Global Economics & Strategy

Core Convictions (Multi-Asset Rundown)

Economics

Global

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

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

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

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

Manik Narain
Strategist
manik.narain@ubs.com
+44-20-7568 3635

Phoebe White
Strategist
phoebe.white@ubs.com
+1-212-713 2130

Keith Parker
Strategist
keith.parker@ubs.com
+1-212-713 3296

Gerry Fowler
Strategist
gerry.fowler@ubs.com
+44-20-7567 5490

Reinout De Bock
Strategist
reinout.de-bock@ubs.com
+44-20-7567 0152

Rohit Arora
Strategist
rohit-b.arora@ubs.com
+65-6495 5232

Julien Conzano
Strategist
julien.conzano@ubs.com
+44-20-7567 2067

Sean Simonds
Strategist
sean.simonds@ubs.com
+1-212-713 2851

All our views on markets in a single page

This 'core conviction' document is our weekly one-page multi-asset rundown where we highlight key events in the week ahead and any view changes (see page 2).

Highlights this week

We now forecast Fed hikes in September and December, though with low conviction. It is not obvious why the Fed would hike now when it held steady in June and July, especially as the data have modestly improved and FOMC projections are likely to be revised lower. However, the Chair's hawkish messaging makes inaction increasingly difficult, while Friday's strong payrolls report suggests limited economic cost to tightening. We expect Waller and Bowman to dissent. A soft CPI print could still alter the September decision, but for now we are changing our call. We also lift our year-end 10-year yield forecast to 4.8% from 4.35% and move from a bullish front-end stance to neutral.

The equity market is likely to shrug off any hikes. Expectations for 2027 S&P earnings have been revised up by ~14% YTD and by 3.7% in just the last 2 months. That's highly unusual and signals the robustness of recent US earnings across multiple sectors: tech, industrials, healthcare and financials. We are similarly seeing strong earnings momentum in Europe (consensus now expects close to 18% EPS growth this year and we further rotate towards Cap goods and Diversified Financials). The biggest earnings upgrades, however, have been in Asia: despite the 30% correction in MSCI Korea through June-July, Korea EPS estimates have been upgraded 38-40% (vs EM EPS seeing 7-10%) in the last three months. It remains one of the cheapest and most compelling markets on our scorecard.



This report has been prepared by UBS AG London Branch. **ANALYST CERTIFICATION AND REQUIRED DISCLO**
INFORMATION ON THE QUANTITATIVE RESEARCH REVIEW PUBLISHED BY UBS, BEGIN ON PAGE 4.

Cross-Asset Views

Economic Backdrop

Global energy markets and supply chains remain disrupted, though an increasing amount of oil reportedly appears to be exiting the Gulf via 'dark transits'. Earlier weakness in soft data (surveys) has dissipated, and hard data and financial conditions have held up. We are tracking global growth close to a long run average, with AI trade/investment continuing to neutralize - at the aggregate level - energy disruption and other headwinds. Central banks (including Fed/ECB) are assumed to deliver modest further tightening; but the number of hikes remains tied to the length/degree of energy disruption emanating from the Middle East.

UBS key macro forecasts

Real GDP growth (2026E):
- Global: 3.1%
- US: 2.1%
- China: 4.5%
- Eurozone: 0.8%

Rates: Anchoring at new levels

- In the US, a more hawkish Fed outlook, higher oil prices, and heavier duration supply have pushed us into a higher-yield regime, prompting us to revise yields targets higher across the curve. We abandon our near-term bullish front-end bias and turn neutral.
- Rising energy and food prices raise a key question: how many supply shocks will prompt central bank hikes? We remain patient on duration, retain our long ECB Dec'26 position, and are not yet fading ECB tightening priced for 2027.
- We prefer receiving euro rates further out the curve and paying Swiss rates instead. Swiss growth momentum seems to be picking up and the SNB is lagging behind other central banks in normalising its monetary policy: receive1y1y ESTR vs SARON.
- We continue to be long 2s10s steepeners and BoE Dec'26 vs Sep'26 even with two Fed hikes expected for this year. It will be up to the BoE to push back against the sell-off in front-end rates in the coming weeks.

FX: Maintaining our pro-USD stance, Sep FOMC the next test

- Friday's strong US jobs report supports our pro-USD stance. The next key test of our view will be the 16 Sep FOMC where we expect a 25bp hike. We continue to target EURUSD 1.15 for end-Q3 and 1.12 for year-end. We question the ECB's ability to deliver the ~75bps of tightening priced in over the next 12 months.
- We favour selling EURCHF rallies to 0.9450 as rate differentials have scope to compress in favour of CHF given stronger Swiss growth and inflation data. Swiss hedging activity could also support CHF. We target EURCHF 0.9150 and USDCHF 0.8200 for year-end.
- We have been constructive on GBP medium term, but we see risks skewed to tactical GBP weakness (the upper end of our EURGBP 0.8450-0.8650 Q3 range) ahead of the 28 Oct Budget due to fiscal pressures from elevated gilt yields.
- AUD remains supported by carry, commodities and possible further RBA tightening, but housing weakness clouds the medium-term outlook. We target AUDUSD 0.71 for end-Q3 and 0.68 for year-end.

