For marketing purposes
For professional / qualified / institutional clients and investors only

No place to hide

Five-year capital market assumptions | August 2021

By: **Louis D. Finney,** Co-Head of the Strategic Asset Allocation Modeling group in the Investment Solutions team of UBS Asset Management

UBS AM's views

Conservative investors that need to protect real purchasing power in the short run (a retiree on a tight budget) will likely invest differently than investors that have long time horizons.

- Global equities continue to be expensive on an absolute basis. On a relative basis, they still offer value over cash and inflation, assuming inflation to be around targets set by central banks. Some individual markets (Japan, Europe) are under-valued and offer some of the best expected returns over the next five years.
- Expected government bond returns in developed markets are higher now than six months ago.
- The US dollar's retreat leaves the currency closer to fair value. Going forward, we see limited gains from currency exposure for unhedged non-USD assets in USD terms.
- We explore how inflation risks should influence positioning. Conservative investors that need to protect real purchasing power in the short run (a retiree on a tight budget) will likely invest differently than investors that have long time horizons.
  - Longer term investors should overweight equities, real estate and a lower bond duration profile.
  - Shorter term investors should tilt toward short duration inflation-linked bonds, short-term corporates and floating rate notes. Equities offer little inflation protection in the short run, but probably do well relative to other asset classes. Real estate and commodities should help manage inflation risk in the short run.

Part I: Capital markets update

UBS Investment Solutions provides estimates of capital market returns across a wide array of asset classes and from multiple currency perspectives. For this paper, we focus on our 5-year baseline expected geometric returns.

Our last publication highlighted our Nov. 2020 assumptions right after the US elections. Since then, we've seen equities continue to rally amid enduring policy support, progress on vaccinations, and firming economic activity. Although the recovery has at times sputtered as mobility restrictions were re-imposed, we believe that prospective economic growth is high due to pent-up demand and highly accommodative government policies.

Our inflation estimates have moved up slightly, though not as dramatic as changes in break-even rates imply. Although we see short-run inflationary pressures, we expect central banks to be successful in controlling inflation.

Here is a global summary of expected returns as of June 2021.

Exhibit 1: Five-year expected returns in USD terms

Annualized %	May 2020	Nov 2020	June 2021
Global Equities Unhedged	7.5	6.5	4.9
Global Gov Hedged	-0.1	-0.1	0.8
Global Corp IG Hedged	1.1	0.2	0.7
Global Corp HY Hedged	4.1	1.8	1.5
3-mo T-Bills	0.2	0.3	0.7
US Consumer Inflation	1.4	1.6	2.1

Source: UBS Asset Management, as of 30 June 2021.

With equities rallying 15.1%[1] since November, we believe that valuations are even more stretched and require extraordinary earnings growth and continued low rates to be justified.

Although cash rates barely budged, government bond yields in the developed markets moved up anywhere from a 3 bps (Japan) to 71 bps (Canada). The emerging markets also saw a substantial increase in yields. Mexico's 10-year bond jumped 124 bps since November. India and Poland showed more modest increases of 48 and 40 basis points, respectively. China is one outlier, with their benchmark 10-year government bond yield declining by 17 bps.

In general, the US dollar has appreciated slightly against most developed markets since last November, but there are mixed results across all regions. The Euro, the Swiss franc and the Japanese yen all declined against the USD (-0.9%, -2.1% and -6.0% respectively), while the UK, Australia and Canada saw appreciating currencies (up 3.5%, 1.9% and 4.7% respectively). We also see variety across emerging markets in currency returns. After slumping earlier in the year, many emerging markets rallied sharply in the second quarter: the Brazilian real rose 7.3%, the Mexican peso increased 7.3% and the Russian ruble gained 4.7%.

In general, with the US dollar close to fair value, we see limited gains from currency exposure for unhedged non-USD assets in USD terms. Conversely, we see smaller losses for foreign investors investing in USD denominated assets.

[1] MSCI AWCI in USD from 30 Nov 2020 to 30 June 2021 (seven months).

Macroeconomic
We've adjusted our inflation forecasts upward for the major economies, but price in only a modest rise in inflation in the next five years. We tend to agree with the Federal Reserve's view that this a temporary spike in inflation and that the deflationary forces of technology, eventual ebbing of fiscal support and resolution of sector-specific shortages will prevent a sustained upward spiral in inflation. We are also moderately optimistic about growth, as we believe that pent-up demand, newfound productivity from work-from-home arrangements and rebuilding of supply chains should keep sustained growth in the developed market in the 1.8% to 2.0% range. Despite recent turbulence in the emerging markets, we do expect them to outgrow developed markets by 1.0% or so over the next five years (in line with their historic average).

