger YTD than in the last 2yrs, when spreads still came in - and hyperscalers overall have other sources of liquidity they can likely tap to sustain the AI buildout.

Enterprise AI spend accelerating.

Could AI spend tail off more simply due to weaker than expected monetizable demand for AI? UBS Evidence Lab's Enterprise AI Survey shows corporates materially ramped their deployments of AI projects and that 2026 will be a year of significant investment/roll-out, with avg expected AI spend up 25% sequentially. The rally accelerated on Apr 7-8 when the ceasefire coincided with news that Anthropic revenue ARR more than doubled to $30bn in less than two months, allaying concerns about ROI on the data center build out as user spend on models surged.

CTAs and Retail still bought as vol remained low.

The buy-the-dip mentality from retail has become increasingly embedded since Covid through Liberation day. Retail limiting market downside limits volatility, which in turn invites more flows from CTAs. A large change in the growth-inflation dynamic can lift volatility, but this hasn't happened as growth so far seems unaffected. While single stock volatility has been high, correlation and (therefore) index vol have been low and fundamental agnostic CTAs have chased momentum (Figure 8). All this can move in reverse if growth data materially deteriorates, but pre-empting that has been a losing strategy.

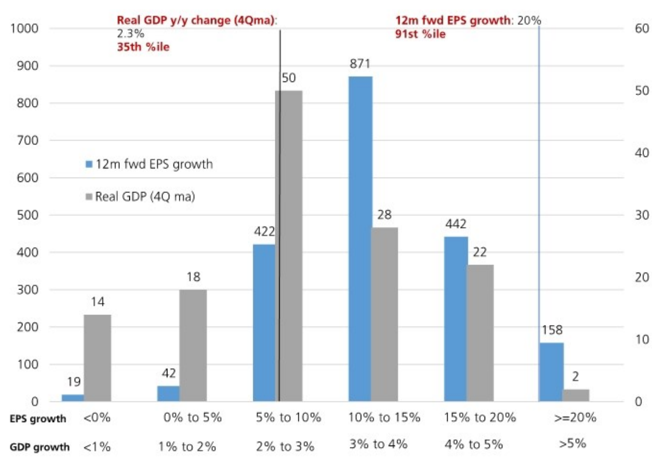
Energy-affected industries may see pain but not large enough to create a major drawdown in the S&P500.

Consumer, Financials, and selected Industrials have underperformed the most through previous oil supply shocks (Figure 9). This pattern is coming through this shock too and may extend as fiscal help to the US consumer is exhausted amidst stalled real disposable income. Any widening of credit spreads will likely hurt smaller Financials badly. But, in the US, if Tech earnings hold up, the hit can only go so deep. Tech+ is 50% of the index (Figure 10). Excluding the part of Software and Svcs which may be at risk from AI, exposure to AI and its infrastructure accounts for ~45% of the S&P500.

Eurostoxx, Japan, India, ASEAN much more exposed.

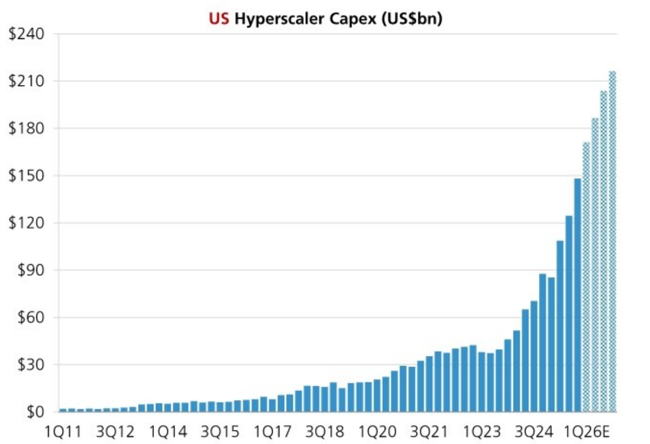
At an index level, EM will perform well as long as Hyperscaler capex is supply, not demand, constrained. But in addition to N Asia being 69% of EM's market cap, the index is also helped by Energy and Materials forming a large part of Brazil, China (reflating despite high energy costs) and MENA. India and ASEAN are most exposed in EM. Europe, and Japan have also seen a pick-up in earnings expectations and valuations without being backed by the same fundamentals as the US. There is room for disappointment here. Unlike the US, soft data in Europe has turned lower with weaker sectoral PMI orders and higher input costs pointing to pressure on elevated margins (Figure 11). Current expectations of 16% earnings growth in Eurostoxx through 2026 are likely to prove optimistic.

Figure 6: Distribution of US 12m fwd earnings growth and GDP growth



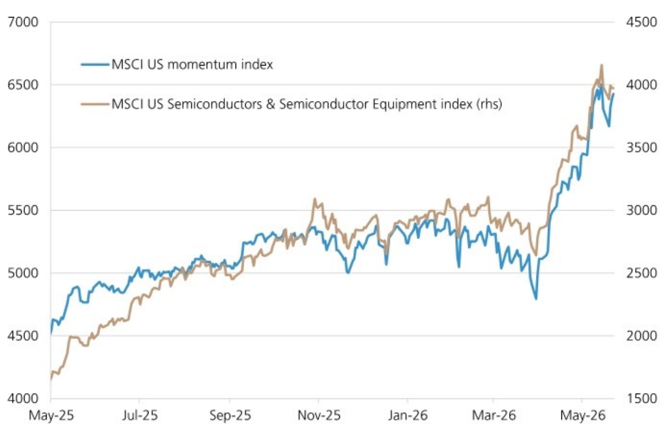
Source: Haver, MSCI, IBES, Datastream, UBS. Note: Data since 1988.

Figure 7: US Hyperscaler Capex



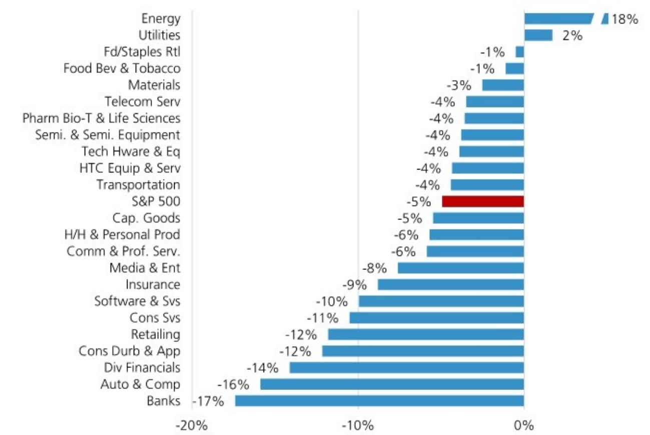
Source: Company data, UBS estimates

Figure 8: MSCI US momentum index and MSCI US Semiconductors index performance



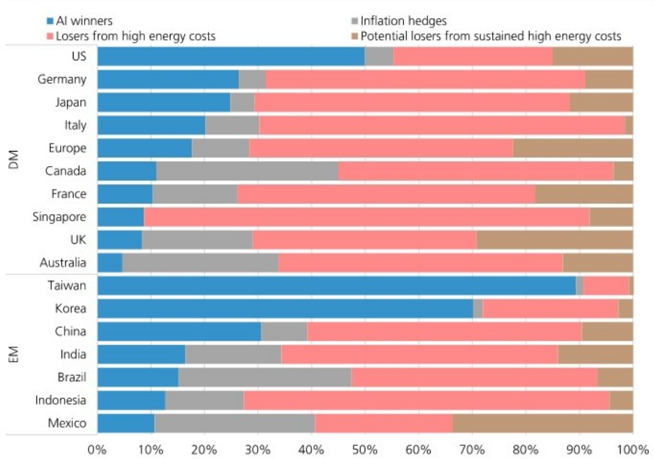
Source: MSCI, Datastream, UBS

Figure 9: S&P 500 time weighted average perf. during historical periods of supply driven oil price increase



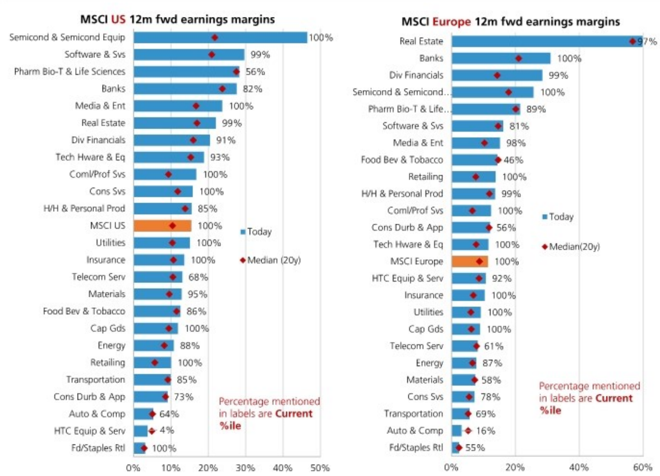
Source: Datastream, UBS

Figure 10: Weights in major DM and EM indices



Source: MSCI, Datastream, UBS. Note: AI winners = Info tech, Comm Svs and Utilities , Inflation hedges = Energy and Materials , Losers from high energy costs = Cons Disc, Financials & Industrials, Potential losers from sustained high energy costs = Staples, Real Estate & Health care.

Figure 11: MSCI US & Europe 12m fwd earnings margins



Source: MSCI, IBES, Datastream, UBS.

3. Can incoming Fed chair Warsh deliver rate cuts?

Jonathan Pingle
Alan Detmeister
Abigail Watt

When President Trump posted to TruthSocial that he intended to nominate Kevin Warsh as the next Chair of the Federal Reserve Board, futures markets were pricing a 51% chance of a rate cut at the June meeting. Surely, the narrative went, the new Chair would be under pressure from the White House to cut at his very first meeting.

Six months later core PCE inflation is back above 3.0%. Committee divisions are spilling into the open. The labor market does not look that strong. Inflation risks beyond rising energy prices are mounting. Can Kevin Warsh deliver rate cuts?

We have argued that to lower rates 1) the Chair would need to convince other FOMC members, and 2) the data would need to align sufficiently to do so. In a recent note, we considered the Committee challenges, see here. Set aside the regional Fed Presidents that rotate on and off the FOMC and consider who makes up the majority that decides policy: the 7 Governors on the Board, and the FRBNY President. Deference from the core of the Committee may have changed. Since 1960, nearly 20% of FOMC meetings have multiple dissents. However, from 1995 to 2024, Governors on the Board of Governors, permanent voting members of the FOMC, dissented twice. From September 2024 until today, there have been 11 dissents by Governors. The shackles have been thrown off.

Hard to cut, or even signal cuts, when inflation is still going up.

Second, the data is not lining up. The market is pricing in hikes. We think the labor market is softer than the headlines (for example, without the two-month drop in the labor force participation rate the unemployment rate would be 4.7%). But nothing has broken, layoffs remain contained, and to FOMC participants that implies diminishing downside risks. Plus, inflation has moved up, and gas prices are likely to push inflation higher in the May data released in June. Hard to cut when inflation is still rising.

Some of the FOMC members Chair Warsh needs to convince to cut do not sound so inclined.

Would Warsh hike soon, September, December? Maybe, but we do not think so. The FOMC wants the market to be prepared for that option, but almost all participants' base cases do not appear to be hiking, at least not yet. That implies we are still a few meetings away, and the data needs to line up. In a recent speech, not a permanent voting member, but an FOMC member this year, Anna Paulson laid out three criteria we think fits the thinking of the core of the Committee (Jay Powell, John Williams, Philip Jefferson, for example). One, if growth needed to be restrained: "*If we see growth moving above potential...if we saw the unemployment rate go down*." Two, if longer-run inflation expectations rise: "*inflation expectations I would be monitoring really carefully*." Three, if the energy price shock spreads into more persistent components of inflation: "*are the shocks moving outside their lane*."

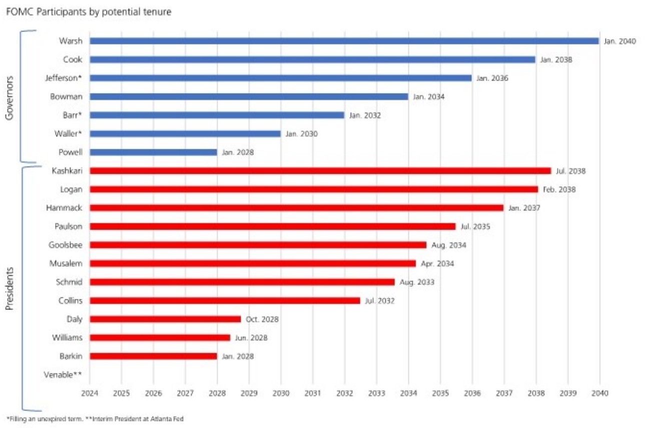
We expect him to argue that monetary policy should avoid restricting investment in AI with higher rates, because that investment could bring tomorrow's disinflation.

We expect the incoming Chair would not be inclined to raise rates until policy needed to push back against broadening inflationary pressures or aggregate demand that needed to be restrained to realign with supply. Relations with the White House could be tense if he proposes tighter monetary policy. We also expect that, although a Chair may struggle to force reluctant colleagues to act, a Chair has more ability to prevent action, in this case slow walk raising rates. We expect Chair Warsh to argue that AI's disinflationary power lessens the need to raise rates. AI could play a meaningful role in how he sets policy. "*The Fed should discard its forecast of stagflation in the next couple of years, as if subpar growth and inflation 40% above target is the best that can be done. AI will be a significant disinflationary force, increasing productivity and bolstering American competitiveness*," he wrote in the the Wall Street Journal in November. We could imagine him arguing that prudent policy should shed the conventional, backward looking nature of the inflation data, and instead policy should not restrain the investment of today that might provide the disinflation of the future.

Overall, we expect that for any policy action, in either direction, the FOMC likely needs to be convinced by the data.