Rate forecasts

10y yields at end-2026E:
- US Treasury: 4.80%
- Bund: 2.75%
- JGB: 2.75%
- Swiss: 0.40%
- UK: 4.75%
- Aus: 4.85%
- NZ: 4.20%

Equities: Strong earnings across the board

- **US:** Although upgrades to forward year estimates are atypical, SPX 2027e EPS is now at $406, having been revised up by ~14% YTD and by 3.7% in just the last 2 months. This signals the robustness of recent US earnings across multiple sectors: tech, industrials, healthcare and financials (see here).
- **Europe:** The market is no longer reliant on a narrow group of AI enablers or banks as upward earnings revisions are broadening across multiple industry groups. Consensus now expects close to 18% EPS growth for Europe this year and we further rotate towards Cap goods and Diversified Financials. Concurrently, New orders indicators have pushed decisively above 50 in sectors such as banks, pharmaceuticals and industrials (see here).
- **Korea:** Despite the 30% correction in MSCI Korea through June-July, Korea EPS estimates have been upgraded 38-40% (vs EM EPS seeing 7-10%) in the last three months. Although Tech has led the rally, consumer durables and telecoms are not too far behind YTD showing signs of broadening beyond tech (see here).

Credit: Spreads Mixed as Rates Rise

- **US**: IG/HY spreads were mixed with IG underperforming, HY stable, and LL outperforming w/w (+2/0/-6bp to 80/264/471bp). Net supply was negative across markets (-$5.8bn/-$8.1bn/-$9.2bn) as issuance cooled into a holiday weekend. Credit remains resilient despite rising pressure on yields from Jackson Hole commentary, and the strong payrolls print. We continue to believe that monetary policy expectations, rather than credit supply, remain the key driver of higher term premium, and that the IG market can absorb an anticipated pick-up in issuance post Labor Day. HY/LL defaults remain subdued, though the approaching maturity walls remain a key medium-term risk with Software and CCC-rated borrowers to face the greatest refinancing pressure.
- **EU**: IG/HY spreads widened w/w (+2/+4bp to 81/268bp), underperforming the US but remaining near recent tights. Spreads remain resilient, but political and fiscal risks in the region continue to be a focus for markets, as do re-elevated natural gas prices and higher global rates. In How to Optimize Carry After the Global Bond Selloff, we argue that elevated yields continue to support carry-focused positioning despite ongoing uncertainty. We prefer the front end (given recently elevated rate volatility at the long end) and selective carry opportunities over outright directional risk for now.

FX, Commodities forecasts

All forecasts end-2026E:
- EUR/USD: 1.12
- USD/CNY: 7.00
- USD/JPY: 165
- EUR/GBP: 0.85
- EUR/CHF: 0.915
- AUD/USD: 0.68
- NZD/USD: 0.57
- USD/CAD: 1.43
- EUR/NOK: 11.20
- EUR/SEK: 11.00
- Gold (avg): 4,675
- ICE Brent (4Q avg) : 80/bbl

EM: Around Emerging Markets

- See our new Around Emerging Markets for our updated cross asset views and trade ideas across 22 markets.
- This week, NBP's rate decision could catalyse new momentum for our short PLN/HUF recommendation (target 81). Any reluctance to indicate imminent tightening (vs 3 hikes priced in) could unnerve markets already confronting a 7%/GDP fiscal deficit, widening external imbalances and low carry.
- We also look for an unchanged CBRT with guidance for an extended pause to support our short USDTRY 3m forward trade.
- UBS' Korea summit fortifies our conviction in Korea equity leadership over the coming 3-6m. We also expect an undervalued China to support EM vs DM outperformance into YE.
- In stark contrast to DM, China bond yields are just 10bp off record lows. We see several opportunities for EM-DM compression ahead, with two notable exceptions.

Key events

08 Sep – Chile rate decision, South Korea/ South Africa GDP, China CPI/PPI/M2 money supply, Germany trade, Japan eco watchers
09 Sep – Poland rate decision, Mexico CPI, Norway PPI, France IP, US ADP Weekly Employment, Japan machine tool orders, South Korea unemployment, ECB's Nagel speaks
10 Sep – ECB/Turkey/Peru rate decision, Germany/Norway CPI, Business NZ mfg. PMI, US/Japan PPI, Italy IP, US claims, ECB Lagarde speaks
11 Sep – Russia rate decision, UK GDP(MoM)/IP/mfg. production/trade, US CPI, University of Michigan sentiment, ECB's Lane speaks

Equity & Credit forecasts

All forecasts end-2026E:
- MSCI ACWI: 1,200
- S&P500: 8,100
- Stoxx 600: 690
- MSCI EM: 1,820
- MSCI AxJ: 1,210
- US IG OAS: 85bp
- US HY OAS: 325 bp
- EU IG OAS: 80 bp
- EU HY OAS: 285 bp

Source: UBS estimates

Valuation Method and Risk Statement

Risks of multi-asset investing include but are not limited to market risk, credit risk, interest rate risk, and foreign exchange risk. Correlations of returns among different asset classes may deviate from historical patterns. Geopolitical events and policy shocks pose risks that can reduce asset returns. Valuations may be adversely affected during times of high market volatility, thin liquidity, and economic dislocation.

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