Equities
With the S&P 500 Index having another period of exceptional returns (total return of 19.7% since November, slightly edging most markets in returns), the estimated return for US large cap stocks has dropped from 5.0% to 3.1%, the largest drop of any market for this period

Along with soaring prices, the expected return metrics for the US are also hurt by higher interest rates and a continued drop in the current dividend yield.

We continue to see some pockets of value outside the US. Japan, in particular, has strong prospects in USD terms, as does the UK and Canada. Emerging market equities are slightly overvalued, but still offer higher expected returns relative to the US.

Chinese equity returns in local terms are little changed, but the appreciation of the CNY over the last year has lowered expected returns in non-CNY terms.

A global equity portfolio's expected return in unhedged USD terms for the next five years dropped from 6.5% to 4.6%. For emerging markets, prospective returns dropped from 8.1% to 7.0%. Another factor affecting these returns in USD terms is the large run-up in EM currencies in recent months. Previously, we had expected a tailwind of appreciating EM currencies, but this has dissipated and EM currencies are expected to have a slight drag on performance.

Exhibit 2: Equity market 5-year expected returns – June 2021

	Local currency	Unhedged USD terms
US Large Cap	3.1	3.1
Eurozone	5.7	6.5
Switzerland	6.3	6.4
United Kingdom	7.3	7.3
Japan	6.6	9.1
China	7.3	6.2
Australia	7.3	6.5
Canada	7.7	7.8
Global Equities		4.9
Developed Markets		4.6
Emerging Markets		7.0
Dev Mkts x US		7.5
Inflation		2.1

Source: UBS Asset Management, as of 30 June 2021.

Fixed income
Higher global government bond yields produced a big jump in expected returns. In hedged USD terms,[2] a global government bond portfolio jumped from -0.1% last November to 0.8% in our current projections. This includes a slight adjustment upward in the path of future interest rates, reflecting the rising possibility of sustained growth and inflation (as well as the passage of time).

Credit markets had a better period than government bonds as spreads continued to narrow across the board, and had a continued decline in default rates (with the rebound in energy rescuing a big component of US high yield indices). Trailing 12-month default rates in the US peaked in last summer/early fall last year and analysts are now expecting average to below-average default rates—hence the narrowing of spreads to very tight levels. However, these tight spreads are not expected to be maintained and the expected returns for investment grade corporate bonds is now extremely low.

Exhibit 3: 10-year government bond yields and expected changes

	June 2021 baseline		
	Starting yield	In 5 years	Change in yields
US	1.5%	2.3%	0.8%
Australia	1.5%	1.8%	0.3%
Canada	1.4%	2.0%	0.6%
Germany	-0.2%	0.3%	0.4%
France	0.1%	0.5%	0.4%
Italy	0.8%	1.4%	0.6%
Spain	0.5%	0.9%	0.4%
Japan	0.1%	0.4%	0.3%
Switzerland	-0.2%	0.3%	0.5%
UK	0.8%	1.8%	0.9%
China	3.1%	3.0%	-0.1%

Source: UBS Asset Management, as of 30 June 2021.

Trailing 12-month default rates in the US peaked in last summer/early fall last year and analysts are now expecting average to below-average default rates

[2] Traditionally, we express fixed income return in hedged currency terms and equities in unhedged currency terms.

Exhibit 4: Expected bond market returns – 5-yr baseline

	June 2021 estimates	
	5-year local	5-year US hedged
Government Bonds		
US Treasuries	0.3%	0.3%
Australia Gov	0.9%	1.2%
Canada Gov	0.5%	0.8%
Eurozone Gov	-0.5%	0.7%
Japan Gov	-0.3%	0.4%
Switzerland Gov	-1.2%	0.2%
United Kingdom Gov	-1.1%	-0.7%
China Gov	3.2%	1.7%
Global Government	0.3%	0.8%
Other Markets		
US Corporates	0.2%	0.2%
US High Yield	0.6%	0.6%
US TIPS	-0.4%	-0.4%
EMD Hard Currency	3.2%	3.2%
EMD Local Currency	4.2%	1.4%

Source: UBS Asset Management, as of 30 June 2021.

Cash markets

In the developed markets, there has essentially been no significant change in current nominal cash rates since the fall of 2020. In reaction to the pandemic of 2020, central banks throughout the world—developed and emerging markets alike—lowered rates quickly and as much as practical. In the US, the Fed has vowed to keep rates low until both maximum employment has been achieved and inflation has eclipsed its two percent target and is poised to stay there and run moderately hotter for some time.

