

# UBS House View: Year Ahead



Section 1

# 2016 in review

"What separates the winners from the losers is how a person reacts to each new twist of fate."

- Donald Trump

# Base case expectations were shocked...

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A 'crisis of prediction'

- **Brexit**

- *Betting markets assigned >80% probability to a Remain vote.*
- *The UK voted 51.9% to 48.1% to leave the EU.*
- *British pound dropped 12% in the following 2 months*



- **Trump**

- *Betting markets assigned a >80% to a Clinton victory.*
- *Trump secured 290 electoral college votes vs Clinton's 232.*
- *US 10-year yields surged by more than 50bps in less than two weeks.*



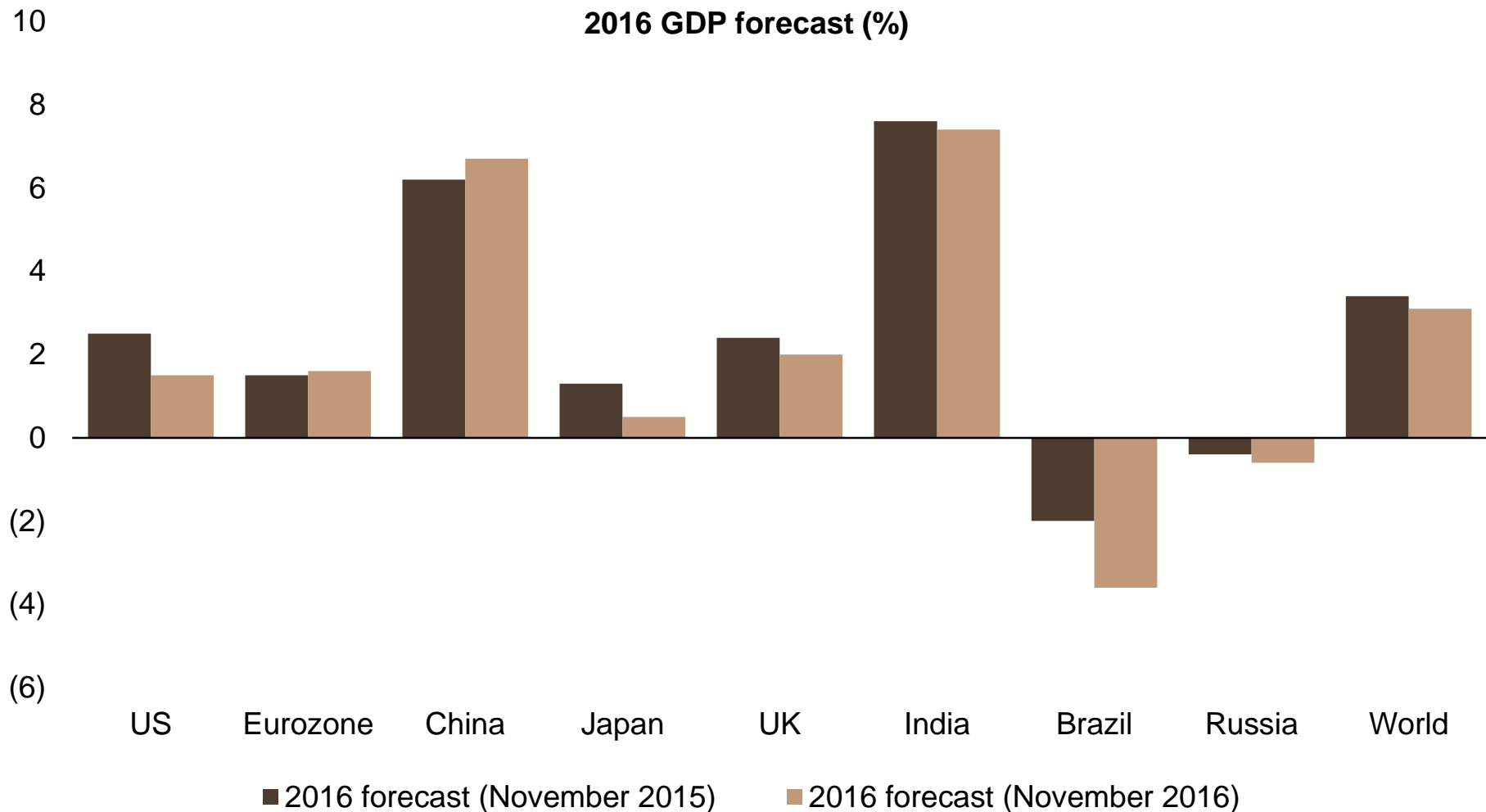
# The end game?