Overall, we expect rate cuts to depend on the data. Instead of the risks that may materialize, consider the other case. Does the rapid pace of price increases give way to low monthly run rates in the second half of the year, demonstrating inflation resuming a path lower? Does the unemployment rate grind a few tenths higher in the coming quarters? If the answers to those questions are yes, the bar for rate cuts may not be as high as people think. We show the balanced approach rule central to the FOMC's policy discussion on the next page, which we described at length in a note last month "US outlook update". Under those circumstances rates could still be headed lower.

Figure 12: Tenure of FOMC participants



Source: Federal Reserve, UBS

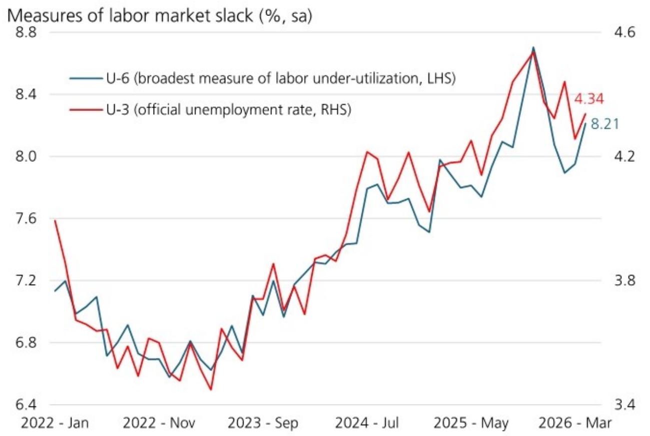
Figure 13: Turnover of FOMC participants

FOMC participants	2026	2027
Chair of FR Board & FOMC	Kevin Warsh	Kevin Warsh
Vice Chair of FRB	Philip Jefferson	Philip Jefferson
Vice Chair for Supervision	Michelle Bowman	Michelle Bowman
FRB Governor	Lisa Cook	Lisa Cook
FRB Governor	Michael Barr	Michael Barr
FRB Governor	Christopher Waller	Christopher Waller
FRB Governor	Jerome Powell*	Jerome Powell*
FOMC Vice Chair	New York: John Williams	New York: John Williams
FOMC Member	Cleveland: Beth Hammack	Chicago: Austan Goolsbee
FOMC Member	Philadelphia: Anna Paulson	Richmond: Thomas Barkin
FOMC Member	Dallas: Lorie Logan	Atlanta: ?
FOMC Member	Minneapolis: Neel Kashkari	San F: Mary Daly
Alternate Member	Chicago: Austan Goolsbee	Boston: Susan Collins
Alternate Member	Richmond: Thomas Barkin	St. Louis: Alberto Musalem
Alternate Member	Atlanta: ?	Kansas City: Jeffrey Schmid
Alternate Member	San F: Mary Daly	Cleveland: Beth Hammack
Participant	Boston: Susan Collins	Philadelphia: Anna Paulson
Participant	St. Louis: Alberto Musalem	Dallas: Lorie Logan
Participant	Kansas City: Jeffrey Schmid	Minneapolis: Neel Kashkari

* Term as Chair ended May 2026, term as Governor ends Jan 2028

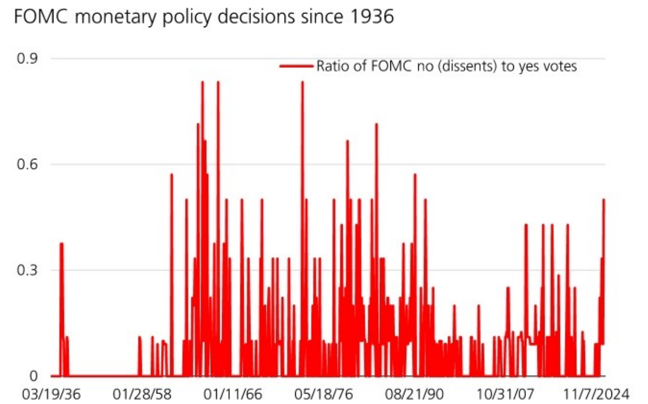
Source: Federal Reserve, UBS

Figure 14: Labour market still slackening at the margin



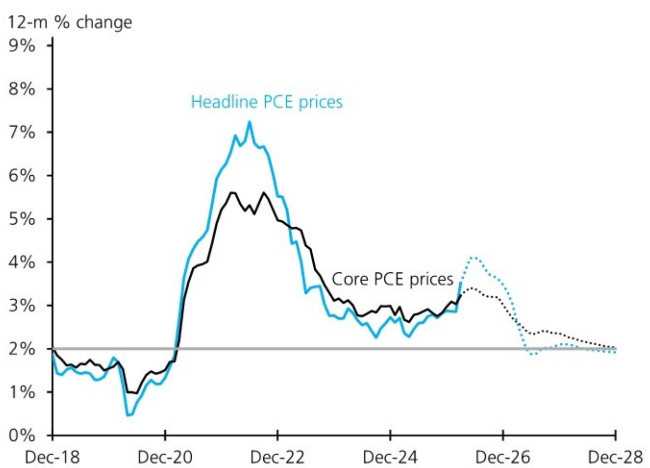
Source: BLS, Haver UBS

Figure 15: Dissents rising too



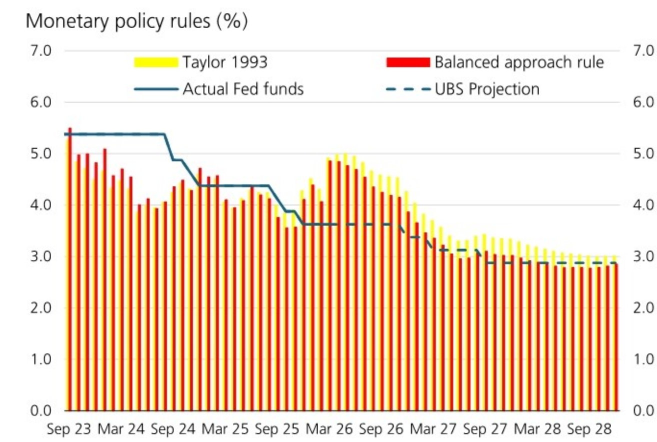
Source: Federal Reserve, UBS

Figure 16: Energy boost to headline, less so core



Source: BEA, Haver, UBS

Figure 17: Monetary policy rule implied path



Source: BEA, BLS, Haver, UBS

4. What are the right hedges to protect portfolios?

Nicolas Le-Roux
Bhanu Baweja
Elena Amoruso

Rising stagflation risks

The longer the Strait of Hormuz remains closed, the greater the risk of stagflation.

Stagflation risks are rising while the Strait of Hormuz remains closed. Although weekend reports pointed to some progress in US–Iran negotiations, higher inflation continues to erode real incomes, inventory buffers are thinning, and downside risks to growth are increasing.

Our economics team has already revised its global outlook, raising inflation forecasts by ~90bps and lowering growth by ~30bps. However, they acknowledge that we may be approaching a phase of volume disruption, which tends to have non linear effects on activity. In our “extended disruption” scenario, this translates into a cumulative drag of around 140bps on global growth in 2026–27.

Traditional diversification becomes less reliable

In such an environment, traditional diversification becomes less reliable, increasing the need to reassess which assets can effectively hedge portfolios during periods of macro stress.

What can we learn from the past?

We identify eight episodes of stagflationary stress since 1950

Since 1950, we identify eight episodes of stagflationary stress, defined as sharp growth slowdowns (ΔrGDP < -2.5%, ending in the bottom tercile) coinciding with rising inflation (ΔCPI > +1%, ending in the top tercile). During these episodes, equities have consistently struggled, with the S&P 500 declining by -12.1% on average and -20.9% relative to cash.

Long TIPS and curve steepeners in FI; defensive positioning in equities, a tilt toward quality and momentum

In fixed income, performance has been more mixed, as lower growth and higher inflation exert opposing forces on rates. That said, long TIPS and curve steepeners have historically provided more consistent protection. Within equities, defensive positioning - long defensives vs. cyclicals, large caps vs. small caps, and a tilt toward quality and momentum - has also proved effective.

In FX and commodities, short AUD/USD and long exposures to brent and gold have delivered reasonable (though less consistent) hedging properties.

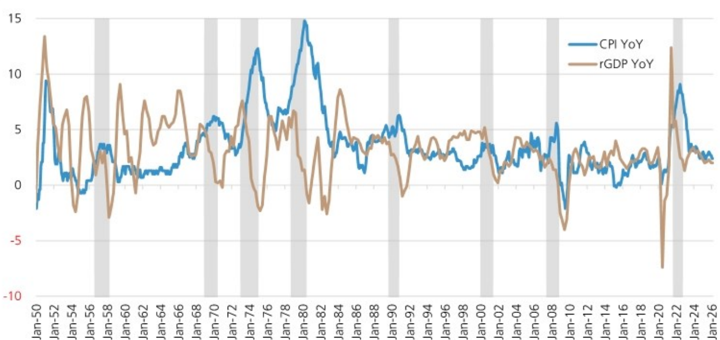
Negative beta, positive carry: the case for cheap hedges

Assets combining negative beta with positive carry stand out as attractive alternatives

Against a backdrop where AI continues to support the expansion, the timing of an equity downturn remains uncertain, making traditional tail hedges costly to maintain. In this context, assets combining negative beta with positive carry stand out as attractive alternatives.

Our models highlight several such opportunities, including short positions in Turkish and Brazilian equities, short CNH and SGD versus USD, and 2s10s curve steepeners in Canada, Europe, and the UK.

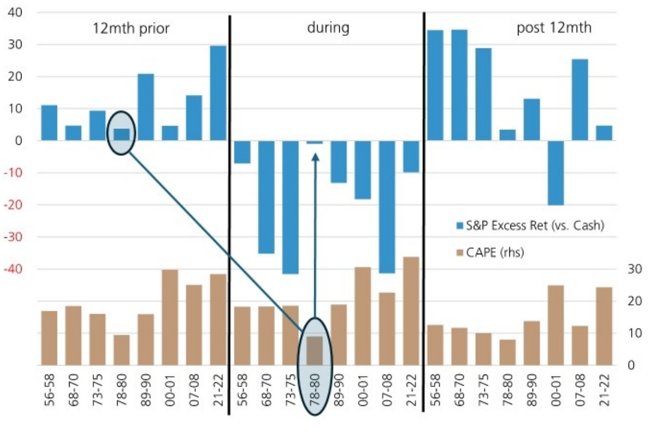
Figure 18: Since 1950, we identify eight episodes of stagflationary stress, defined as sharp growth slowdowns (ΔrGDP < -2.5%, ending in the bottom tercile) coinciding with rising inflation (ΔCPI > +1%, ending in the top tercile)



			rGDP YoY			PMI			CPI YoY		
Start	End	Length	Start	End	Chg	Start	End	Chg	Start	End	Chg
Aug-56	Apr-58	607	1.4	-2.9	-4.3	51.5	39.8	-11.7	1.9	3.6	1.7
Dec-68	Jun-70	546	5.0	0.2	-4.8	56.1	47.2	-8.9	4.7	6.0	1.3
Jan-73	Jan-75	730	7.1	-1.9	-9.0	72.1	30.9	-41.2	3.6	12.3	8.7
Sep-78	Jun-80	639	5.2	-0.1	-5.3	60.5	29.4	-31.1	8.3	14.4	6.1
Sep-89	Nov-90	426	3.9	1.3	-2.6	46.0	43.2	-2.8	4.3	6.3	2.0
Jan-00	Jun-01	516	4.6	1.4	-3.2	56.7	41.3	-15.4	2.6	3.6	1.0
Jun-07	Nov-08	519	1.9	-0.6	-2.5	54.0	38.2	-15.8	2.7	3.7	1.0
Sep-21	Oct-22	396	5.2	2.3	-2.9	60.5	51.1	-9.4	5.4	8.2	2.8

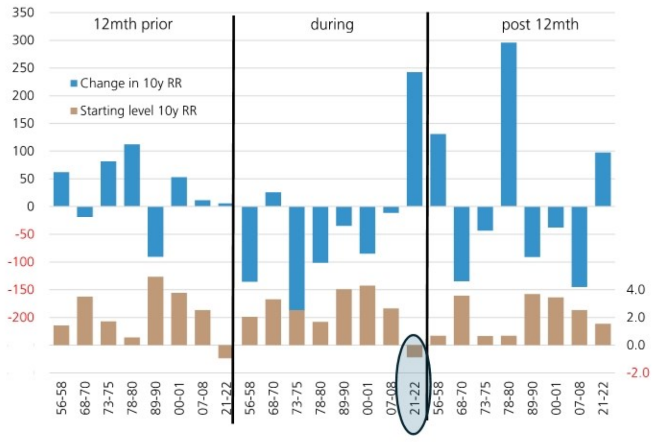
Source: UBS, Bloomberg, FRED Database

Figure 19: With the exception of 1978–80, when starting valuations were more supportive, equities have typically underperformed during stagflationary periods



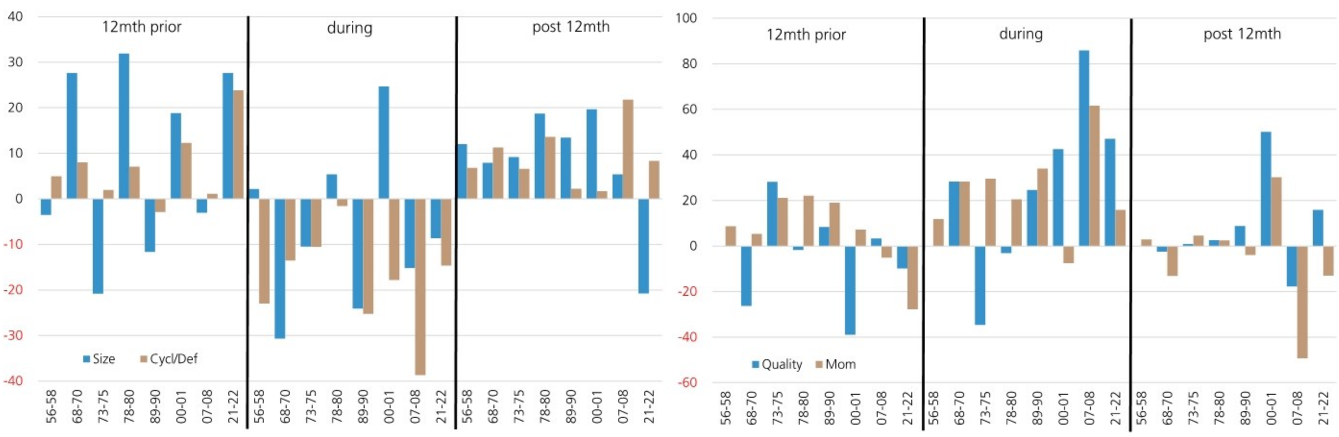
Source: UBS, Bloomberg, Shiller Database