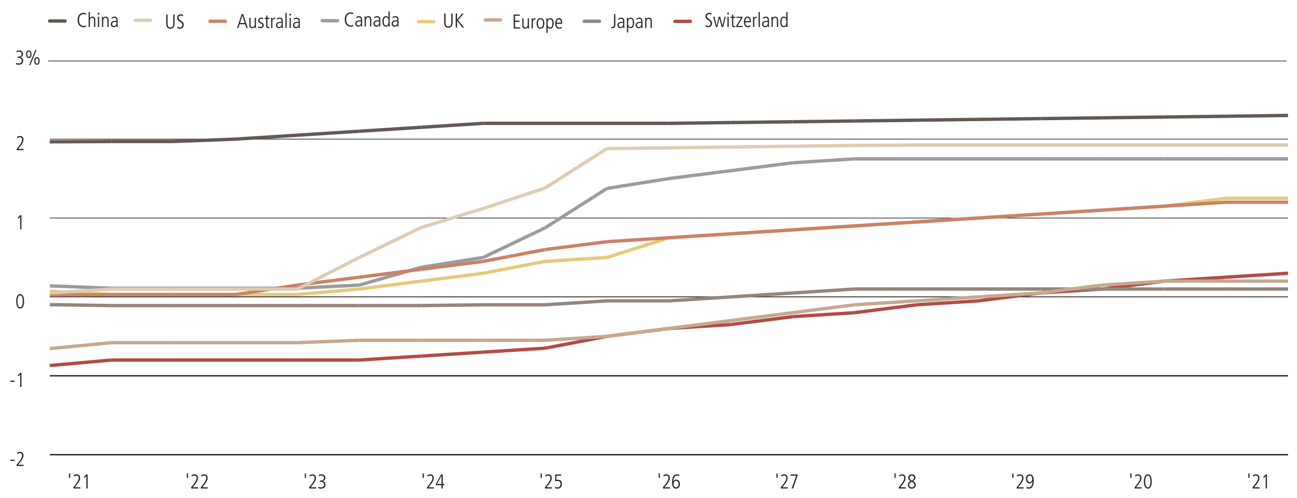
We have raised our projected path for short rates slightly due to a) a simple roll of the path in time b) indications that the Federal Reserve's flexible average inflation targeting regime will be less tolerant of higher price pressures than previously expected.

Our paths have the US rates rising first in 2023, followed a few months later by Canada, Great Britain and Australia. We expect Europe, Switzerland and Japan to be much slower in raising rates.

In general, we expect emerging market countries to be raising rates about 50 basis points.

In terms of real returns, with prospective inflation still running above central bank policy rates, we expect negative real returns from cash for developed markets over the next five years. As usual, emerging markets offer the highest real returns, but present significant amounts of inflation and currency risks. In general, Asia real cash returns are expected to be higher than Western markets, but less than Latin American and some Asian and African markets. For example, yields in Korea, Taiwan and Thailand are around 0.5% with expected inflation around 1.5%; thus, a -1.0% expected real return. Mexico and Brazil have cash yields around 4.5% and expected inflation of 3.1%, so a positive real return of 1.4%.

Exhibit 5: Projected cash rates across markets – major markets



Source: UBS Asset Management, as of 30 June 2021.

Currencies

After rising sharply during the market panic in response to the pandemic, the US dollar declined meaningfully in the last nine months of 2020. Since then, the trading has turned more choppy though still with a bias to the downside.

We expect the US dollar to continue to decline against major markets, but at a much slower pace than in forecasts from one year ago. From a USD perspective, currency appreciation of a developed market ex-US equity portfolio should add 0.9% to the portfolio return, down from 1.8% one year ago.[3]

In the emerging markets, currency impacts vary considerably. Latin American countries are undervalued a bit, while Asian markets are overvalued. Hence, from a USD perspective, we expect emerging market equities with their high weight to Asian markets to experience a bit of currency losses (-0.4% per year) while local debt portfolios with heavy exposure to Brazil and Russia may experience currency gains.

We expect the US dollar to continue to decline against major markets.

[3] Note: in a previous paragraph we referred to a Global Equity portfolio with a currency effect in USD terms (0.2%). This global equity portfolio includes US equities (which will have a 0.0% currency effect) and emerging markets. Here we are referring only to non-US developed market equities.