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# ...but economic performance was less surprising...

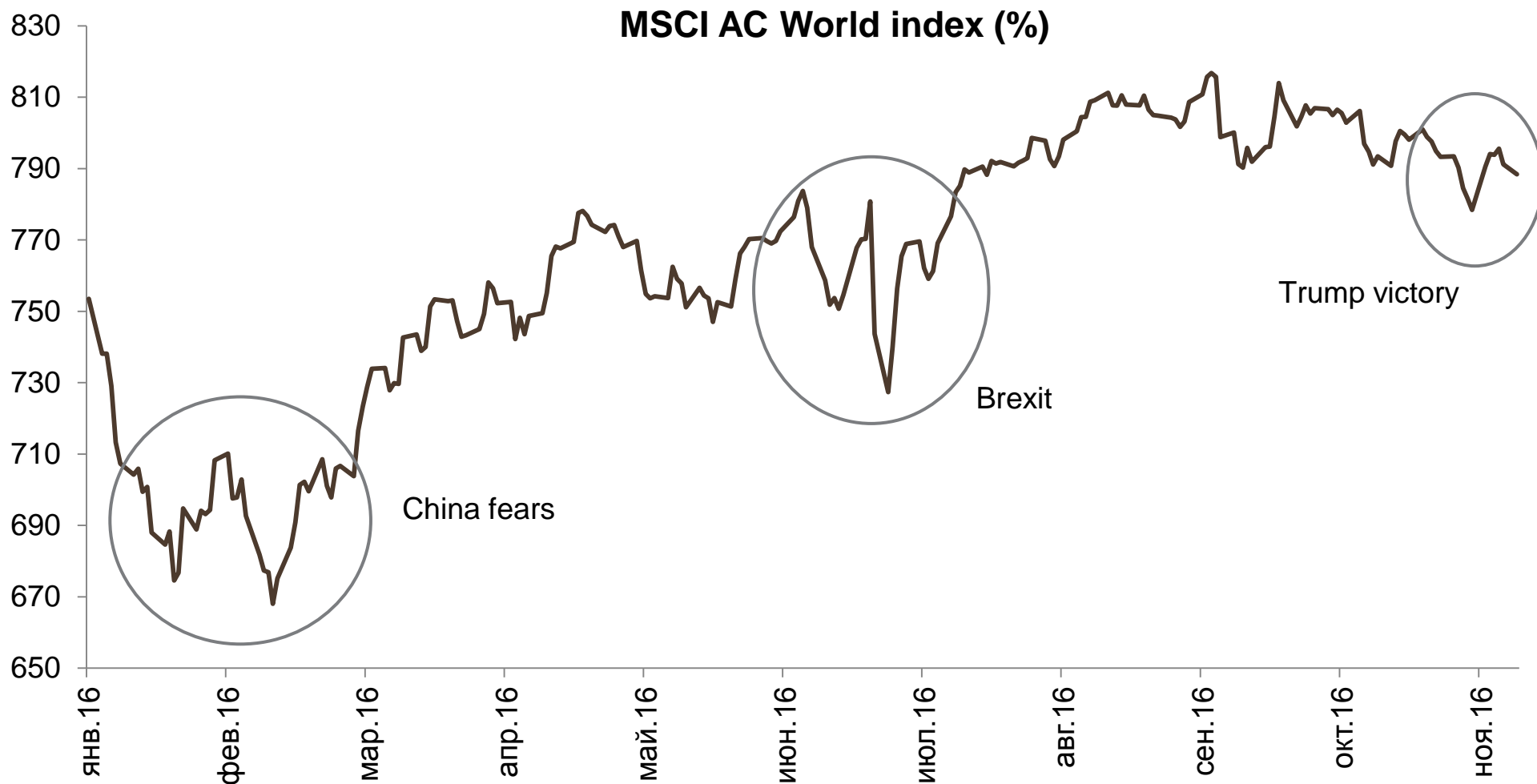
China and the Eurozone beat expectations. US lagged.