Figure 20: TIPs have generally been an effective hedge, despite weak performance post-COVID due to very low starting real yields. With 10 year TIPS now at ~2.14%, their hedging properties should re-emerge



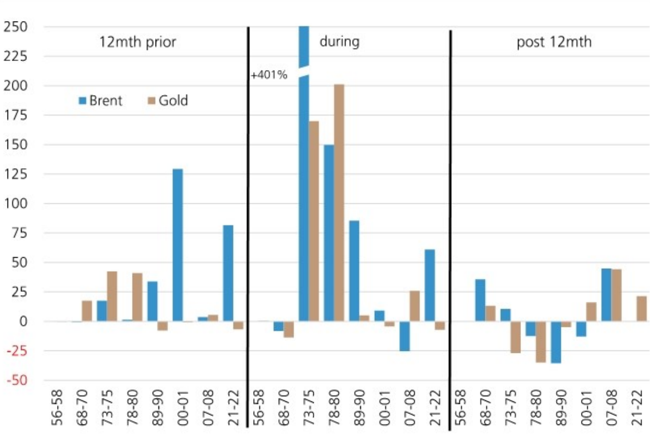
Source: UBS, Bloomberg, Shiller Database

Figure 21: A defensive tilt within equities, favoring defensives over cyclicals, large caps over small caps, and quality and momentum, has also delivered strong results.



Source: UBS, Fama & French dataset

Figure 22: In FX and commodities, short AUD/USD and long exposures to brent and gold have delivered reasonable (though less consistent) hedging properties



Source: UBS, Bloomberg, Datastream

Figure 23: Assets combining negative beta with positive carry stand out as attractive hedge

			Carry / vol		Correlation w S&P	
Asset Name	**Asset Class**	**Country**	**Current**	**10y Z-score**	**All months**	**Negative months only**
XU100	EQ	TURKEY	-0.98	-0.92	14%	33%
CA2s10s	IR Steepener	CANADA	0.89	1.19	-17%	-17%
CNH/$	FX	CHINA	-0.74	-1.61	34%	33%
IBOV	EQ	BRAZIL	-0.54	-0.50	56%	50%
SGD/$	FX	SINGAPORE	-0.54	-1.33	37%	29%
Corn	Commo		-0.53	-0.65	12%	15%
EU2s10s	IR Steepener	EUROZONE	0.49	0.87	-20%	-26%
GB2s10s	IR Steepener	UK	0.45	0.64	-14%	-30%
NZ10y	IR Swap	NEW ZEALAND	0.37	0.60	-6%	-7%
CAD/$	FX	CANADA	-0.34	-1.45	49%	46%
US_Comm_Svc	EQ Sectors	US	-0.28	-1.19	88%	85%
LmeLead	Commo		-0.24	-0.83	32%	25%
BUX	EQ	HUNGARY	-0.23	-0.03	55%	54%
Wheat	Commo		-0.23	-0.28	11%	8%
US HY Cash 7-10y	Credit	US	-0.22	-0.76	58%	45%
US HY Cash 5-7y	Credit	US	-0.21	-1.27	60%	49%
US10y	IR Swap	US	0.19	-0.25	-7%	-4%
US_Financials	EQ Sectors	US	-0.17	-0.75	85%	77%
US_Cons_Disc	EQ Sectors	US	-0.17	-0.76	90%	88%
US30Y	IR Bond Fut	US	0.13	0.52	-8%	-9%

Source: UBS, Bloomberg, MSCI

5. What's more important to the global economy: AI or energy?

William Deng
Arend Kapteyn
Abigail Watt

Our tracking estimate for global growth has fallen from 3% to 2½% annualized since the start of the Middle East conflict, though so far entirely because of a deterioration in soft data. We have lowered our global GDP forecasts by 30bp, but would likely need to make significant further adjustments if energy prices move meaningfully higher or supplies need to be rationed (see our earlier scenario note). In other words, from a pure 'delta' perspective - and taking February as the starting point - the energy disruption is unambiguously negative.

Viewed in isolation, the global energy disruption is unambiguously negative.

However, it is less clear if that is still true if one considers the tailwind that is coming from the global AI capex cycle. The value of trade in global technology products is nearly twice as high as that in global energy (Figure 25), and the price of memory/semiconductors has increased 8x faster than the Brent oil price (455% vs 55% since mid-2025 - see Figure 24). Equity markets are now above pre-Middle East conflict levels, with tech driving nearly 60% of the YTD return in MSCI ACWI and 88% of the S&P return. The market, for now at least, appears to be making a judgment that AI can outweigh energy drag. Does that make sense? After all, the AI supply chain is concentrated with relatively few economies.

However, trade in tech is nearly 2x larger than trade in energy, and prices for memory, for instance, have increased 8x faster than oil prices.

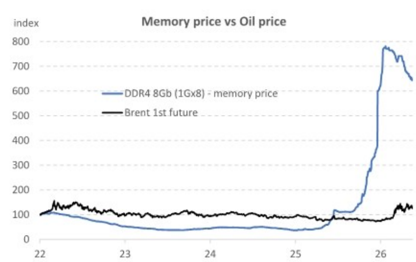
It does, as those AI economies happen to be large. We estimate that economies where AI-related gains outweigh higher energy costs account for more than 50% of global GDP. We can group economies into five broad categories (see also Figure 28):

We estimate that AI gains could outweigh energy cost for economies with more than 50% of global GDP.

Leaving aside the obvious (net energy exporters that are also AI beneficiaries), China, Korea, Taiwan are examples of energy importers where AI gains far outweigh the increase in energy costs.

- **First**, economies that are both energy exporters and AI producers—notably the US. We still view higher energy prices as a net negative for the US: the drag on real incomes and consumption outweighs the gains to energy producers, and the net energy balance is only marginally positive. However, AI capex is adding around 70–80bps to growth, and technology-driven equity wealth effects are supporting a large share of consumption. Overall, the outlook hinges on a race between resilient AI-driven investment and wealth gains at the top end of the distribution, versus the squeeze on the bottom 80% and weakness in non-tech, non-energy capex. Malaysia also fits this category, with meaningful AI hardware exposure and a positive energy balance. **Net impact: neutral to positive**.
- **Second**, economies that are key beneficiaries of the AI supply chain but are large net energy importers—most importantly Taiwan, Korea, and Mainland China. For these economies, AI-related gains more than offset higher energy costs. Korea and Taiwan, for example, capture a significant share of US AI-related investment, yet their economies are roughly 16x and 33x smaller than the US, respectively. As a result, the relative growth boost from AI is substantially larger (see Figure 30). **Net impact: positive.**
- **Third**, economies with some exposure to the AI supply chain, but not enough to offset rising energy import costs. This includes several emerging markets such as Vietnam, Thailand, and the Philippines. **Net impact: negative**.
- **Fourth**, net energy exporters with limited involvement in AI hardware production. This group includes the Middle East, developed economies such as Australia and Canada, and large emerging markets like Brazil. **Net impact: positive but volume disruption is negative for Middle East.**
- **Finally**, economies that are both net energy importers and have limited exposure to the AI supply chain—notably Europe and emerging markets such as South Africa and Chile. **Net impact: negative.**

Figure 24: Memory price vs oil price

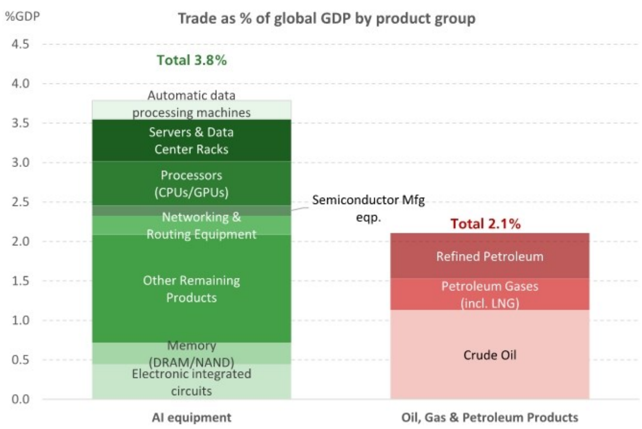


Source: Bloomberg, UBS

There are, however, a number of important caveats to the 'AI as an offset to energy' narrative. First, as we showed in this note, there are very significant upside risks to oil prices if inventories continue to deplete. There is an energy price at which the economy breaks, which could dampen incremental funding for, and investment in, AI infrastructure. Almost the entire AI supply chain currently is the mirror image of US AI spend (Figure 28). Second, comparing net trade or net GDP importance, does not do justice to the indirect effects from higher energy related inflation, including via higher fertilizer/food prices, potentially tighter monetary policy, and potentially eventual physical rationing of energy, which on average has a GDP impact 4x larger than just the price effects.

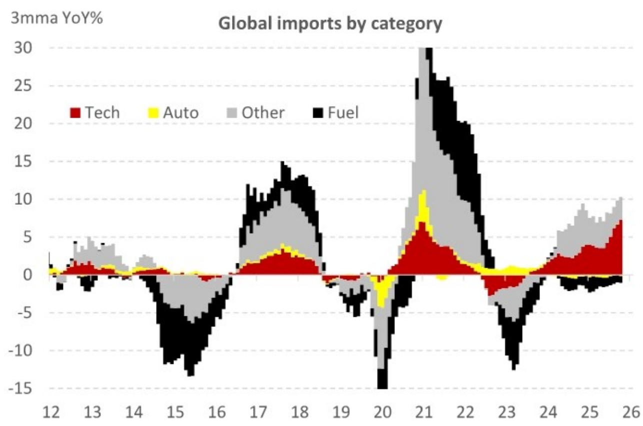
That equation could change if energy prices moved meaningfully higher, if equity markets corrected on growth fears, or if an energy driven slump in activity affected the AI capex cycle itself.

Figure 25: AI enabling trade is significantly larger than energy trade



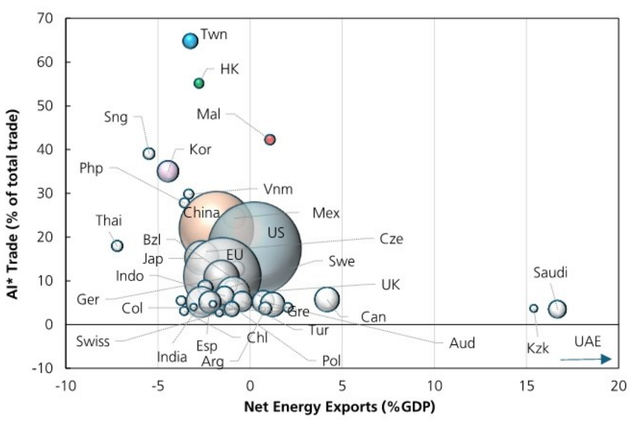
Source: WTO, UN Comtrade, UBS estimates. *The Calculation is based on WTO AI enabling product list.

Figure 26: Tech trade growth dominates global trade growth



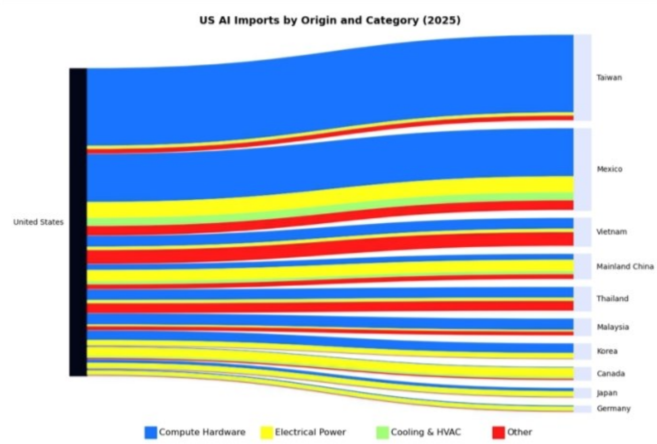
Source: Haver, UBS Calculations

Figure 27: Most economies we covered are at least benefiting from AI trade or being net energy exporters



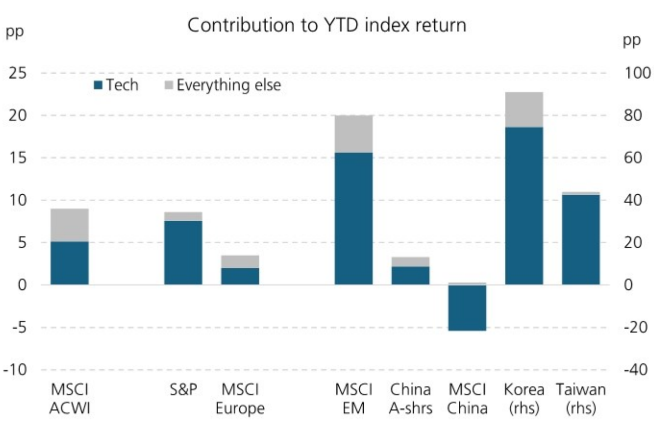
Source: WTO, UN Comtrade, UBS estimates. * The Calculation is based on WTO AI enabling product list.

