December 2009

UBS global outlook 2010

Be alert and agile

Key investment views

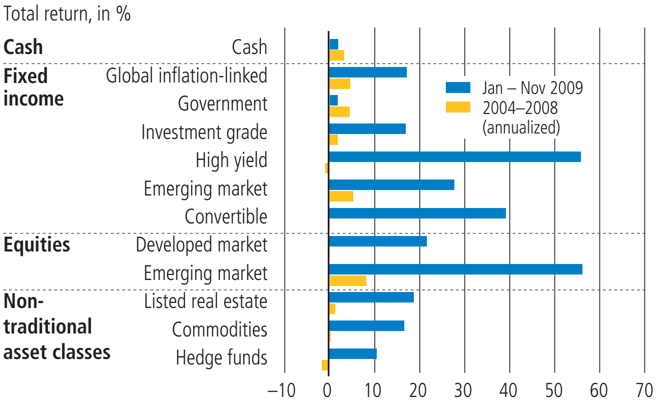
Although the economic recovery will likely continue in 2010, we do not expect a calm ride ahead for financial markets. Selective investments in emerging markets should generate decent returns, and equities and corporate bonds still offer good value. The Eurozone and the UK shine among developed equity markets, while the US dollar will probably remain weak, and government bonds look expensive.

Economic recovery on track but outlook uncertain
We expect the global economy to continue to recover during 2010, but we also see a world that is still starkly out of balance. Risk perceptions will likely normalize further during 2010, but that does not mean a calm ride lies ahead. A well-diversified portfolio should help smooth performance, and we expect opportunities to emerge for tactical moves throughout the year.

Strong emerging market growth translates into solid returns
Most major emerging market economies will likely continue to outpace economic growth in the developed world. We expect this to translate into faster earnings growth and ultimately higher equity market returns. Although valuations of emerging market bonds are less attractive than at the beginning of the year, we do not regard current prices as expensive given the improved economic fundamentals.

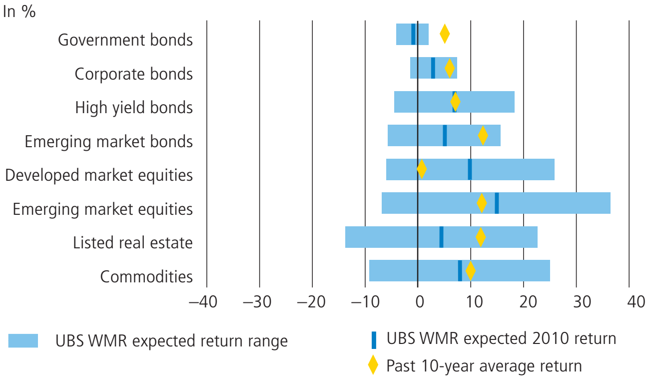
Government bonds at risk, corporate bonds still favored
Several factors point to the continued solid performance of corporate bonds during 2010, especially when compared to the dismal outlook for government bonds. We think cautious investors should shift some of their government bond exposure to investment-grade corporate bonds with medium-term durations, whereas investors with greater risk tolerance should still consider high yield corporate bonds.

Performance of main asset classes
Total return, in %



Source: Bloomberg, GPR, HFR, J.P. Morgan, Merrill Lynch, MSCI, Thomson Reuters, UBS WMR

Expected 2010 returns and historical return ranges
In %



Note: Return range shows +/– one annualized standard deviation from the expected 2010 return, based on the past 10 years of monthly returns. Historical average return is the compounded average annual return over the past 10 years.
Source: J.P. Morgan, Merrill Lynch, MSCI, GPR, Bloomberg, Thomson Reuters, UBS WMR

UBS Wealth Management

Earnings stability lends support to equity prices

Given our outlook for a recovery in economic activity and business sentiment, we think corporate profits will continue to improve during the early part of 2010. We enter the year with a cyclical stance, a preference for Eurozone and emerging market equities, and a positive outlook on the Energy, Materials and Information Technology sectors. However, removal of policy support is a risk to equities and will dictate the preference for cyclical or defensive tilts during the year.