Exhibit 6: Currency impact in USD terms

Annualized %	May 2020		Nov 2020		June 2021	
	Unhedged	Hedged	Unhedged	Hedged	Unhedged	Hedged
EUR	1.9	0.8	1.3	0.9	0.8	1.2
GBP	1.9	-0.1	1.0	0.1	0.0	0.4
JPY	2.7	0.6	2.3	0.3	2.5	0.7
CHF	0.5	1.0	0.1	1.1	0.1	1.4
CAD	1.5	-0.2	0.8	-0.1	0.2	0.2
AUD	0.8	0.2	-0.4	0.0	-0.8	0.4
CNY	0.0	-1.3	-0.7	-2.3	-1.1	-1.4
Index Baskets						
Dev Mkt Eq x US	1.8	0.4	1.2	0.2	0.9	0.8
Global Equity	0.7	-0.1	0.3	-0.1	0.2	0.1
Global Eq x US	1.5	-0.2	0.8	-0.2	0.5	0.1
EME	0.7	-2.0	-0.1	-1.9	-0.4	-1.5
Global Gov	1.4	0.4	1.0	0.4	0.8	0.6
Global Gov x US	2.1	0.6	1.5	0.6	1.2	0.9
Global Credit	0.4	0.0	0.2	0.1	0.1	0.1
EMD Local	1.3	-2.9	0.6	-2.9	0.6	-2.7

Source: UBS Asset Management, as of 30 June 2021.

Other observations

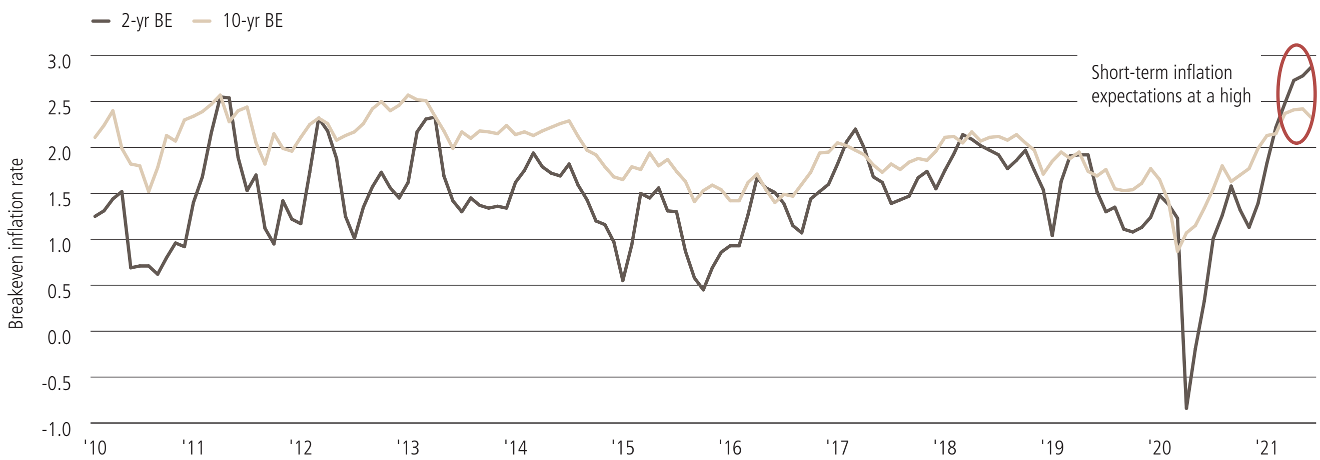
- As the recent turmoil in its equity markets indicate, China continues to have a different business and market cycle than the rest of the world. Thus, it continues to offer unique diversification benefits for global investors. The correlation of Chinese equities with the S&P 500 (local to local currency) was 0.06 over the past fourteen months. In fixed income, Chinese government bonds continue to have a low correlation with other government bond markets. However, we do see a transition period in the Chinese markets as the government manages the balance of economic and social objectives.
- The global 60/40 portfolio continued to have solid returns. A 60% MSCI ACWI unhedged and 40% Bloomberg Barclays Global Aggregate hedged return 22.1% in the past year and 10.1% over last five years. However, on a forward looking basis, we expect only a 3.2% return over the next five years.
- We expect the stock-bond correlation to continue to be negative, though the relationship has weakened and is vulnerable to a reversal with a breakout of inflation and potential Fed rate hikes.

Part II: Inflation and capital market expectations

One of the biggest market concerns is a sustained bout of disruptive inflation. For at least a decade, the global economy has had inflation below central bank targets.[4] Heightened concern that this can reverse is warranted, given the scale of the fiscal and monetary policy stimulus in response to the pandemic. This could cause a rapid period of above-trend growth that outstrips economies' productive capacity, resulting in inflationary pressures, which could be further perpetuated by workers demanding increasingly higher pay to keep up with these higher prices.

Short term measures of inflation have risen sharply in the past few months. Back in November breakeven rates were around the average inflation rate for the last 13 years (1.7%). But since then, they have shot up 70 to 90 basis points to hover around 2.5% for the US. One significant recent development is that shorter-term measures of expected inflation are higher than longer-term measures. For example, our measure of two year inflation expectations which normally have been below the 10-year expectations are now above this level at 2.8%.[5]

Exhibit 7: US breakeven inflation – 2010-2021



Source: Macrobond, ICE BoA, Bloomberg Barclays. Data as of 30 June 2021.

