

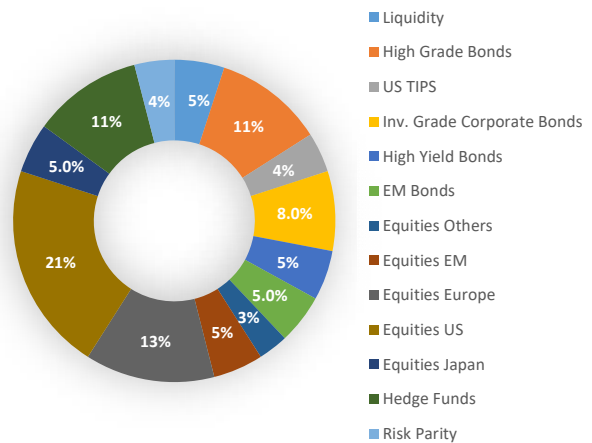
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
United Kingdom (7) Global quality stocks Global consumer brands (7) Sustainable value creation in emerging markets	Equities	EMU (3)
Investment Grade Global Green Bonds USD high yield bonds EM Sovereign Bonds (USD)	Bonds	Developed market high grade bonds
British pound CHF	Foreign Exchange	USD
	Hedge Funds	

ASSET ALLOCATION

Risk assets extended their rally over the past month as investors focused on the gradual re-opening of economies around the world, as well as on progress made on the medical treatment of COVID-19, while looking through dismal, but backward-looking, economic data. Substantial fiscal and monetary policy measures remain a key support for risk assets. The near-term outlook remains highly uncertain and tied to the developments around the COVID-19 crisis and its economic fallout. We currently see value in several credit segments which are currently pricing in a severe economic downturn. Equities are also starting to look more attractive as the global economy is showing tentative signs of bottoming out.

BALANCED USD MODEL PORTFOLIO



EQUITIES

Equity price-earnings ratios have re-rated sharply from their March lows and we expect more earnings downgrades in the coming weeks. The exit from lockdown could bring a second wave of infections, and volatility may increase again in the short-term, but we believe the worst has now passed and we do not expect equities to retest their March lows. Economic surprises and earnings revisions are the most negative on record, but the global economy is starting to show signs of bottoming out, helped by surging money supply and aggressive fiscal stimulus. Regionally, we find UK stocks attractively valued, while Eurozone equities look expensive.

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BONDS

Weak economic data, very loose monetary policy and speculation around negative interest rates in the US led yields lower over the month. Credit spreads tightened as the asset class saw substantial inflows. The USD HY default rate rose close to 5% (12-month trailing) in April. While there should be no doubt that the current economic recession will cause default rates and rating downgrades to increase, we think this is reflected in current credit spreads. The focus of global central banks is on keeping solvent credit issuers afloat and credit markets functioning. Corporate bond purchases, which started in the US in mid-May, are a powerful backstop for the asset class. Against this backdrop USD investment grade, USD high yield as well as emerging market sovereign bonds are attractive.

Source: UBS House View June 2020

FOREIGN EXCHANGE

We turn mildly bearish on the US dollar (USD) at current levels. US interest rates have collapsed and the US Federal Reserve has supplied markets with an unprecedented supply of USD cash to alleviate funding issues, easing its policy stance more pro-actively than other central banks globally. USD depreciation should happen, when lock-down measures ease and economies slowly recover, while the Fed stays highly expansive. We expect USDCHF to drift down to 0.92 by end-September, and EURUSD to return to a 1.10- 1.15 range.

TOPIC OF THE MONTH

SECOND WAVE OR SECOND WIND

After a strong rally from the March lows, equity markets have been range-bound. Investors are weighing hopes of a recovery against fears of a “second wave” of virus cases, high valuations, and US-China trade tensions. In this letter, we offer some perspective on these worries and why changing sentiment could revive and broaden the advance in equity markets.

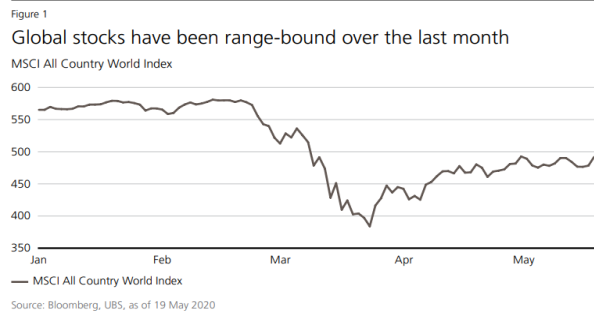
In our view, for markets to catch a “second wind,” investors need greater confidence that a “second wave” of virus infections will not lead to renewed lockdowns. Even if current economic conditions are weak, markets are forward-looking and would likely trade higher if investors gain confidence that a robust recovery will take hold in our view.

Where could this confidence come from? As we have seen in recent days, news about faster-than-expected vaccine or antiviral development has the power to reduce investor anxiety. We are confident that more medical progress will be announced. Yet we are also looking closely at the way that hospitalization rates respond to looser lockdown measures.