Figure 28: US imports the majority of AI hardware and infrastructure from Mexico and Asia



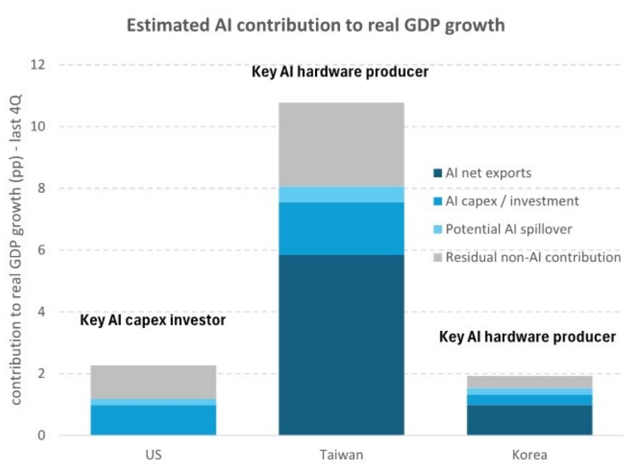
Source: US Census, UBS Calculations

Figure 29: Tech dominated equity market performance YTD



Source: Bloomberg, UBS Calculations

Figure 30: AI has been a key driver to GDP growth for those on the demand and supply chain



Source: CEIC, Haver, UBS estimates

6. Are we seeing signs of de-dollarisation?

Shahab Jalinoos
Alvise Marino
Benjamin Jarrett
Elena Amoruso

Since Liberation Day in April 2025, the concept of de-dollarization has gained attention

The concept of de-dollarization has received still greater interest since Liberation Day in April 2025. And while the USD has been more stable against the EUR and even strong against the JPY since June 2025, the CNY has been strengthening against the USD consistently even this year. This matters given that many see China as the most likely long-term political and economic rival to the US. The ongoing conflict with Iran is seen by some as a further accelerant, given that it imposes economic and political costs on the US and creates a debate, along with other aspects such as challenges to NATO, around whether the US can be relied on longer term to provide the world's most important financial network. The fact the broad USD has not gained significant ground since the Iran conflict started, despite a huge terms-of-trade shift in the US's favour, is also viewed with concern. Indeed, the idea of a "petroyuan" replacing USD-based oil trading is being mooted by some.

What is de-dollarization?

But while these ideas have conceptual validity, what is the actual evidence? What makes this difficult to answer is the breadth of potential definitions for de-dollarization. Simple USD deprecation is not a valid measure in isolation; after all, there have been many periods of multi-year USD weakness of large magnitude since floating exchange rates began in the 1970s. For simplicity we will define de-dollarization as evidence that the USD is losing ground in terms of its share of global trade payments, global reserve holdings and global financial flows against a backdrop of decreasing interest in investment in US assets and increased desire to hedge current stocks of and future flows into US assets. In addition, we will look at implied volatility pricing in FX markets to see if there are warnings of major structural breaks with the past.

The decline of the USD's footprint in global FX reserves is not a new development

What have we seen in practice? The latest COFER FX reserves data show a further decline in USD holdings to 56.8% of the total from 56.9% previously and 58.5% in Q1 2025 right before Liberation Day. But in truth the USD share was falling even before Liberation Day. And before the mid-90s, it stood at much lower levels than prevail today (Figure 31). So for us, the drift lower is still slow enough to be an inconclusive indicator.

FX hedging trends among foreign holders of US asset holdings have not changed meaningfully

As far as hedging flows go, the main problem remains the scarcity of high frequency and consistent data on what are mostly OTC arrangements. Given the scale of foreign ownership of US assets (225% of US GDP gross, 88% net), it will always be easy to argue that a big shift in hedging flows could weaken the USD significantly. But "could weaken" is a different beast to "is weakening". In the meantime, high US nominal rates dissuade hedging among Japanese and European investors. Denmark, which does unusually release monthly hedging data, shows FX hedging back to a 68% hedge ratio, exactly where it stood before Liberation Day (Figure 32). We suspect increased hedge ratios might become popular in countries that now have higher rates than the US like Australia, but not in low-rates areas.

Portfolio inflows into the US are supported by high rates and the AI boom

As for US portfolio flows, the latest BoP data show ongoing interest in net accumulation of US assets (Figure 33). A still-strong economy and the US being the epicenter of the global AI boom are central to this. As long as the US has portfolio assets that investors want to buy, de-dollarization becomes a tricky proposition. Especially if high US nominal rates also dissuade hedging.

Use of CNY is on the rise, but capital controls remain a structural constraint to wider adoption

As far as replacing the USD network for trade and financing goes, the evidence is also sparse. The most noteworthy signal is that CNY usage on SWIFT payments has been rising (Figure 34). But this is from a low starting point and arguably would be moving higher anyway without recent developments. We still feel CNY will struggle to unhinge the USD while China has capital controls. Also, the rise of stablecoins could create a totally new reason for USD networks to gain further ground, given most of that market is USD based.

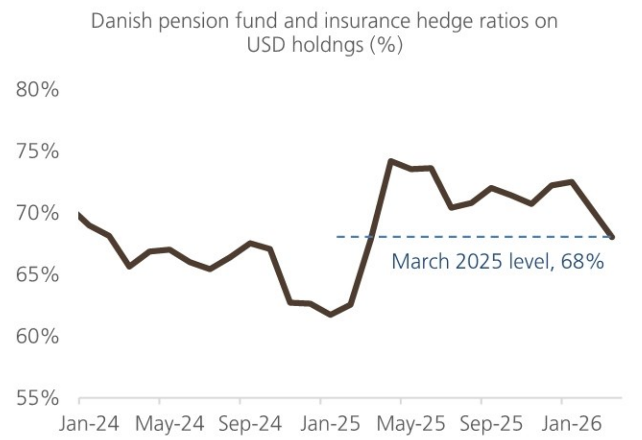
The repricing of USD risk reversal skews suggests de-dollarization will remain a topic of discussion

Finally, we note that G10 FX implied volatility remains very low. This is hardly a harbinger of a major structural shift in the role of the USD. But we do concede that longer-dated risk reversal skews are now less bid for USD than was standard before Liberation Day, suggesting the market is aware that future USD down-moves could be as sharp as up-moves (Figure 35). This is the best evidence we have that, even if de-dollarization is going to be a slow process, the risks are certainly in focus.

Figure 31: The USD decline as % of FX reserves is not new

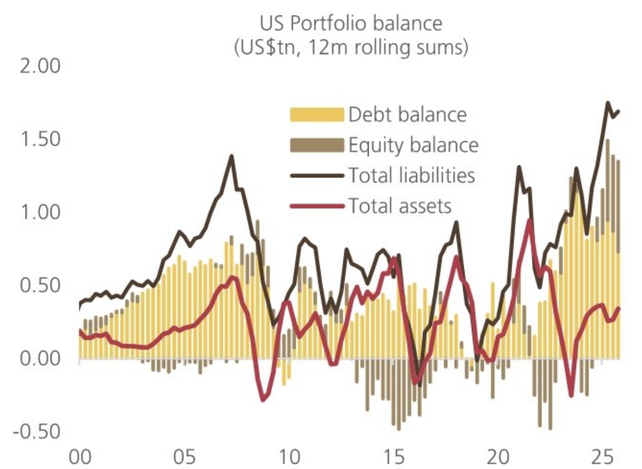
Source: IMF COFER, globalcurrenciesdatabase.com, UBS

Figure 32: Danish hedge ratios have reversed the '25 spike



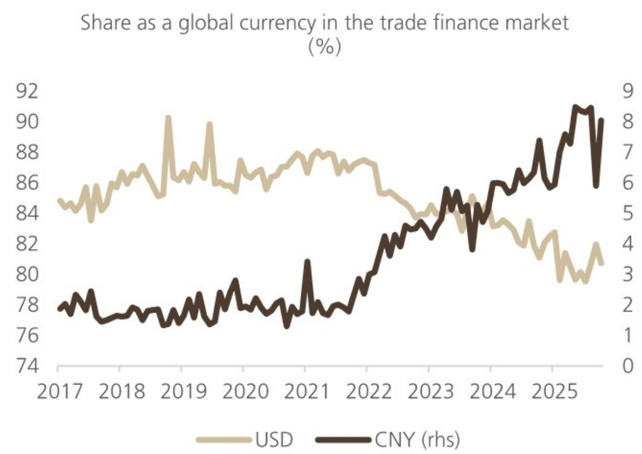
Source: Danmarks Nationalbank, UBS

Figure 33: Portfolio inflows into the US are strong



Source: Macrobond, UBS

Figure 34: CNY use in trade finance has increased

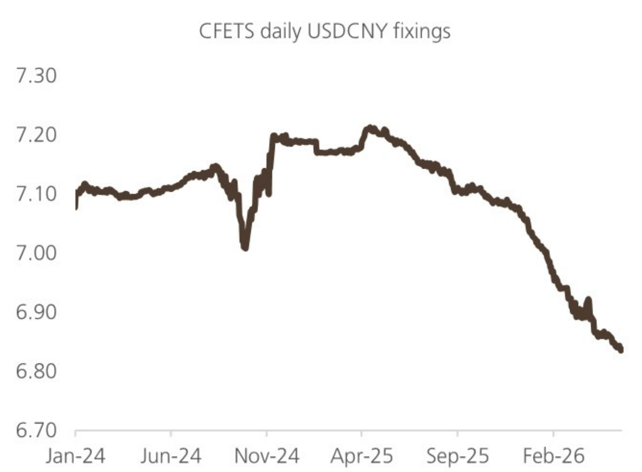


Source: SWIFT, UBS

Figure 35: Demand for weak USD optionality is higher

Source: Bloomberg, UBS

Figure 36: Chinese authorities are allowing CNY strength



Source: SAFE, Bloomberg, UBS

7. How disinflationary is AI?

Alan Detmeister
Jonathan Pingle
Pierre Lafourcade

We estimate that AI-related investment accounted for around 1% of US GDP growth over the past four quarters (Figure 37). One concern echoed in client meetings is that this investment will lead to rapid AI adoption, strong productivity growth, and less need for labor. As a result AI adoption should lead to higher unemployment and a considerable slowing in inflation — possibly soon. While such a scenario is a risk, this line of thinking likely overestimates the speed of the adoption, which consistently has proven slower than expected (Figure 38). Further, estimates for the EU suggest it takes years from investment to output increases, with the biggest effects at least 8 years after investment. Even if AI adoption rates are running double that of the internet or personal computers, we are likely at least a couple years away from AI being a notable disinflationary force.

Currently rapid AI adoption and valuations appear to be adding around 0.4pp to US core PCE price inflation

In fact, over the next year or so we think AI adoption will push inflation up, not down, at least in the US. This upward push is coming in two ways: First, AI adoption has led to increasing demand for technology-related products like computer chips and components. In the US both the price and real quantity of imports of computers and semiconductors are at their highest rate of increase since the early 1990s (Figure 39). At the consumer level, prices for information technology goods are contributing 0.18pp more to US core PCE price inflation than a year ago with all of that uptick coming in the past 5 months, though there has been little to no impact in Europe or in the CPI in the US, which give less weight to software and removable memory. Second, 9 tech companies, driven by increases in demand for AI-related products and expectations of future productivity growth, accounted for roughly three-quarters of the US stock market increase last year. These tech valuation increases boosted household wealth which, via stronger consumption, is pushing up inflation by around 0.06pp using standard rules of thumb. Further, increases in financial services prices, which are largely based on those strong stock market returns, have added 0.2pp more to US core PCE price inflation than average over the past 25 years. Finally, AI data centers use a considerable amount of electricity and that extra demand could drive up prices, but as of yet we do not see a significant impact on US consumer prices for electricity. Nevertheless, these channels combined suggest the overall impact of AI is currently driving up US core PCE price inflation around 0.4pp, with the impact having grown notably in recent months.

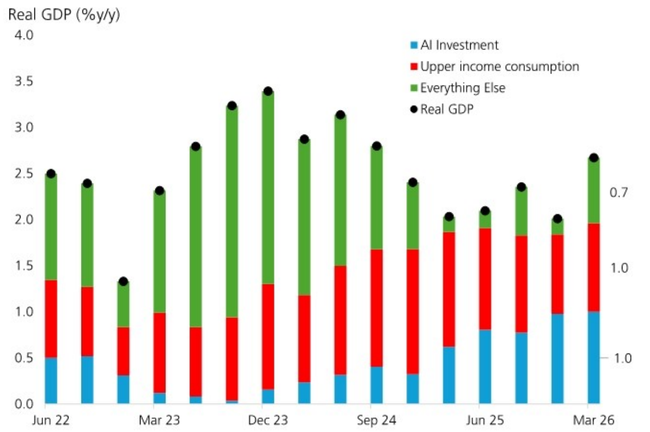
AI will likely lead to higher productivity growth that pushes down inflation, but it will probably take a couple more years to appear

The longer term impact of AI adoption on inflation depends on how it affects productivity and unemployment. US productivity growth has swung between regimes of roughly 1½% and 3% productivity growth and since the GFC the US has been in the lower regime, but we expect AI adoption will help move productivity growth in to the higher one. As a result we expect US productivity growth to rise 1 to 1.5pp over the next few years. In the long-run, productivity growth is the gap between wage and price inflation. Whether higher productivity growth pushes up wage inflation or pushes down price inflation depends on the relative bargaining power of workers and employers. Studies of the 1990s show that increasing productivity growth was more correlated with falling price inflation than increasing wage growth, but more recently the impact is less clear: Slowing trend productivity growth following the GFC was not accompanied by a increase in price inflation. (Figure 40)

AI could lead to higher unemployment that pushes down inflation, but that did not occur in the 1990s

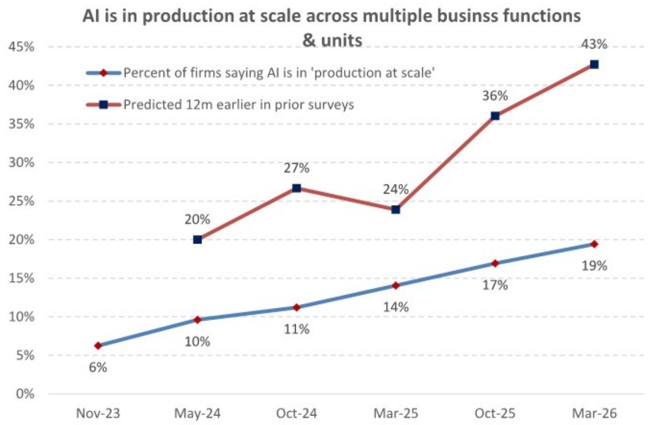
It has been suggested that AI adoption will lower inflation through rising unemployment as AI substitutes for labor. Increasing unemployment also was a concern during prior waves of technological innovation. Even David Ricardo in 1821 suggested that machinery "may render the population redundant" (quoted here). Similarly, the growth of information and communications technology in the 1990s led to the worry that "The world will be increasingly populated by a small segment of the highly paid, technical elite — and great masses of the unemployed"(Seattle Times, Sept 1, 1996). There will undoubtedly be dislocations in some professions and AI is increasingly given as the reason for layoffs (Figure 41). In fact, ILO research estimates that slightly more than 5% of jobs in high income countries have high automation potential. Under normal rules of thumb a 5pp increase in the unemployment rate would push down inflation by around 1pp. However, replacing workers with AI could also be spread across multiple years leading to little change in unemployment (See our Labor Market Disruption series: Part 1: AI is coming). Indeed, in the late 1990s the labor market remained strong until the unemployment increased 2½ pp at the onset of the dot-com crash in 2001, roughly half a decade after investment and productivity had risen (Figure 42).