[4] For example, since 2009, the Fed has targeted 2.0% inflation on a Core PCE basis. However, Core PCE has averaged about 1.6% over this period. The 'headline' inflation figure (CPI-U All Items) has been a bit higher at 1.8%.

[5] We measure this two-year expected inflation as the difference between the yields of the Bloomberg Barclays 1-3 yr Treasury index and the ICE BoA 1-3 US TIPs index.

Four potential inflation scenarios

We quickly explore four different inflation scenarios. In each of these scenarios we are assuming a continuation of growth and above-average inflation in the second half of 2021. Thus, the negative and positive effects begin to show themselves in early 2022.

- **Baseline:** Moderate growth and moderate inflation.
- **Growth Inflation:** Strong growth and high inflation
- **Stagflation:** Low growth and inflation at 3.1%
- **Stagnation:** Recession in late 2022 followed by low growth and low inflation.

Exhibit 8: Five-year scenario analysis

Scenario	Nominal rate	Real growth	Inflation
Inflationary Growth	6.3%	3.1%	3.1%
Base	4.6%	2.4%	2.1%
Stagflation	4.7%	1.5%	3.1%
Stagnation	2.9%	1.3%	1.5%
20-yr Avg Current (2021)	3.8%	1.9%	2.1%
20-yr Avg 2001	6.2%	3.3%	3.5%
20-yr Avg 1981	9.1%	3.9%	5.6%

Source: UBS Asset Management, as of 30 June 2021.

When analyzing scenarios, we want to combine growth and inflation to produce nominal growth rates. We project that nominal growth could be as high as 6.3% and as low as 3.0%. Note that our Stagflation scenario is not a repeat of the 1970s and early 1980s era which saw three recessions and a rise to double-digit inflation. In comparison, this is a milder inflation shock with sluggish growth.

Notice how they compare to the historic 20-year averages that we have seen. The period ending March 2021 is one of the lowest periods for nominal growth rates in the last sixty years. Our projections may seem low on the historic perspective, but we believe that they are more reasonable when we adjust for demographics (i.e., lower population growth and older work force), factors which weigh on potential growth.

These nominal growth rates will be reflected in the nominal returns of asset classes and this is what we will see on our financial statements. However, we ultimately want to judge returns in real terms and with the significant differences in inflation, there can be notable differences between the nominal and real results.

Here are our projected returns for US asset classes for the period June 2021 through June 2026. Equities could earn in the high single digits in nominal terms (sending the S&P Price level over 5,500), but could essentially be flat (Stagflation, Stagnation). Almost all of the public bond markets have nominal terms in the low single digit range.

Exhibit 9: Projected annualized 5-year returns through June 2026

	Nominal Terms				Real Terms				Range	
	Inflation growth	Base	Stag-flation	Stag-nation	Growth	Base	Stag-flation	Stag-nation	Nominal	Real
US Large Cap Equity	7.5%	3.1%	-0.8%	-0.8%	4.2%	1.0%	-3.9%	-2.2%	8.3%	8.1%
1-3 yr Treas	0.4%	0.3%	0.2%	0.2%	-2.7%	-1.8%	-2.9%	-1.3%	0.2%	1.6%
1-3 yr TIPS	0.9%	-0.5%	0.6%	-0.3%	-2.2%	-2.5%	-2.5%	-1.8%	1.4%	0.7%
1-3 yr Credit	0.6%	0.4%	0.4%	0.4%	-2.5%	-1.6%	-2.7%	-1.1%	0.2%	1.6%
10-yr Treasury	-0.8%	0.3%	-0.3%	1.2%	-3.8%	-1.7%	-3.3%	-0.3%	2.0%	3.5%
10-yr TIPS	0.6%	-0.1%	1.3%	-0.5%	-2.5%	-2.2%	-1.8%	-1.9%	1.7%	0.7%
US Inv Grade Credit	-0.1%	0.2%	-0.1%	1.0%	-3.2%	-1.8%	-3.2%	-0.4%	1.2%	2.7%
US High Yield Credit	1.9%	0.6%	0.7%	1.2%	-1.3%	-1.4%	-2.4%	-0.3%	1.2%	2.1%
Commodities	5.3%	0.0%	4.8%	-1.8%	2.1%	-2.0%	1.6%	-3.2%	7.0%	5.3%
Gold	2.0%	0.0%	4.5%	1.0%	-1.1%	-2.0%	1.4%	-0.5%	4.5%	3.4%
Real Estate	5.9%	5.0%	2.1%	1.5%	2.7%	2.9%	-1.0%	0.0%	4.4%	3.9%
Real Assets	5.9%	2.3%	2.3%	2.3%	2.6%	0.2%	-0.8%	0.8%	3.6%	3.5%
Cash	1.4%	0.7%	0.1%	0.0%	-1.7%	-1.3%	-2.9%	-1.4%	1.4%	1.6%
Inflation	3.1%	2.1%	3.1%	1.5%						

Source: UBS Asset Management, as of 30 June 2021.