The weak correlation between the severity of lockdowns and the spread of the virus across different societies suggests that reductions in movement have been neither fully effective nor the only factor at play in determining transmission. If lockdowns have been as ineffective as some of the data shows, yet hospitalization rates have fallen anyway, that could mean opening up societies more rapidly may not produce a major second wave or require renewed shutdowns.

The rally from the lows during this pandemic has been notable for the significant outperformance of already-highly-valued growth sectors such as technology, consumer staples, and healthcare. This has left major equity indexes fully valued on some measures. Still, rising confidence that a second wave either can be managed or won't materialize would lead to a reassessment of the speed at which economic functioning can normalize and help unlock further upside for market segments that have lagged behind and remain under-owned, such as value, mid-caps, and cyclicals. Greater comfort that heightened US-China tensions need not lead to a new trade conflict could offer a secondary boost.

We think it is important to consider this non-consensus view about a second wave of the virus based on our analysis of the data, because it could be the key to further upside for markets. However, we also know that an unprecedented mix of scientific, political, fiscal, and monetary policy choices



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CONTINUATION: SECOND WAVE OR SECOND WIND

are being made daily with some unpredictable consequences. So while the probability of our downside scenario has reduced over recent weeks, it is prudent to acknowledge that a wide range of outcomes remains possible.

As we await more evidence that points to a rapid return to normality, credit remains the asset class with the best risk-reward overall in our view. Credit should participate in a bull scenario, but is better supported than broad equity indexes in our central and downside scenarios. We like US high yield and investment grade credit, and USD-denominated emerging market sovereign bonds. Within equities, we continue to focus on sectors more resilient to virus uncertainties, like global consumer brands and healthcare. We also continue to seek opportunities in elevated equity volatility to earn additional portfolio yield. To protect against our downside scenario, investors should consider adding assets like gold, select hedge funds, and Treasury Inflation Protected Securities (TIPS) to portfolios, as well as considering dynamic asset allocation approaches

Source: UBS House View, 21.05.2020

KEY FIGURES 2020

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2019	26.05.2020	% Chg YTD
Dow Jones Ind.	28'538.44	24'995.11	-12.42%
S&P 500	3'230.78	2'991.77	-7.40%
RUSSELL 2000	1'668.47	1'393.07	-16.51%
NASDAQ COMP	8'972.60	9'340.22	4.10%
CANADA - TSX	17'063.43	15'148.12	-11.22%
MEXICO - IPC	43'541.02	36'225.22	-16.80%
BRAZIL IBOVESPA	115'645.34	85'468.91	-26.09%
COLOMBIA COLCAP	1'662.42	1'057.66	-36.38%
ASIA	31.12.2019	26.05.2020	% Chg YTD
JAPAN- NIKKEI	23'656.62	21'271.17	-10.08%
H.K. HANG SENG	28'189.78	23'384.66	-17.05%
CHINA CSI 300	4'096.58	3'872.77	-5.46%
EUROPE	31.12.2019	26.05.2020	% Chg YTD
EURO STOXX 50	3'745.15	2'999.22	-19.92%
UK - FTSE 100	7'542.44	6'067.76	-19.55%
GERMANY - DAX	13'249.01	11'504.65	-13.17%
SWITZERLAND - SMI	10'616.94	9'830.83	-7.40%
SPAIN - IBEX 35	9'549.20	7'003.90	-26.65%
NETHERLANDS - AEX	604.85	531.30	-12.16%
RUSSIA - RTSI	155'360.00	123'020.00	-20.82%

VOLATILITY

	31.12.2018	26.05.2020	% Chg YTD
SPX (VIX)	13.78	28.01	103.27%

CURRENCIES

	31.12.2019	26.05.2020	% Chg YTD
EUR/USD	1.1220	1.0875	-3.07%
USD/JPY	108.6750	106.6500	-1.86%
USD/CHF	0.9674	0.9742	0.70%
GBP/USD	1.3262	1.2476	-5.93%
USD/CAD	1.3002	1.3879	6.75%
EUR/CHF	1.0855	1.0594	-2.40%

COMMODITIES (USD)

PRECIOUS METALS	31.12.2019	26.05.2020	% Chg YTD
GOLD USD/OZ	1'517.48	1'712.27	12.84%
SILVER USD/OZ	17.86	15.29	-14.39%
PLATINUM USD/OZ	965.50	777.75	-19.45%
ENERGY	31.12.2019	26.05.2020	% Chg YTD
WTI Crude Oil	61.06	15.06	-75.34%
Brent Crude Oil	66.00	24.37	-63.08%
Natural Gas	2.19	1.86	-15.07%

INTEREST RATES GOVERNMENT BONDS

	3 Months	2 Years	10 Years
USA	0.142	0.18	0.698
GERMANY	-0.570	-0.641	-0.426
SWITZERLAND	-0.750	-0.641	-0.470
UK	0.106	-0.015	0.219
JAPAN	-0.110	-0.153	0.001

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