Figure 37: AI investment and wealth effect driving growth



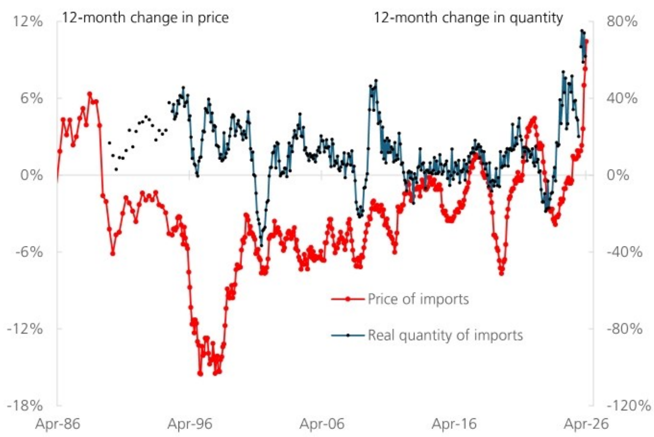
Source: BEA, Haver, UBS

Figure 38: AI enterprise adoption: a gap between expected and actual implementation speed



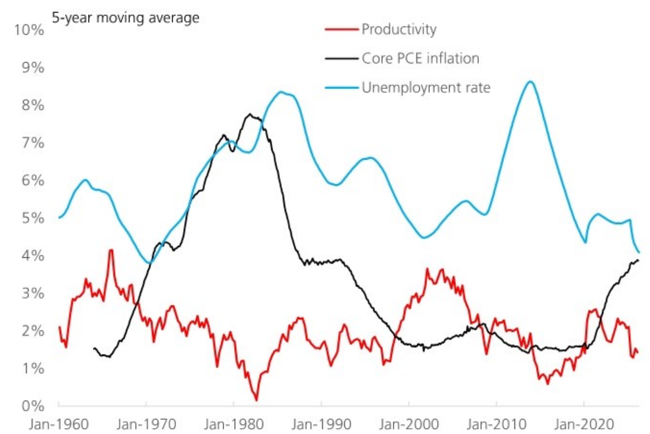
Source: UBS Evidence Lab (> Access Dataset) [Note: the prediction for May '24 was from the survey 6m prior, the other predictions were all from the surveys 12m prior.]

Figure 39: Both price and quantity increases for US imports of computers, peripherals, and semiconductors are at all-time highs



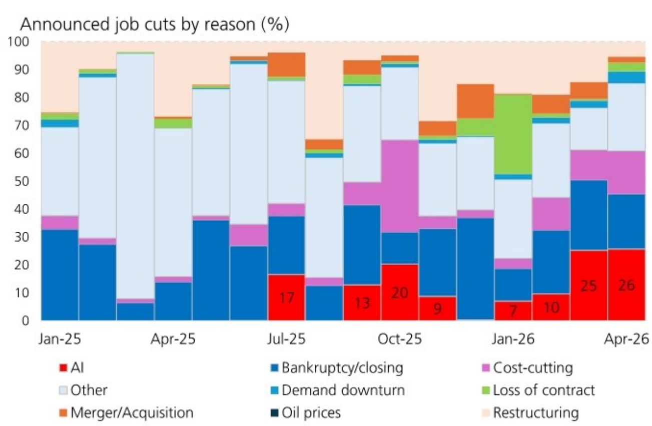
Source: BLS, Haver, UBS

Figure 40: An increase in trend productivity was correlated with falling trend inflation, but it was not from the GFC to the pandemic



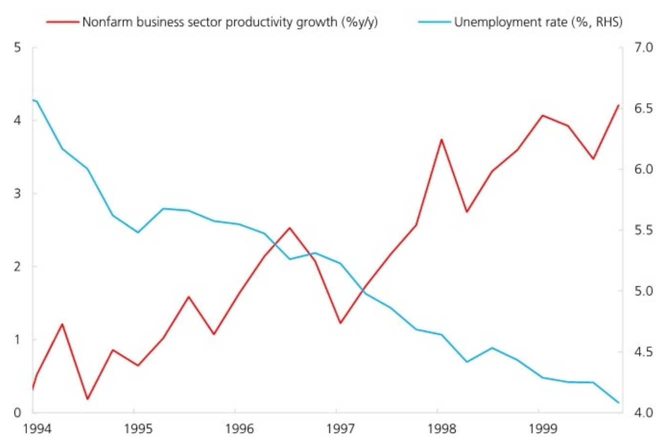
Source: BLS, BEA, Haver, UBS

Figure 41: AI is being listed more and more as the reason for job layoffs in the Challenger survey



Source: Challenger Grey, and Christmas; Haver; UBS

Figure 42: In the 1990s ICT cycle productivity increased notably, but the unemployment continue to fall until the dot-com bust of of 2001



Source: BLS, Haver, UBS

8. What is the fiscal response to the Iran conflict?

Felix Huefner
Grace Lim

Measured fiscal responses to the energy shock so far...

Heading into 2026, our expectation was that the global fiscal impulse would be broadly neutral this year (though with regional divergences). However, in response to the Iran conflict, about half of countries worldwide have by now implemented measures to cushion the impact. According to the IEA as of 19 May, 54 countries have implemented energy conservation measures and 87 countries have put in place fiscal support measures. Across the 35 economies we cover, we calculate that the average fiscal response amounts to 0.37% of GDP. Weighted by each country's share in global GDP, this adds about 0.3% of GDP to the global fiscal stimulus this year.

...less than in 2022/23...

The fiscal response so far this year remains much lower than what was put in place during the last energy shock in 2022/23 following the start of the Russia-Ukraine conflict. Back then, the average fiscal package amounted to 1.74% of GDP, which added about 1% of GDP to the global fiscal impulse. The smaller response this time could reflect several factors. First, uncertainty about the duration of the shock and a perception across countries that the growth impact may be more limited. Second, fiscal space in many countries is smaller now, especially in many European countries like France or the UK. Third, our current estimate is just a snapshot: the number of implemented fiscal measures is rising rapidly (the number of countries implementing measures has doubled since end-March) and could well become more expensive over time. Several of the measures, e.g. fuel tax cuts, are planned to be in place just for a few months, but could be prolonged if energy prices remain elevated (e.g. the European Commission estimates that the costs of current temporary measures would double if they were extended until end-2026). In 2022/23, many of the very expensive gas price brakes in Europe were implemented only several months after the beginning of the energy shock.

...with a focus on SE-Asia and Europe

Across regions, the largest fiscal response is in South-East Asia, notably Thailand, Malaysia, India and Indonesia. However, in Malaysia and Indonesia, these measures largely reflect pre-existing fixed-price regimes that act as automatic stabilizers, rather than new discretionary support. Only Thailand and Brazil have announced larger packages now compared to 2022/23, while India's current package is broadly similar in size. By contrast, those countries with the largest packages in 2022/23, most of which are European including Italy, Germany, France, UK and Poland, are now doing much less. Switzerland, Russia and China are the only countries where no (fiscal) measures have been implemented.

Fiscal response focussed on price measures...

Policies are tilted towards price support, with 29 out of 35 countries implementing fuel tax cuts and similar policies, and these account for ¾ of the fiscal impulse. Only 18 countries have implemented income support measures - which are arguably more targeted. One exception is Thailand, which has announced a plan of 2.1% of GDP in income support measures, split evenly between short-term stimulus and longer-term investments into energy security, but only 0.3% of GDP in terms of price support measures.

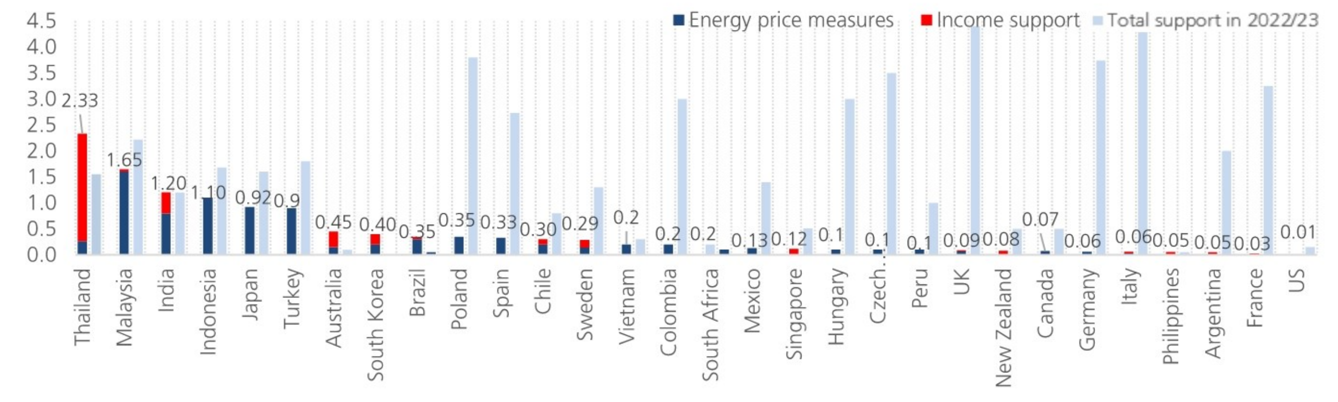
...with limited impact on inflation and growth

The tilt towards energy price support measures is similar as in 2022/23. There are at least two implications: fiscal multipliers are likely larger for targeted income support measures compared to broader untargeted price measures, such as tax cuts. Hence, overall we believe the growth support is likely very limited. At the same time, energy price support measures like tax cuts tend to have a (temporary) dampening effect on inflation. In the Eurozone, we estimate that fiscal measures are lowering the peak of inflation by c.10-20bp. Within Asia, inflation has barely risen in India, Malaysia, and Indonesia due to stronger policy cushioning, whereas in the Philippines, Singapore, and Thailand, the inflation response is faster.

Debt sustainability concerns should be mitigated by the fact that these measures are largely financed through higher revenues or expenditure reprioritisation

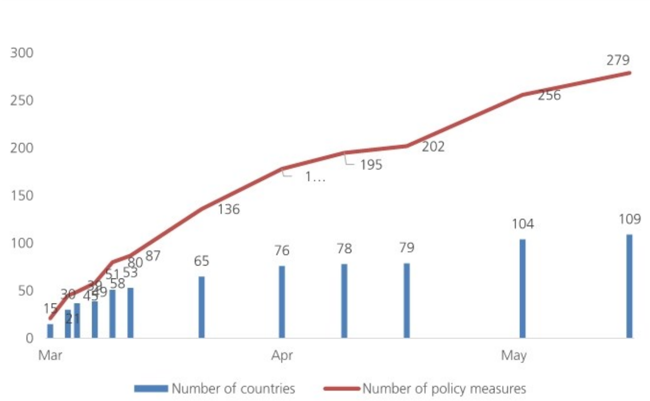
We list the costs of measures in gross terms, i.e. we do not account for potential revenue raising measures or cost cuts elsewhere. However, the fiscal measures are not always planned by governments to lead to new borrowing: in fact, in our country/economy sample on average less than ⅓ of increased spending is estimated to be debt-financed. The combination of both a sizeable fiscal response and meaningful debt financing is limited to a few economies, notably Thailand, Japan and Poland (where we assume that tax cuts last until year-end). Countries where the fiscal response is meaningful but debt-financing is limited include Malaysia, Korea, and Brazil, where measures are largely funded through higher revenues, as well as Indonesia and India, where they are funded via expenditure reprioritisation.