Source: UBS

# ...and staying invested paid off...

Markets recovered from shocks in a matter of weeks

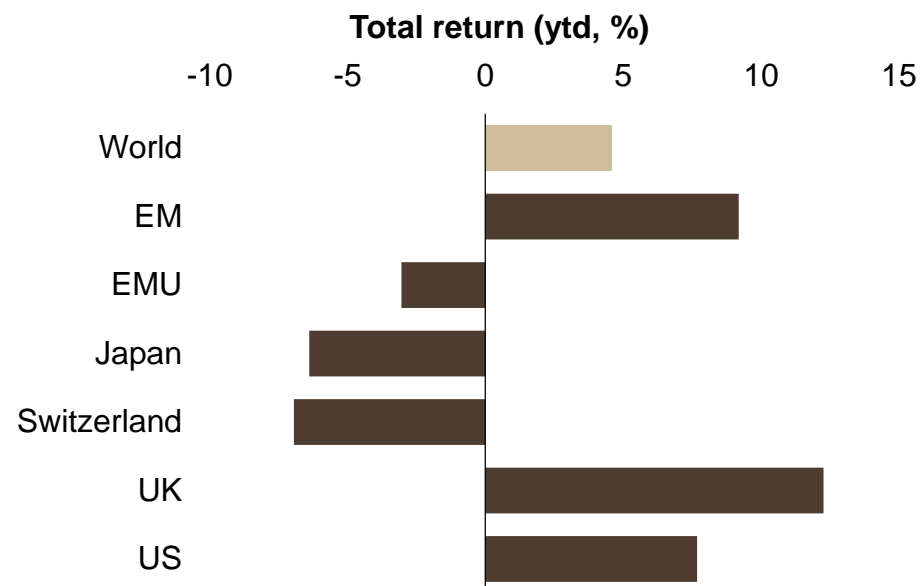


Source: Bloomberg, UBS

# 2016 asset class performance

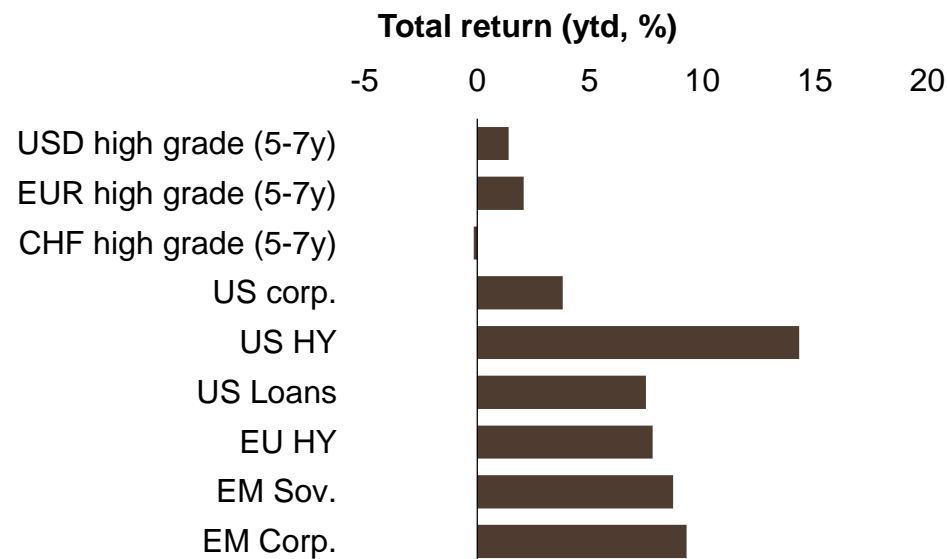
## • Equities

- Global equities returned c.5%
- UK, US and EM outperformers
- Japan, Switzerland, Eurozone lagged