When we look at real returns, we find no asset class that can generate a positive real return across all scenarios. However, fixed income is locked into negative real returns of -1.0% to -2.5% in almost all scenarios. With traditional asset classes and negative rates locked in by Fed policy, investors may have no place to hide if inflation were to jump above 3.0% for an extended period.

Alternatives offer a potential source of protection. Like equities, in the medium term real estate's days of high single-digit/low double-digit returns may be behind it, but we believe that it should offer steady returns and has some ability to ratchet up income as inflation increases. As such it should fare better than fixed income and rival US equity returns in all scenarios (stagflation would clearly be the worst for real estate and equities).

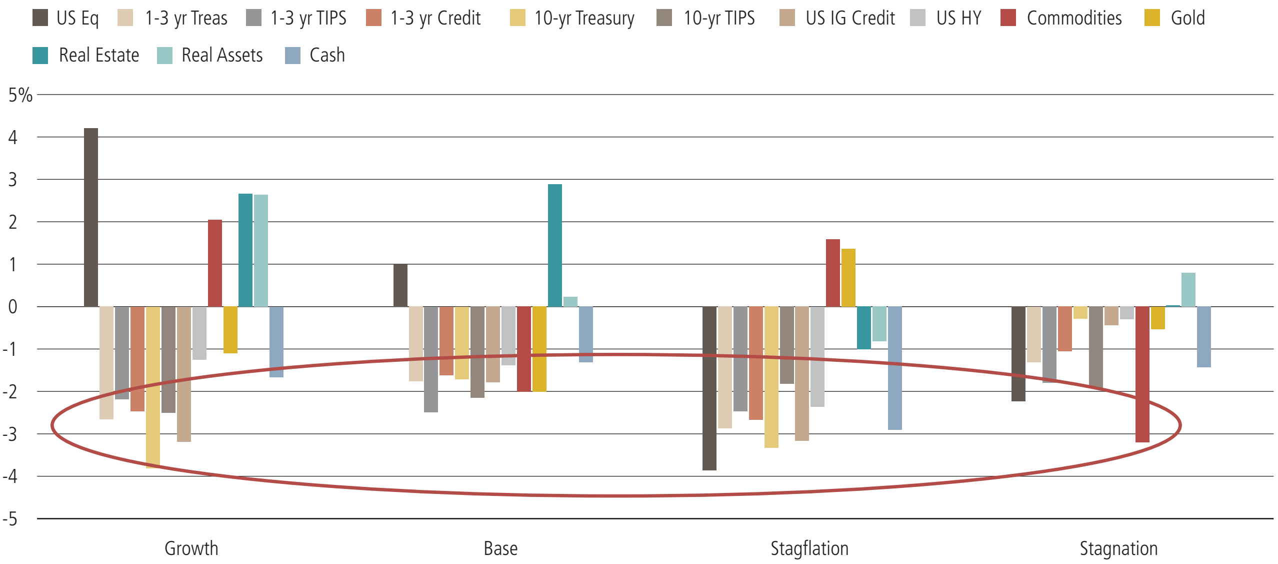
Another interesting item in the chart is the range of returns. This is closely tied to overall risk (instead of measuring volatility over time, we are looking at dispersion across scenarios).

Equities and commodities have the highest ranges (as expected). In nominal terms, cash has the lowest ranges, but in real terms, it is the 1-3 TIPS that provide the lowest dispersion (as expected when modeling in real terms).

A chart of the real returns by scenario paints a bleak picture. We believe that equities on average should provide a small real return, but should inflation break out—especially in a Stagflation scenario—there could be a painful repricing due to higher interest rates.

Bond returns, as noted before, may offer scant protection. TIPS, which should provide some inflation protection, have their own problems. Namely, these still expose investors to real rate risk, which can overwhelm any small gains of increased inflation.

Exhibit 10: Five-year expected real returns by scenario
Negative real returns for most fixed income assets!



Source: UBS Asset Management, as of 30 June 2021.

Another interesting item in the chart is the range of returns. This is closely tied to overall risk.