Figure 43: Policy measures implemented to counter the energy shock, % of GDP



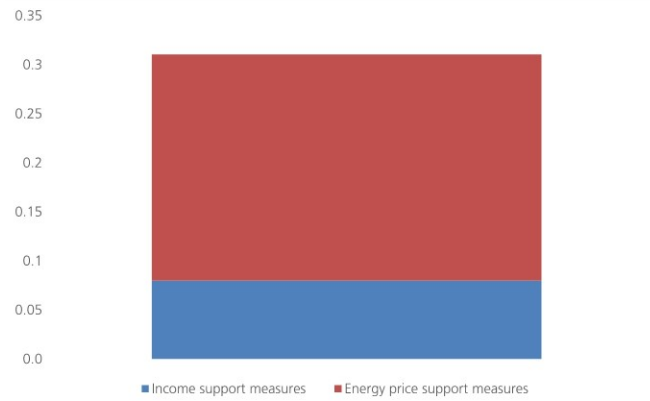
Source: National government sources, UBS

Figure 44: Number of countries with energy support measures and number of policy actions



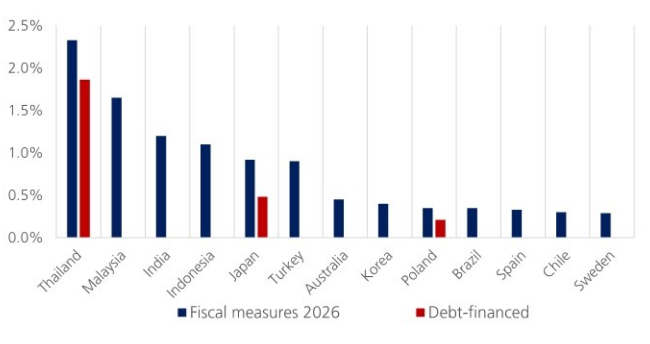
Source: Brookings, IEA, UBS. Note: Data up to 7 May taken from Brookings, latest data point (19 May) using the IEA database and summing measures across three categories: energy conservation, consumer support and structural policies.

Figure 45: Contribution of each policy measure to the global fiscal impulse, % of GDP



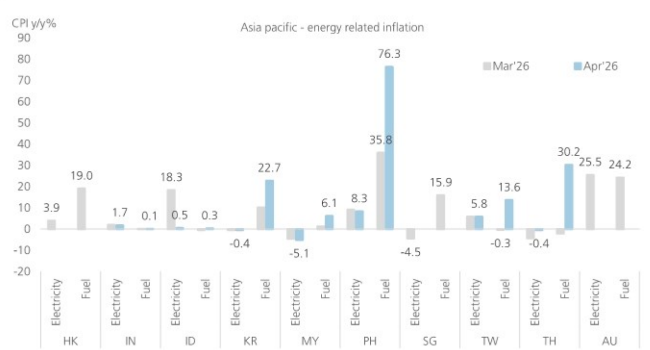
Source: National government sources, UBS. Note: Chart shows the sum of all countries' policy responses weighted by each country's share in global GDP.

Figure 46: Only a few countries in which energy measures are not financed by revenues/lowering expenditures elsewhere



Source: National government sources, UBS.

Figure 47: Asia shows large disparity in fuel inflation depending on fiscal responses



Source: Haver

Figure 48: Summary of fiscal measures across countries/regions (as of 22 May)

Country/region	Energy price support measures (fuel tax cuts, price brakes, etc.)	Income support (transfers to households, sectoral subsidies, etc.)
Germany	Cut gasoline and diesel taxes by EUR 0.17 for two months	
France		Fuel subsidies for SMEs in transport, agriculture and fishing sectors plus energy support for low-income households until end-August. Companies allowed to pay a €600 tax-exempt "fuel allowance" to employees.
Italy	Cutting excise taxes on gasoline and diesel.	Transfers to lower-income households, support for transport and logistics (tax credit)
Spain	Lower VAT on electricity from 21% to 10%; cut in fuel prices by 30¢/litre; discount of 20¢/l for agriculture and transport	
Eurozone	Four countries have implemented fuel tax or VAT cuts.	Nine countries have implemented household transfers and/or sectoral support schemes.
Sweden	Fuel tax cut of 1 SEK per litre petrol, 0.4 SEK per litre diesel (petrol price ca. SEK 20/litre) from 1 May to end-September; an additional cut of 3 SEK per litre is being debated from 1 July to November	Electricity bill refunds
UK	5p fuel duty cut extended until end 2026 (was supposed to increase in Sep-26 and Jan-27); a 12-month road tax holiday for hauliers; a cut in in fuel duty on red disel used by farmers and rail freight. Temporary VAT reduction for attractions, children's meals, cinema, and theatre tickets, and free bus travel for children aged five to 15.	Support for low-income households using heating oil
US	Some minor changes at the state level. Georgia suspended excise tax on motor fuel until June 3. Indiana initially suspended sales tax for 30-days and recently extended and expanded to excise tax too until June 7.	Georgia - one-time income tax rebate.
Canada	Enacted a federal fuel tax holiday for gasoline (10 cent/l) and diesel (4 cent/l) effective April 20 - September 27 2026.	
Japan	Providing a gasoline subsidy to keep prices at around 170 yen per liter.	
Hong Kong		There is no formal fiscal package yet, but the government has launched measures to provide some relief in public transportation cost, including subsides to commercial vehicles on diesel fuel cost, LPG subsidies for public transportation, reduction of toll fees to commercial vehicles for using government tunnels.
Turkey	Re-introduced a sliding scale fuel excise tax mechanism, in a way that the cut in fuel excise taxes offest 75% of the increase in net fuel prices.	
South Africa	Lower the general fuel levy by ZAR 3-3.9 per litre for diesel and petrol in April-May and then a gradual increase back until July.	
Poland	Temporary measures rolled every 2 weeks from 31 March: VAT cut 23% to 8% on petrol and diesel; cost PLN ~0.9bn per month; excise cut to EU minimum; cost PLN ~0.7bn/month. Daily retail price cap set by energy ministry to ensure cuts pass through to consumers. The govt plans to introduce a windfall tax on energy companies, targeting PLN6bn in revenues.	
Hungary	Introducing maximum retail price for fuels since 10 March, by fixing the margins of wholesale and retail distributors and lowering excise duty to European minimum levels.	
Czech Republic	Introduction of a cap on fuel retailers' margin and a reduction in the excise taxes on diesel to the European minimum level.	
Australia	Fuel excise cut by 32cpl, for 3 months. Heavy Vehicle Road User Charge also cut by same amount. Total cost is $2.9bn. Free public transport, fuel support payments, discounted vehicle registrations in some states (~$1.4bn)	Support to help secure fuel and fertiliser supply - loans, equity, guarantees, price support etc ($7.5bn). Interest free loans for manufacturing & logistics firms in critical supply chains ($1bn).
New Zealand		Temporary tax credit of $50pw for low-income households. Measure will remain in place for up to 1yr, or until price of petrol falls below $3/l for four consecutive weeks
South Korea	Approximately 0.2% of GDP to provide petroleum price support, fuel subsidies to fisheries and agricultural industry, and to support naphtha supply. Other measures, for example, the freeze of electricity price hikes have been launched but yet being reflected in budget. The government has also extended tax cuts for Gasoline, Diesel, LPG, Propane.	Approximately 0.2% of GDP cash assistance to lower income households.
Thailand	Price caps for diesel under oil fuel fund (~Bt50-60bn as of early May); pressuring refineries to cut margins	Bt6bn welfare card top ups for 1 month; Bt2bn transport fuel subsidies/cost of living support; fertiliser subsidies. A bigger tax emergency borrowing package of up to Bt400bn was approved on 9 May - split evenly between short-term support for households including consumption copayment schemes, as well as a longer-term investment component aimed at accelerating the transition to renewable energy. While the opposition has filed an objection to the emergency borrowing bill to the constitutional court, the government has said that the implementation of short-term stimulus would go ahead meanwhile.
Malaysia	Retail prices fixed for RON95, which could add up to additional RM30-40bn if oil prices average US$90-100	Diesel cash transfer increase from RM300 to RM400, for farmers and smallholders
Indonesia	Retail prices fixed for RON90, diesel, and LPG, which could add up to additional Rp200-300tn if oil prices average US$90-100	None, proposals to increase fuel-compensation cash transfers (BLT BBM) but not confirmed yet.

Source: National sources, UBS

Figure 49: Summary of fiscal measures across countries and Taiwan region/economy (as of 21 May)

Country/region	Energy price support measures (fuel tax cuts, price brakes, etc.)	Income support (transfers to households, sectoral subsidies, etc.)
Philippines	LPG and kerosene excise tax cuts, up to 3 months, cost P4.1bn	Transfers to farmers (P2,300 per person) amounting to P10bn; transport sector transfers to PUV drivers amounting to P2.5bn
Singapore	None	Income-based and business support, including cash transfers, CDC vouchers, utility rebates and targeted support for transport workers
Vietnam	Cutting environment tax, special consumption tax, and VAT to 0%, the estimated cost of the initial phrase is about 0.14% of GDP. The government also utilize VND 8tn to Fuel Price Stabilization Fund, which is equivalent to 0.06% of GDP.	
India	Excise duty cut on gasoline and diesel by the government. Partial pass-through to retail prices. Cap industry natural gas usage. Ration commercial LPG use. Fertilizer and LPG subsidies spillovers are also likely	Oil marketing companies largely absorbing a large burden of the energy shock.
China	China's retail petroleum price is not adjusted proportionally when global oil price hikes to above $80 and capped when global price reaches $130. Retail gas price for households is also heavily regulated. On March 24 and April 7, China further halved fuel price adjustments, with the total cost estimated at RMB 13 billion (around 0.01% of GDP). These costs are borne by refineries, most of which are state-owned enterprises (SOEs). As such, while they are effectively absorbed by the broader public sector to some extent, they are not reflected in the government's fiscal accounts. The price adjustments returned to normal after April 7, but the government may reinstate them if prices rise significantly again.	None
Mexico	The government is attempting to put a lid on gasoline prices (particularly the low octane mix) and diesel through agreements with fuel distributors (capping their margins at some MXN2 per liter) but mostly through the reduction on the IEPS excise tax on these fuels.	
Chile	The government allowed for a full pass-through of higher global oil prices in March (fuel price up ~3-% m-o-m) to reduce subsidy costs. In parallel, it announced a freeze in paraffin and kerosene prices.	Subsidies to transportation workers (taxi drivers); a temporary freeze in bus fares; and vouchers for purchase of cooking gas
Colombia	None, besides announcing reduced fiscal space for subsidizing fuel prices this year (however, subsidies still applied in March/April)	None
Peru	With 80% of fuel distributors out of the fuel stabilization fund, the government has not been able to implement a strategy to offset fuel price hikes. A FISE cooking gas subsidy plan for supporting vulnerable households is the main policy as of now.	None
Argentina	Main fuel company YPF agreed to hold gasoline and diesel prices flat to prevent passthrough from sharp rise in international oil prices. Note this is a voluntary market agreement, set to be in place until end of June.	The government increased subsidies to cooking gas purchase by vulnerable households from 50% to 75% of the total price
Brazil	The federal government implemented temporary tax exemptions and subsidies on gasoline, diesel, jet fuel, and LPG to mitigate the pass-through of higher international prices into domestic fuel costs. Pricing dynamics remain influenced by Petrobras, a partially state-owned oil company. Funding is expected to be covered by higher revenues from oil royalties and increased taxation of the oil sector. The measures were initially approved for a two-month period but retain the option for extension, conditional on market developments. Despite these interventions, the net first-order impact on inflation is still expected to be positive (+30bps), primarily driven by gasoline, which remains the most significant component of the CPI basket (c.5% weight).	No additional broad-based income support measures have been introduced. The main initiative remains the "Gás do Povo" program, which subsidizes LPG purchases for low-income households. The program currently covers approximately 15 million households (c.20% of the population) and is facing upward pressure on fiscal costs due to the recent increase in LPG prices.
Taiwan	The government has extended their domestic price mechanism for energy prices. The government has cut import tariffs for agricultural products, removing business taxes on imported agricultural commodities.	The government has also provided subsidies to fishery sector. The government has proposed a economic relief package at 0.4% of GDP, but not yet approved.

Source: National sources, UBS

9. Is China reflating?

Yu Song
Jennifer Zhong
Grace Wang
William Deng

There are increasing signs that China is exiting deflation. The GDP deflator rose to around 1% qoq saar in 1Q26, while its yoy rate rebounded to around 0%. PPI increased to 2.8% yoy in April, and CPI has also been trending higher, reaching 1.2% yoy.

Signs of China's reflation were emerging before the oil price shock and outside oil related products.

Although inflation has picked up in many economies amid the oil price shock, China's reflation began before the shock. The 4Q25 GDP deflator had already rebounded to around 0% qoq, and the weighted average of CPI and PPI—a useful proxy for the GDP deflator—continued to rise in January and February 2026. **The improvement has not been driven solely by oil and related products.** Prices of non-ferrous metals started to firm up from late 2025, and even excluding these imported drivers, PPI in the rest of the economy had already been gradually reflating in sectors such as electric machinery and communication appliances, partly driven by an global AI cycle and by China's own push for AI infrastructure. In our view, **this reflects the closure of a negative output gap** after three years of stable GDP growth at or above 5%: 5.4% in 2023, 5.0% in 2024, and 5.0% in 2025. In 2026, while the property sector is still weak, it is becoming e a smaller drag on the back of policy loosening. Exports has been running in double digits, even faster than that over the past 3 years when China grew by 5% or more.

We expect inflation to rise first then ease later, but not to fall back into deflation.

Inflation responds to oil price growth, not the level of oil prices. **We expect China's inflation to rise further in the near term and then ease in coming months.** Near-term inflation will depend on developments in the Middle East and, for CPI, how much the government cushions households from higher energy costs. A similar pattern unfolded in 2021–23: inflation first rose with oil prices, then both fell and the economy entered deflation in 2023. This time, however, we do not expect China to re-enter deflation once oil prices soften, assuming GDP growth stays broadly around potential in 2026–27.

Risks are skewed to the downside. If April's weak growth momentum sustains, the economy could slip back into deflation.

The main risk is significantly weaker activity. If the weak growth pace seen in April 2026 were to persist, the economy would likely slip back into deflation. However, we expect the government to adjust policy to preserve growth stability. Inflation is not currently a meaningful constraint on policy easing because CPI matters much more than PPI politically, and because the yoy CPI reading remains low at 1.2%. There are three main reasons why CPI remains more subdued than PPI. First, **only about half of the crude oil price increase appears to have been passed on to consumers**, as the government has chosen to absorb part of the burden. Second, **pork prices have remained weak**. Third, **CPI is typically stickier than PPI**. Some argue that underlying inflation is stronger because pork prices do not reflect broader fundamentals. We are less convinced. In China, pork prices are highly pro-cyclical and still meaningful in the household consumption basket, so their weakness should not be dismissed.