## • Bonds

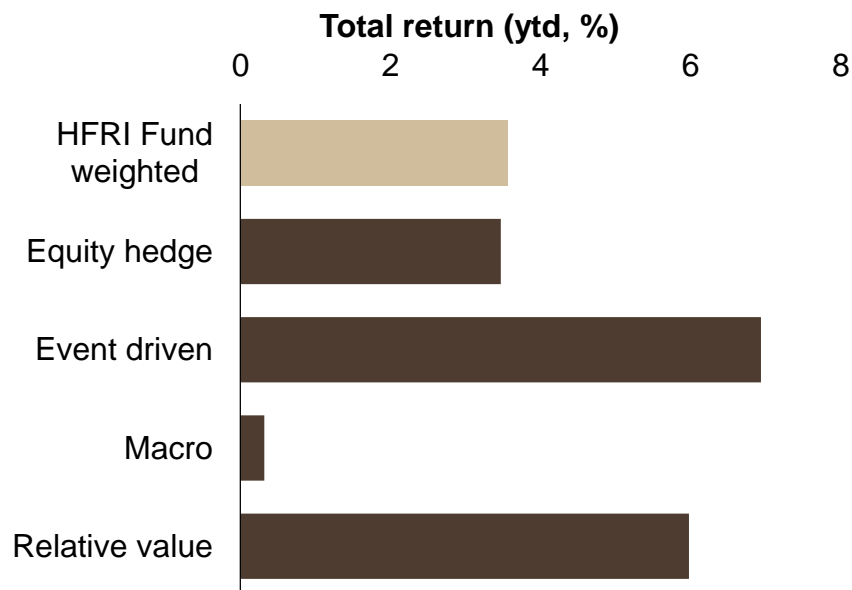
- Modest positive performance for high grade bonds
- US high yield the outperformer
- Solid performance from EM



# 2016 asset class performance

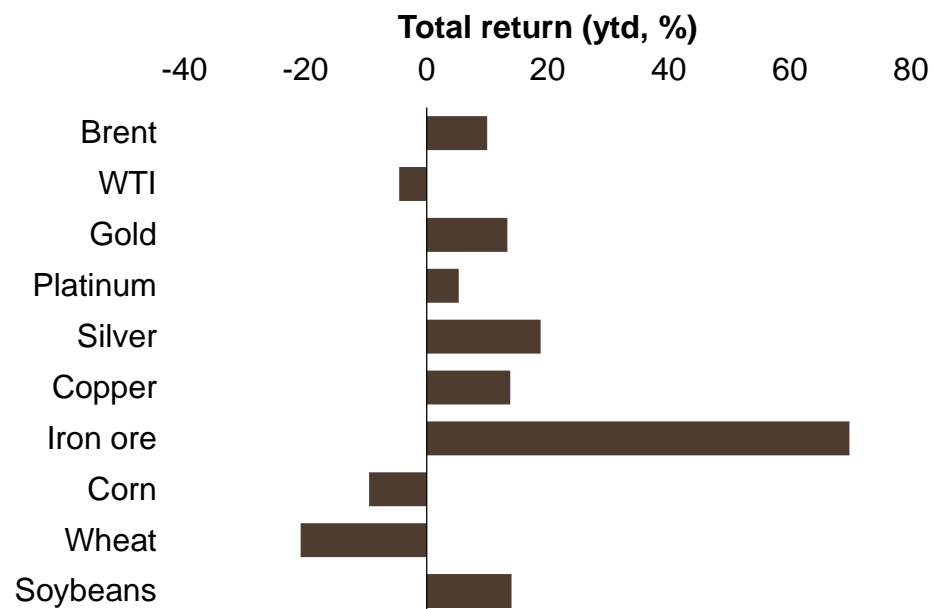
- **Alternatives**

- Solid year for hedge funds, c.4% return
- Event driven and relative value outperform
- Macro underperformed, but positive.



- **Commodities**

- Most commodities saw positive performance: oil, gold, copper all up.
- Iron ore outperformance
- Agricultural commodities lagged