Part III: Applications to portfolios – Few places to hide

When we look at portfolios, we start with a simple 60/40 portfolio, which in this case is 60% US equities, 20% 10-year Treasury and 20% broad credit. We now look at a set of possible portfolio moves to deal with inflation risks.

Theoretically, moving to TIPS and shortening duration should offer some protection in the two inflationary scenarios. We do see a small improvement in returns in these scenarios, but short-term real yields are about as negative as they ever have been, so the expected gain is quite low. Unfortunately, they do poorly in the Stagnation scenario.

Improvements in inflationary environments occur with shorting duration and moving into shorter-term TIPS. However, short-term TIPS do quite poorly in the Stagnation scenario (the worst in the fixed income sector).

Increasing exposure into credit is likely also problematic. Spreads are quite low and vulnerable to sell-offs.

The one promising move is to diversify the fixed income by adding some alternative asset classes, particularly real estate, infrastructure, and hedge funds (we expect private equity to perform in line with public equities). These 'real assets' should be able to absorb inflationary pressures better than broad equities and much better than fixed income.

International implications
Outside the US, we see similar dynamics, but with different starting points and nuances. For ex-US developed markets, inflation may be lower, but the starting point for yields is lower, too. The result is a similar set of negative real return for fixed income portfolios, with equities offering more upside.

Currency effects are hard to project because they reflect determinations on whether macroeconomic developments will be idiosyncratic or synchronized across markets. For example, if the US is the only country experiencing higher inflation amid a global recovery, we'd expect the dollar to depreciate.

Overall, we'd opine that the US dollar is slightly overvalued and in most of these scenarios, we expect similar dynamics in other countries. However, one of the biggest differences is the relative valuation of equities. US equity markets are not priced to accommodate higher inflation and sluggish earnings growth. Non-US markets are better priced and should perform better than the US in general.

US equity markets are not priced to accommodate higher inflation and sluggish earnings growth.

Exhibit 11: Expected returns for sample portfolios

	US 60/40	Short duration	Diversify FI	Diversify all
US Large Cap Equity	60%	60%	60%	50%
1-3 yr Treas	0%	0%	0%	0%
1-3 yr TIPS	0%	10%	10%	10%
1-3 yr Credit	0%	10%	10%	10%
10-yr Treasury	20%	10%	10%	18%
10-yr TIPS	0%	0%	0%	0%
US Inv Grade Credit	20%	10%	10%	0%
US High Yield Credit	0%	0%	0%	2%
Commodities	0%	0%	0%	2%
Gold	0%	0%	0%	3%
Real Estate	0%	0%	0%	5%
Real Assets	0%	0%	0%	0%
Cash	0%	0%	0%	0%
Total	100%	100%	100%	100%
Nominal Terms				
Inflationary Growth	4.3%	4.5%	4.5%	4.2%
Base	1.9%	1.9%	1.9%	1.8%
Stagflationary	-0.6%	-0.4%	-0.4%	0.0%
Stagnation	0.0%	-0.2%	-0.2%	0.0%
Average	1.4%	1.4%	1.4%	1.5%
Range	4.8%	5.0%	5.0%	4.2%
Real Terms				
Inflationary Growth	1.1%	1.3%	1.3%	1.1%
Base	-0.1%	-0.2%	-0.2%	-0.2%
Stagflationary	-3.6%	-3.5%	-3.5%	-3.1%
Stagnation	-1.4%	-1.6%	-1.6%	-1.5%
Average	-1.0%	-1.0%	-1.0%	-0.9%
Range	4.7%	4.8%	4.8%	4.1%

Source: UBS Asset Management, as of 30 June 2021.

When it comes to asset returns and inflation, we see that the market is little prepared for a sustained breakout of price pressures.

Conclusion

The run-up of equities in the last few months continues to pull some future returns into the present. Our expected returns for equities—especially US equities--are the lowest in years. Pockets of equities outside the US offer more compelling expected returns.

Conversely, the rise in government bond yields has improved expected returns in sovereign bonds.

When it comes to asset returns and inflation, we see that the market is little prepared for a sustained breakout of price pressures. A disruptive repricing of inflation risks will affect all markets—in the short-run there is no place to hide from negative real returns.

Market positioning should also anticipate what type of inflationary environment that we will see. If this is a reopening bout of inflation caused by pent-up savings and supply chain bottlenecks, equities and real estate should continue to generate positive real returns while fixed income is devastated. On the other hand, a Stagflation environment mildly reminiscent of the 1970s will cause all assets to suffer. Inflation indexed bonds will offer some degree of protection, but still lock in negative real returns.

We expect alternatives to suffer the least as commodities, gold and real estate gain relative to other asset classes. Again, the nature of inflation will be important. Inflation tied to a more robust growth backdrop should benefit real estate, while a Stagflation would probably be very positive for gold. Commodities would probably be one of the drivers in inflation and clearly should do better in an inflationary growth environment.