Risk of a prolonged period of high inflation is much smaller, in our view.

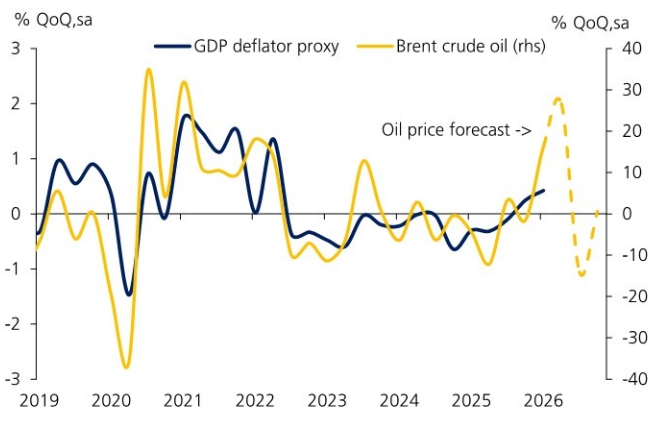
By contrast, **the risk that a one-off rise in energy prices leads to sustained increase in inflation looks much smaller**. Policymakers remain committed to enough easing to support modest GDP growth target, but not enough to generate high inflation. In that sense, the risks around our baseline are asymmetric.

Some also argue that deflation will persist because China's household income share in national income is too low, depressing consumption. We do not find this persuasive. If anything, the relationship is mildly negative. Since household income growth is generally more stable than corporate profits or government revenue, its share in GDP often rises when the economy is weak.

The end of deflation should support profits and gradually lift export prices, though margin pressure may persist.

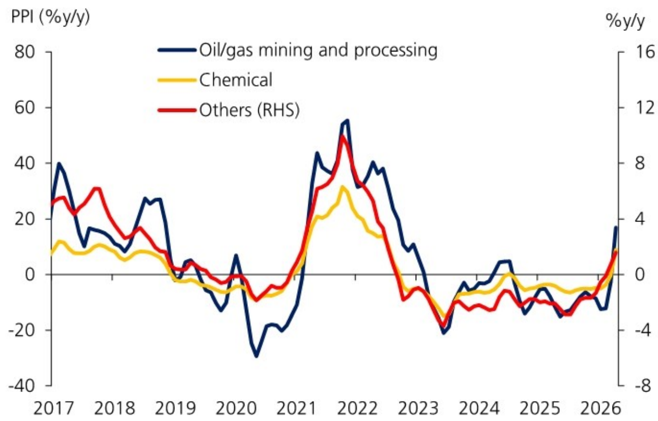
The likely end of deflation should support the growth of nominal variables, including corporate profits. In the short term, however, higher oil prices are also creating margin pressure, as recent PMI data already suggest through the widening gap between input and output prices. This shift will also have global implications through trade prices. China's export prices fell by about 17% between end-2022 and end-2025. As domestic deflationary pressure fades, we expect **China's Export Price Index to rebound** as well. But export prices are unlikely to rise as sharply as PPI during the oil shock, because the biggest PPI increases are concentrated in upstream energy products that China imports heavily but exports little. Export prices should instead track the more downstream components of PPI, which are less volatile.

Figure 50: The inflection of China's reflation occurred before the recent oil price shock



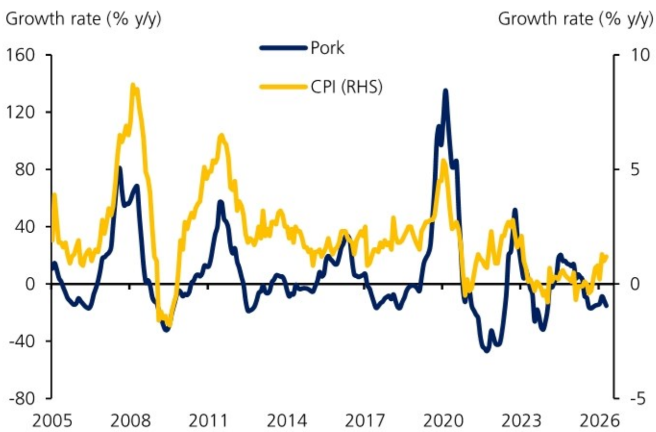
Source: CEIC, UBS estimates

Figure 51: The rise in PPI has not been totally driven by higher energy prices



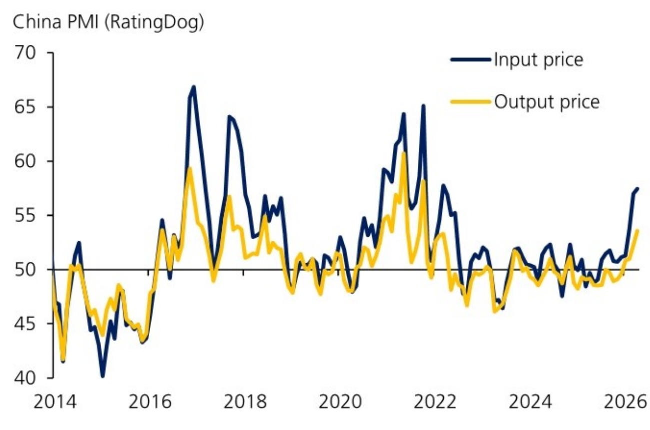
Source: CEIC, UBS estimates

Figure 52: Changes in pork price in China are highly pro-cyclical



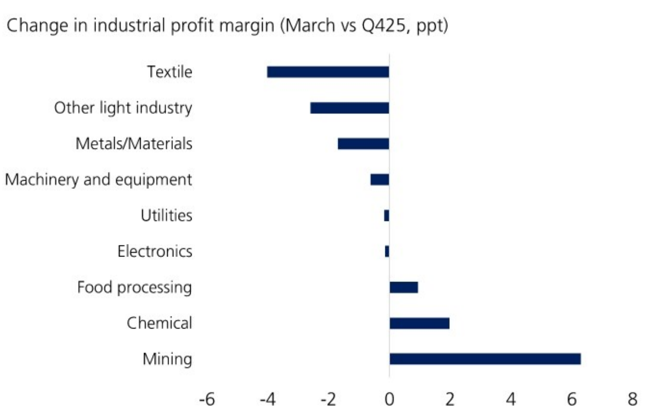
Source: CEIC, UBS estimates

Figure 53: Output price index has been going up much less quickly than input price index



Source: CEIC, UBS estimates

Figure 54: Most of manufacturing sectors are going through a margin squeeze, while mining saw margin expansion, followed by chemicals



Source: CEIC, UBS estimates

Figure 55: Terms of Trade (TOT) has been worsening and will worsen further in the near term

Source: CEIC, UBS estimates

10. Will private credit infect public credit?

Matthew Mish
Julien Conzano
Sachin Ganesh
Henry Morrison-Jones

Defaults in private credit markets are expected to rise, with AI-driven disruptions adding 3-4% in incremental default risk. Leveraged loan tech spreads have widened significantly, and sector-specific stress may spill over to others, driven by cross-market correlations. Interconnectedness between private and public credit markets—via shared investors, issuers, reduced debt issuance, and hidden leverage—amplifies risks. Though not systemic yet, rising defaults and embedded leverage signal increasing vulnerabilities.

Default Risk Is Expected to Rise Materially as AI Disruption Builds: Private credit defaults are projected to rise from 4–5% to 9–10%, with AI-driven disruption risks accounting for a majority (3–4%) of the default rise. We see effects intensifying through early/mid-2027 amid slowing growth, margin compression, and contract cancellations in software firms. Default rates across asset classes by year-end 2026 are expected at 9–10% for private credit, 3.5–4% for leveraged loans, and 1.75–2% for high yield, highlighting market dispersion.

We expect this respite to be short-lived as AI disruption intensifies, with private credit defaults rising 4-5% in coming quarters

Historical Analogs Suggest a Multi-Phase Repricing and Rising Cross-Market Correlation Later On: The high-yield shale cycle offers insights for 2026. In 2014, high-yield energy spreads widened sharply, driving cross-market correlations across U.S. high yield, European high yield, and leveraged loans. Currently, U.S. leveraged loan tech is in the sixth inning of repricing, while the services sector has recovered two-thirds of prior losses. We anticipate further spread widening led by tech, followed by services, impacting the broader leveraged loan market. By year-end, spreads for investment grade, high yield, and leveraged loans are expected to widen to 85bp, 325bp, and 610bp, driven by AI risk exposures and portfolio credit quality.

The software default cycle looks eerily similar to the early innings of the US HY shale cycle. The next leg of the widening should be led by tech and service

Structural Linkages Between Private and Public Leveraged Credit Markets Increase Spillover Risks: Spillovers between private and public credit markets are significant, driven by overlapping investor bases and correlated valuations across U.S. and EU markets. BDC portfolios hold ~10% exposure to syndicated leveraged loans, amplifying risks during redemptions. Issuer-level overlap (~50% in US/ EU LL) along with correlated issuance patterns highlight strong interdependencies, underscoring deeper cross-market linkages beyond apparent distinctions.

The stronger linkages for contagion are between private credit and global leveraged loan markets

Systemic Risk Is Contingent on the Severity and Persistence of Credit Cycles: Private credit risks could become systemic under aggressive AI disruption scenarios. Historically, three-year cumulative default rates in distressed sectors ranged from 30%-85%, with financials in the GFC near the midpoint. Assuming recovery rates of 30%-10%, software-related cumulative loss rates may range from 20%-75%. Portfolios with 30%-40% medium-to-high risk software exposures could face mid-to-high double-digit losses in a tail scenario, coinciding with global LL defaults in high single digits. Tightened loan and private credit conditions may reduce lending capacity, slow structured finance formation, and extend losses into broader corporate markets.

In our baseline we do not view private credit as systemic. However, a tail scenario with elevated software losses that spill over to leveraged loans likely would be

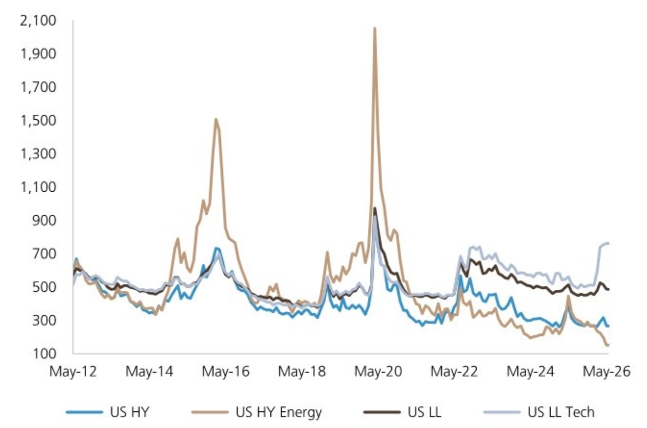
Hidden Leverage and the Expanding Footprint of Private Credit Increase Structural Vulnerabilities: Leverage across bank and non-bank channels has grown significantly, with bank loans to NBFIs now at $2.6 trillion, including $600–700 billion tied to private equity, private credit funds, and BDCs. This figure has surged from $75–100 billion two years ago due to improved regulatory scrutiny and disclosures. Non-bank institutions add $265 billion in BDC debt and $600 billion via subscription lines, feeder funds, GP financing, NAV facilities, and securitizations. Combined bank and non-bank leverage and structures tied to private credit/private equity equals at least $1.5 trillion, the size of the PC market, heightening sensitivity to potential downside risks.

Leverage and structures on top of private assets is at least equivalent to the size of the private credit market at ~1.5tn and growing rapidly

The AI Credit Cycle Will Drive Both Demand for Financing and Long-Term Credit Risks: Global tech issuance, driven by hyperscalers and data center investments, is projected to reach ~$1 trillion in 2026, growing 35–45% annually and doubling biennially. Approximately half will originate from investment-grade issuers with robust market capacity, while the remainder, financed through crossover and non-investment-grade markets, faces higher credit risks and demand volatility. Rising defaults through 2027 may tighten credit conditions, potentially impairing financing for non-investment-grade issuers. While near-to-medium term funding for the AI boom appears secure, longer-term constraints could pose significant challenges.