Section 2

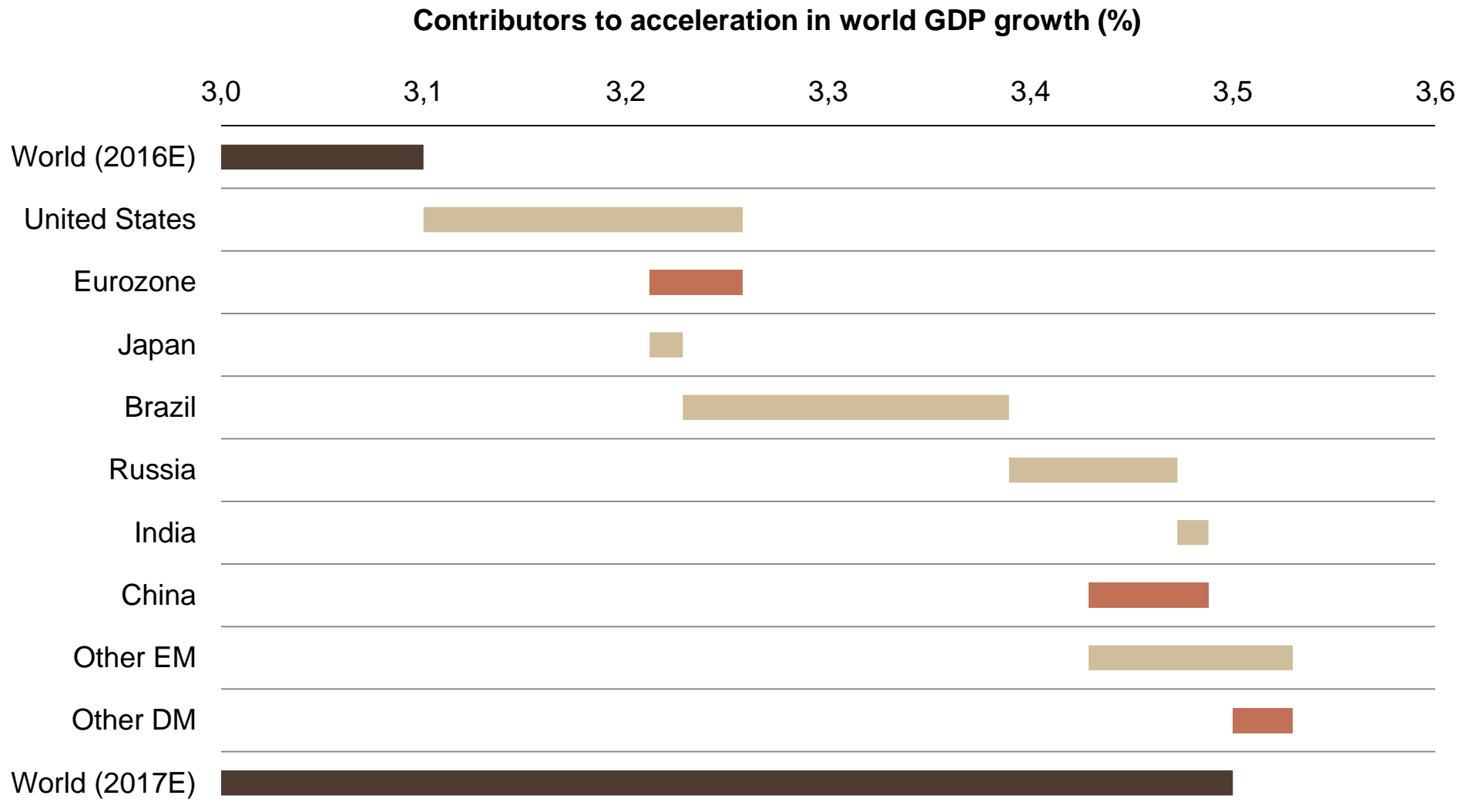
# A look ahead to 2017

"The future ain't  
what it used to be."