In short, we believe that the market opportunities to truly profit from inflation are few.

For marketing and information purposes by UBS. For professional / qualified / institutional clients and investors.

This document does not replace portfolio and fund-specific materials. Commentary is at a macro or strategy level and is not with reference to any registered or other mutual funds.

Americas
The views expressed are a general guide to the views of UBS Asset Management as of 30 June, 2021. The information contained herein should not be considered a recommendation to purchase or sell securities or any particular strategy or fund. Commentary is at a macro level and is not with reference to any investment strategy, product or fund offered by UBS Asset Management. The information contained herein does not constitute invest- ment research, has not been prepared in line with the requirements of any jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. All such information and opinions are subject to change without notice. Care has been taken to ensure its accuracy but no responsibility is accepted for any errors or omissions herein. A number of the comments in this document are based on current expectations and are considered "forward-looking statements". Actual future results, however, may prove to be different from expectations. The opinions expressed are a reflection of UBS Asset Management's best judgment at the time this document was compiled, and any obligation to update or alter forward-looking statements as a result of new information, future events or otherwise is disclaimed. Furthermore, these views are not intended to predict or guarantee the future performance of any individual security, asset class or market generally, nor are they intended to predict the future performance of any UBS Asset Management account, portfolio or fund.

EMEA
The information and opinions contained in this document have been com- piled or arrived at based upon information obtained from sources believed to be reliable and in good faith, but is not guaranteed as being accurate, nor is it a complete statement or summary of the securities, markets or de- velopments referred to in the document. UBS AG and / or other members of the UBS Group may have a position in and may make a purchase and / or sale of any of the securities or other financial instruments mentioned in this document.

Before investing in a product please read the latest prospectus carefully and thoroughly. Units of UBS funds mentioned herein may not be eligible for sale in all jurisdictions or to certain categories of investors and may not be offered, sold or delivered in the United States. The information mentioned herein is not intended to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Past performance is not a reliable indicator of future results. The performance shown does not take account of any commissions and costs charged when subscribing to and redeeming units. Commissions and costs have a negative impact on performance. If the currency of a financial product or financial service is different from your reference currency, the return can increase or decrease as a result of currency fluctuations. This information pays no regard to the specific or future investment objectives, financial or tax situation or particular needs of any specific recipient.

The details and opinions contained in this document are provided by UBS without any guarantee or warranty and are for the recipient's personal use and information purposes only. This document may not be reproduced, redistributed or republished for any purpose without the written permission of UBS AG.

This document contains statements that constitute "forward-looking statements", including, but not limited to, statements relating to our future business develop- ment. While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations.

UK
Issued in the UK by UBS Asset Management (UK) Ltd. Authorised and regulated by the Financial Conduct Authority.

APAC
This document and its contents have not been reviewed by, delivered to or registered with any regulatory or other relevant authority in APAC. This document is for informational purposes and should not be construed as an offer or invitation to the public, direct or indirect, to buy or sell securities. This document is intended for limited distribution and only to the extent permitted under applicable laws in your jurisdiction. No representations are made with respect to the eligibility of any recipients of this document to acquire interests in securities under the laws of your jurisdiction.

Using, copying, redistributing or republishing any part of this document without prior written permission from UBS Asset Management is prohibited. Any statements made regarding investment performance objectives, risk and/or return targets shall not constitute a representation or warranty that such objectives or expectations will be achieved or risks are fully disclosed. The information and opinions contained in this document is based upon information obtained from sources believed to be reliable and in good faith but no responsibility is accepted for any misrepresentation, errors or omissions. All such information and opinions are subject to change without notice. A number of comments in this document are based on current expectations and are considered "forward-looking statements". Actual future results may prove to be different from expectations and any unforeseen risk or event may arise in the future. The opinions expressed are a reflection of UBS Asset Management's judgment at the time this document is compiled and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed.

You are advised to exercise caution in relation to this document. The information in this document does not constitute advice and does not take into consideration your investment objectives, legal, financial or tax situation or particular needs in any other respect. Investors should be aware that past performance of investment is not necessarily indicative of future performance. Potential for profit is accompanied by possibility of loss. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Australia
This document is provided by UBS Asset Management (Australia) Ltd, ABN 31 003 146 290 and AFS License No. 222605.

Source for all data and charts (if not indicated otherwise): UBS Asset Management

The key symbol and UBS are among the registered and unregistered trademarks of UBS.

AMMA-6831 8/21
www.ubs.com/am

UBS Asset Management (Americas) Inc. is a subsidiary of UBS Group AG.