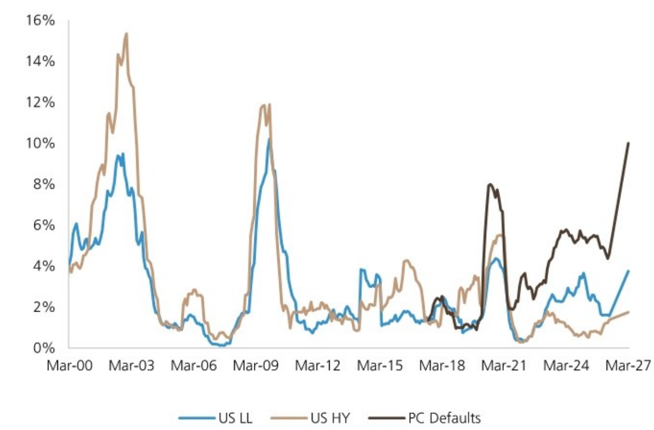
Near to medium term the debt market capacity to fund the AI capex boom looks solid, but longer term rising defaults could impact credit conditions in 2027 when the quantum of debt required to be financed will be much greater

Figure 56: 2026 vs. the 2016 HY Shale cycle: US HY energy and US LL Tech spreads vs. benchmark indices



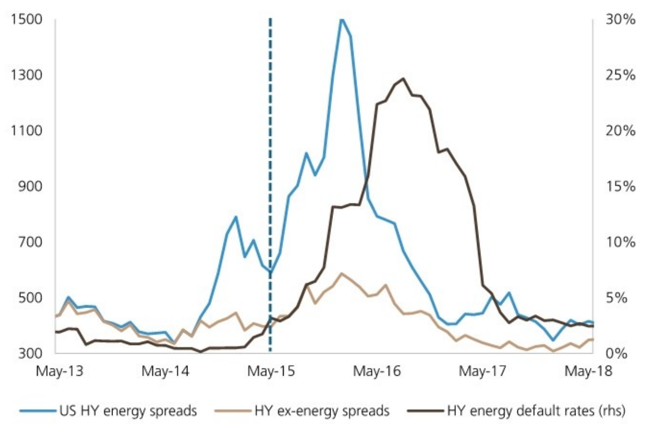
Source: Bloomberg Barclays Indices, UBS/S&P indices

Figure 57: A disparate default outlook across US markets through early 2027



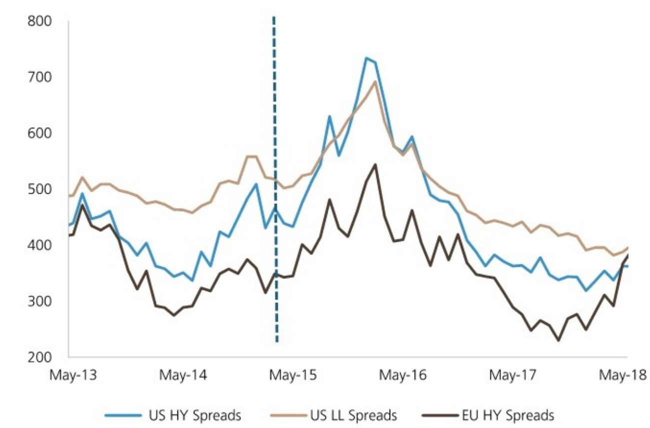
Source: Bloomberg Barclays Indices, UBS/S&P indices

Figure 58: A closer look at the US shale cycle and spillover from HY energy to ex-energy spreads…



Source: Bloomberg Barclays Indices, UBS

Figure 59: …and the contagion between US HY and US LL and EU HY spreads in that cycle



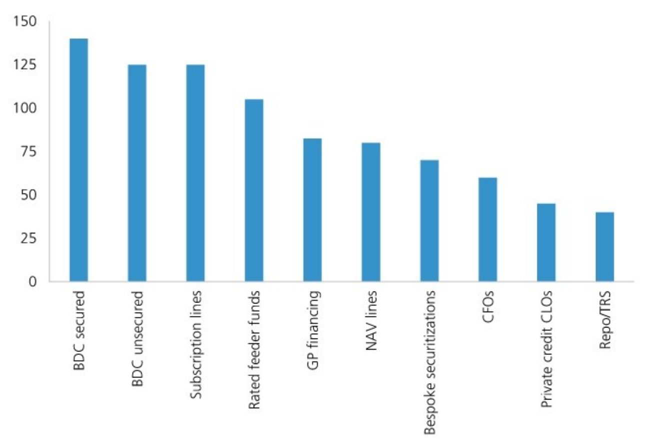
Source: Bloomberg Barclays Indices, UBS/S&P indices

Figure 60: 3-year cumulative default rates for stressed sectors in past cycles

	Energy ('15-17)	Finance ('08-10)	Telcos ('01-03)
Year 1	4.0%	3.0%	18.8%
Year 2 (peak)	24.3%	57.1%	79.3%
Year 3	2.7%	11.5%	12.1%
3yr Cum Default Rate	29.3%	63.2%	85.3%

Source: Bloomberg Barclays Indices, UBS/S&P indices

Figure 61: Leverage/structuring on top of private credit: Nonbank exposure estimates by category



Source: Bloomberg Barclays Indices, UBS/S&P indices

11. Hungary: How much can the election outcome shift the macro?

Gyorgy Kovacs

TISZA party secured a landslide victory in April against long-standing Fidesz.

Hungary underwent major political change as Peter Magyar's TISZA party achieved a landslide victory against former PM's Orban Fidesz-KDNP on 12 April (PM Orban was in office for 16 straight years): TISZA party now has 141 parliamentary seats out of 199 total. This gives the party a constitutional majority, which creates a major opportunity for Hungary to progress on key economic, political and foreign policy reforms. The new TISZA government was sworn in on 12 May.

Three main focus for markets: EU funds, Euro adoption and fiscal consolidation.

As we argued in our post-election note, the markets are focused on three major aspects of macroeconomic change: a) ability to unlock and utilize EU funds that were previously blocked under the rule-of-law considerations against Hungary; b) preparation to get Hungary ready to Euro adoption by 2030; and c) relatedly to carry out a fiscal consolidation to lower the budget deficit to 3%. We discuss these in detail below.

EU funds worth 15% of GDP are at stake; initial focus on maximizing the absorption of RRF funds.

Hungary now has the potential to unlock a huge pool of EU funds: cEUR 9.5bn from the RRF (Recovery and Resilience Facility grants and loans), cEUR 7bn from blocked EU cohesion funds and potentially EUR 16.2bn from SAFE loans (Security Action for Europe). These sums would amount to EUR 33bn or 15% of GDP. The primary focus of the government for now is to try to maximize the absorption of RRF funds given the tight deadlines: Hungary needs to complete all milestones and targets by 31 August 2026 and submit a final payment request by 30 September. There are two key aspects here. First, the government now aims to absorb all EUR 9.5bn RRF funds (4.3% of GDP), not only the EUR 6.4bn remaining grant component. Second, while the supermajority allows the government to move quickly through necessary legislative changes, securing enough projects might prove challenging.

The incoming RRF funds could have a considerable impact on the 2027 growth outlook, possibly adding between 50-100bps to GDP (in the context of a deeply negative output gap due to the weakness of investments). In addition, it would be a very significant boost to capital inflows and the National Bank of Hungary's FX reserves, and would also help the fiscal accounts. The next step to focus on is the submission of the modified recovery and resiliency plan (by 27 May) and the 18-19 June European Council meeting after the political agreement between Peter Magyar and Commission President Ursula von der Leyen.

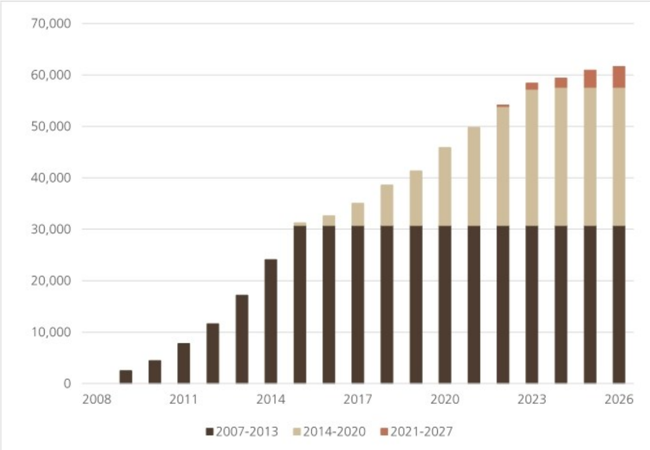
What can we say about the path towards Euro

The second aspect is that Tisza's programme promised to prepare for the introduction of the Euro. Nine EU member joined the Eurozone since 2007, but only one country—Slovakia—with a floating exchange rate like Hungary. Although the date is still far away, we can make some general observations: a) the government would probably keep the participation in the ERM II regime to a minimum (two years); b) Hungary would need to lower its inflation target from 3% to 2% in order to meet the Euro adoption criteria; and c) if the central bank was to consider lowering the inflation target at some point there would be further scope for lower policy rates. At this stage, we believe that the ERM-II entry is likely to happen closer to the end of the term of the government (i.e. end-2029 / early 2030). In our view, meeting the inflation criteria would require further nominal currency appreciation going forward, also given Hungary's elevated FX pass-through of around 0.3.

Challenging fiscal starting point this year. Government aims for 3% of GDP budget deficit by 2030

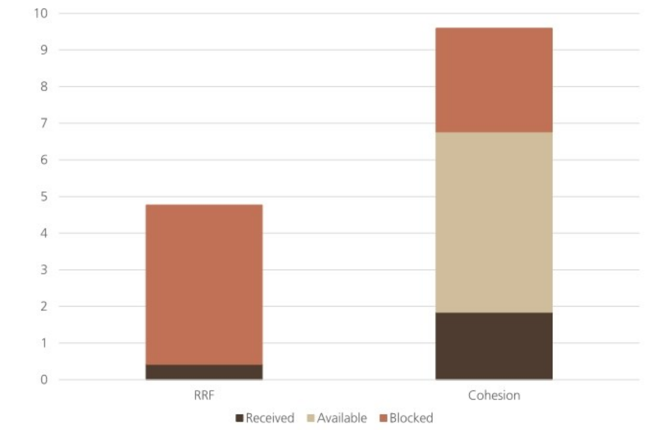
The third aspect is the fiscal situation. In November last year, the Fidesz government modified the 2026 budget deficit target to 5% of GDP. 77% of the modified budget deficit target has been realized in Jan-Apr 2026, given the rise in spending due to the key election-related promises. This implies clear risks for the 5% of GDP deficit target, with PM Magyar flagging that the deficit could be easily 6.8% of GDP (based on a calculation of the outgoing government). However, these are very early days in the transition and thus a comprehensive, full assessment of the underlying fiscal situation is unlikely to happen before the deadline of 30 June (there were already instances of unbudgeted spending). TISZA's key fiscal promise is that by 2030 Hungary would meet the Maastricht criteria by reducing the budget deficit to below 3% of GDP and would put the public debt to GDP ratio on a downtrend. Tisza was looking to increase fiscal space by 3.5-4.5% of GDP per annum mainly due to these measures / developments: savings on public procurements; lower debt service costs; utilization of EU funds and faster economic growth.

Figure 62: Cumulative EU cohesion fund inflows from different funding periods, EUR mn



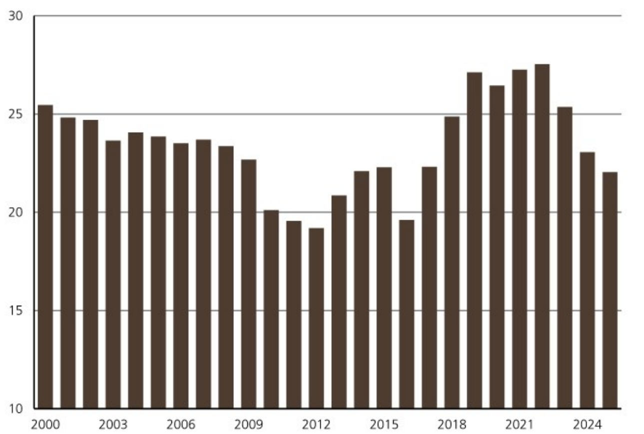
Source: European Commission, UBS

Figure 63: RRF and 2021-2027 Cohesion Policy funds, % of GDP



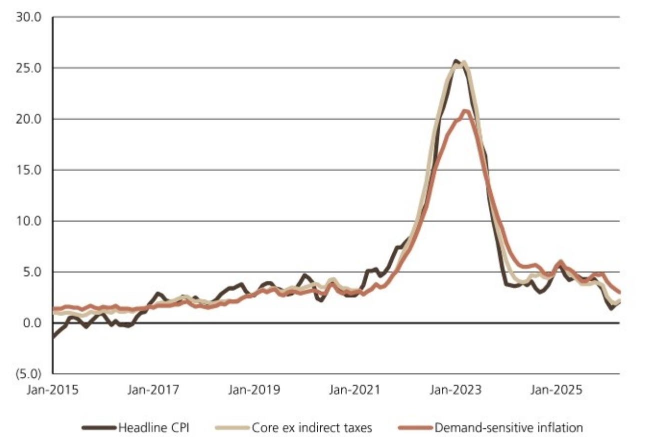
Source: European Commission, UBS

Figure 64: Investments, % of GDP



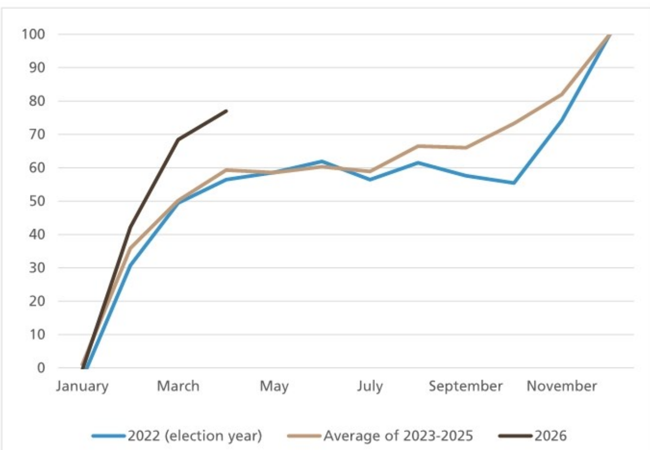
Source: KSH, Haver, UBS

Figure 65: Headline and core inflation, % y/y



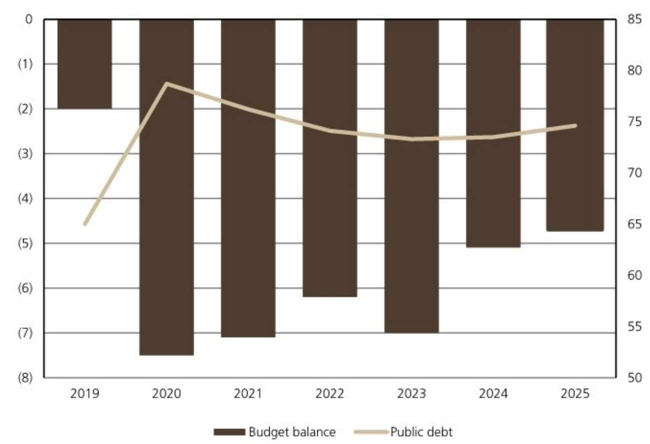
Source: KSH, NBH, Haver, UBS

Figure 66: This year's budget deficit execution* shows a clear risk of overshooting



Source: Ministry of Finance, Haver, UBS. (% of the full year deficit - actual for 2022-25/planned for 2026)

Figure 67: Budget balance and public debt, % of GDP



Source: European Commission, UBS

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