- Yogi Berra

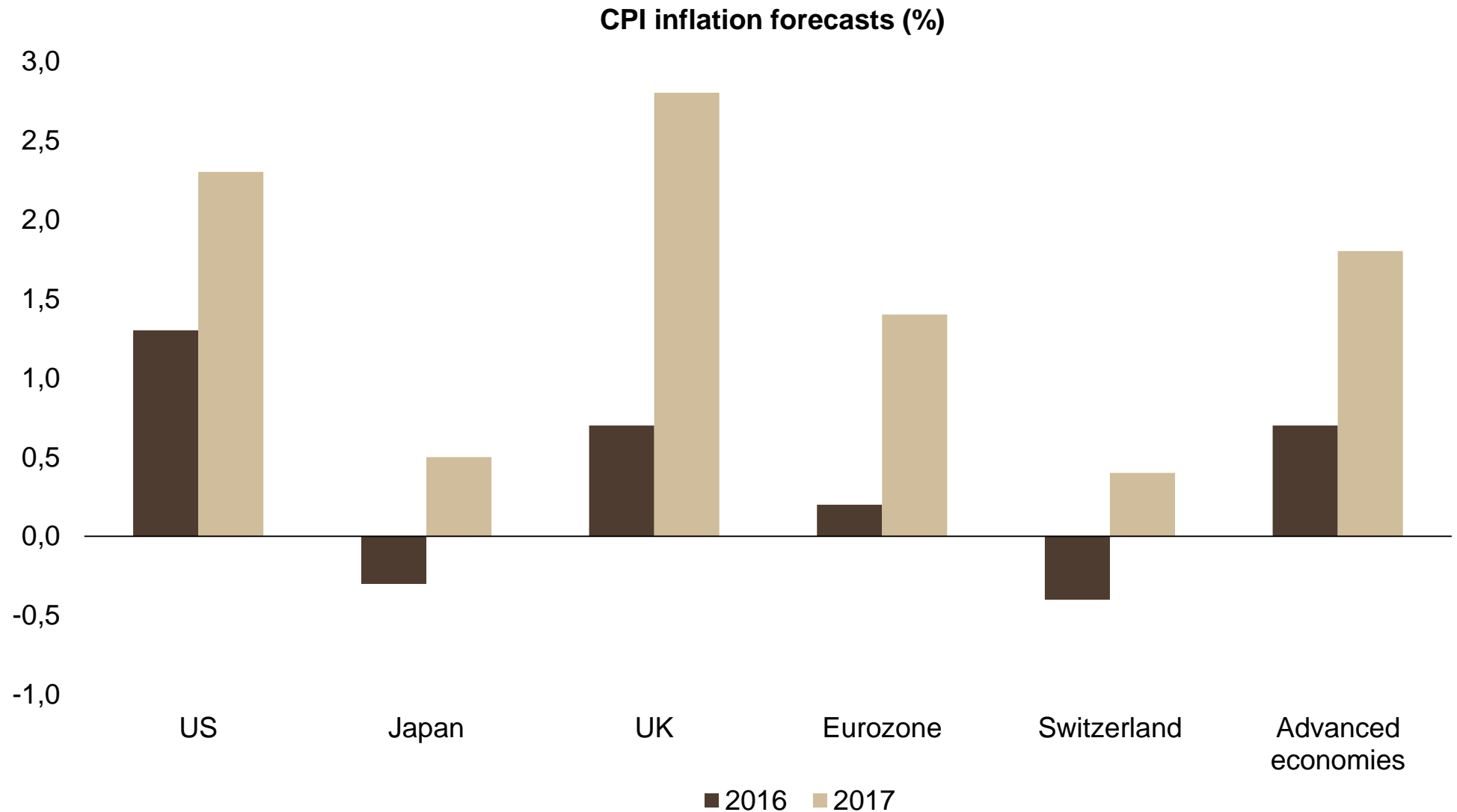
# Higher growth in the US and EM

US, Brazil, Russia key contributors to improved growth in 2017



# Rising inflation in developed markets

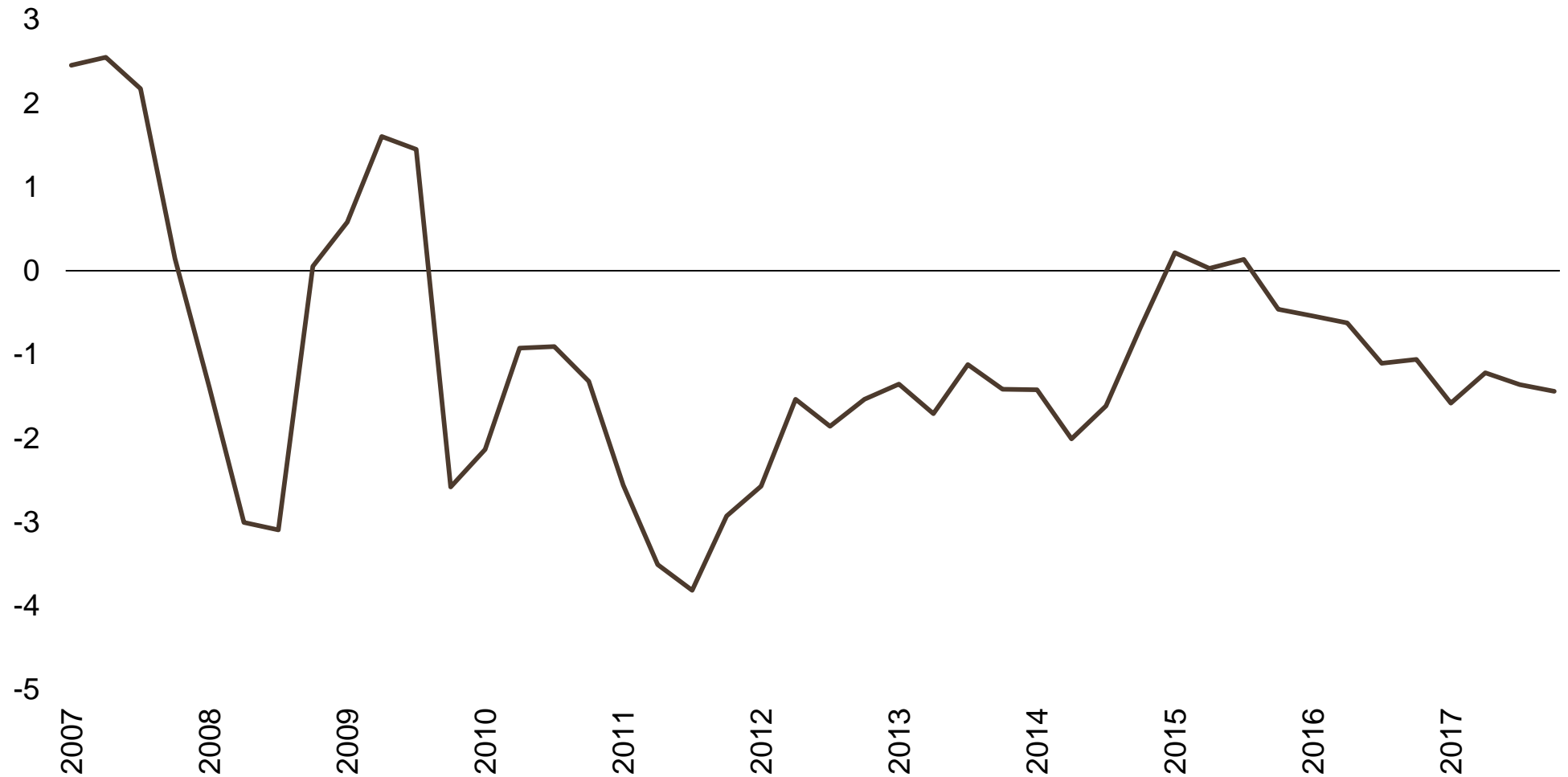
Rising oil prices, currency movements, and tighter labour markets



# Falling real interest rates

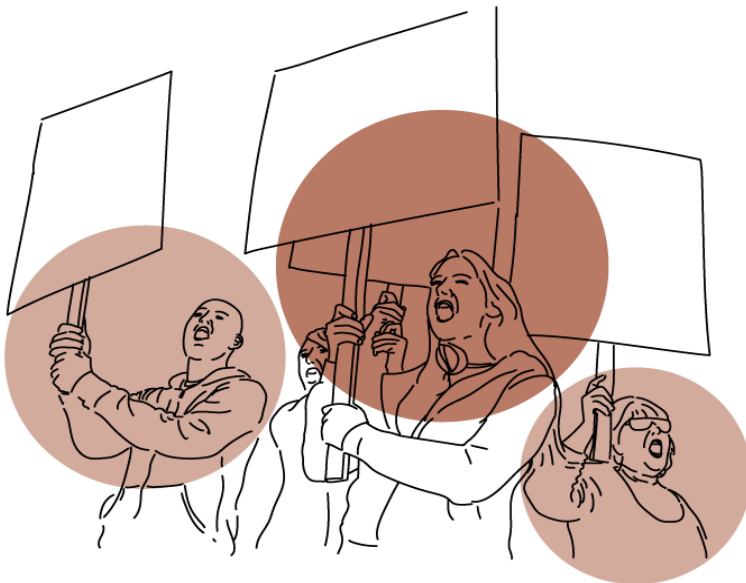
Inflation will rise more rapidly than interest rates in 2017

Real interest rate forecast (Fed funds rate minus CPI inflation, %)

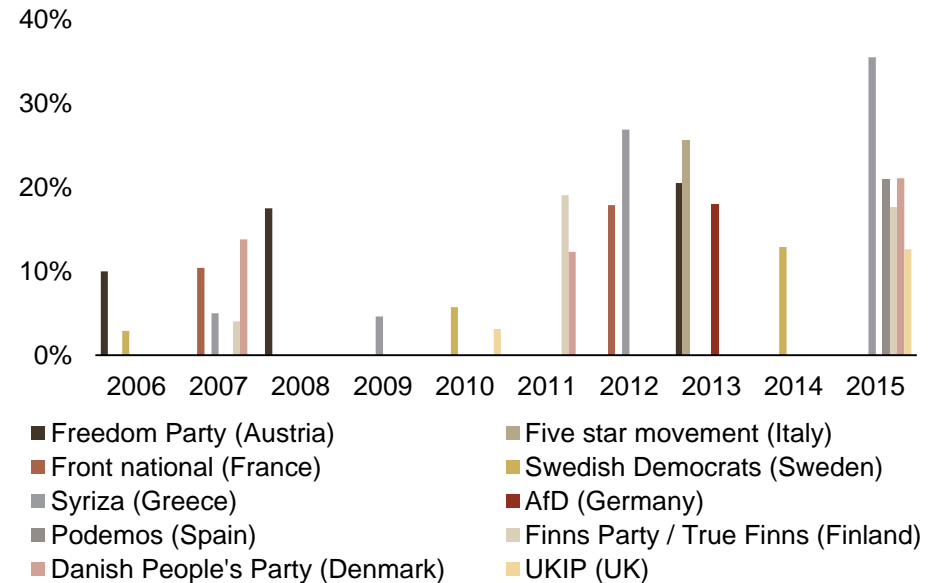


# Political risk – "The end game?"

- Stacked 2017 political calendar
  - January: US presidential inauguration
  - March: Dutch general election
  - April: French presidential election round 1
  - May: French presidential election round 2
  - October: German federal election
- Anti-establishment parties gaining popularity in Europe.



% of votes won in national election



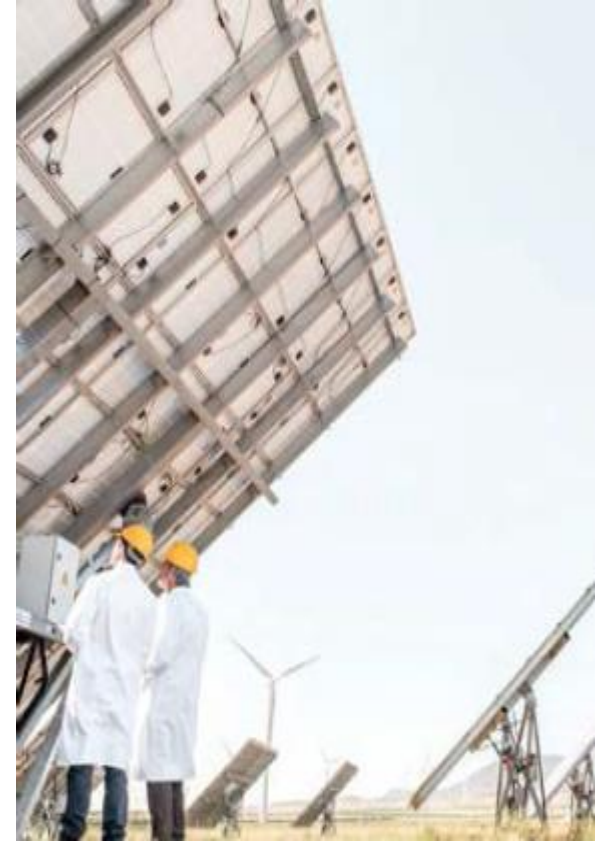
- *The end game?* Interactive feature on [ubs.com/cio](http://ubs.com/cio).
- Play policymaker – tackle the world's economic problems.
- Understand the implications of policy decisions on economies, markets, and portfolios.

Source: National elections

# Long-Term Investments

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Education, emerging market healthcare, energy efficiency



Section 3

# Top 10 ideas for 2017

"The human animal differs from the lesser primates in his passion for lists."

- H. Allen Smith

# Top 10 ideas for 2017

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## Overview

- **Higher growth in the US and EM**
  - Buy US equities
  - Buy EM equities
- **Rising inflation in developed markets**
  - Buy US Treasury Inflation Protected Securities
  - Sell high grade bonds
- **Falling real rates in developed markets**
  - Buy select emerging market currencies
  - Buy US senior loans
  - Buy Eurozone, Swiss, and Japanese dividend and buyback stocks
  - Buy APAC REITs
- **Political risk**
  - Buy platinum and palladium
  - Buy alternatives



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