Focus on emerging market and commodity-producer currencies

The clear trends that have dominated currency markets in 2009 – US dollar weakness and the search for higher-yielding currencies – are unlikely to exert as much influence during 2010. However, we do expect the US dollar to remain weak, and we look for emerging market and commodity-producer currencies to stabilize at even stronger levels than in 2009.

Broad firming in commodity prices with emphasis on energy

The revival in global economic activity is broadening, with industrial production in the developed world finally expanding robustly, leading us to expect commodity prices to trend higher on average in 2010. However, the fundamental supply and demand backdrop differs strongly among commodity sectors and also within sectors. In the first half of 2010, we expect crude oil prices to move higher amid continued strong demand.

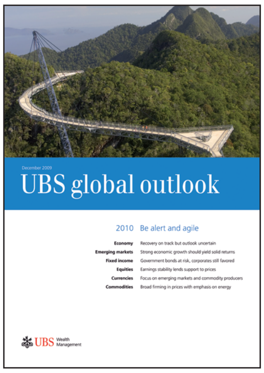
UBS macroeconomic forecasts

		Real GDP growth in %				Inflation in %			
		2008	2009	2010	2011	2008	2009	2010	2011
Americas	US	0.4	–2.4	2.6	3.0	3.8	–0.4	1.3	1.5
	Canada	0.4	–2.3	2.9	3.4	2.4	0.4	1.9	1.6
	Mexico	1.3	–7.0	2.5	3.2	6.5	4.8	3.8	3.7
	Brazil	5.1	0.0	4.5	4.5	5.9	4.5	4.5	4.8
Asia/Pacific	Japan	–0.7	–5.2	2.1	1.3	1.4	–1.3	–1.3	–0.4
	Australia	2.4	0.8	3.3	4.0	4.4	1.6	2.0	2.5
	China	9.0	8.4	9.0	8.7	5.9	–0.5	3.0	4.0
	India	6.7	6.0	9.0	8.5	9.1	2.2	5.0	7.0
	Rest of Asia	2.8	–0.7	5.2	4.2	5.7	1.8	2.6	3.2
Europe	Eurozone	0.6	–3.6	2.4	2.2	3.3	0.2	1.2	1.5
	Germany	1.0	–4.7	2.1	1.7	2.8	0.2	1.7	2.2
	France	0.3	–1.9	2.6	2.5	3.2	0.2	1.7	2.0
	Italy	–1.0	–4.6	2.1	2.2	3.5	1.0	1.9	1.9
	Spain	0.9	–3.9	0.7	1.7	4.1	0.3	2.1	1.7
	UK	0.6	–4.5	1.8	2.3	3.6	2.0	1.5	1.3
	Sweden	–0.4	–4.5	2.8	3.2	3.5	–0.5	1.2	1.7
	Switzerland	1.8	–1.4	1.7	2.1	2.4	–0.5	0.7	1.1
	Russia	5.6	–6.5	5.5	4.2	14.0	11.9	7.5	7.5
World		2.6	–1.0	3.6	3.7	5.0	1.6	2.4	2.6

Interest rates, in %	3-month LIBOR		10-year govt. bond	
	Jun-10	Dec-10	Jun-10	Dec-10
US	0.50	1.00	4.00	4.25
Eurozone	1.00	1.80	3.80	4.00
Japan	0.30	0.30	1.60	1.70
UK	0.80	1.30	4.30	4.50
Switzerland	0.30	0.90	2.50	2.80
Australia	4.50	4.80	5.80	6.00
Canada	0.80	1.50	3.80	4.00
Sweden	0.50	1.20	3.80	4.00
China[1]	2.30	2.80	4.00	4.50

Exchange rates	Jun-10	Dec-10	equilibrium[3]
EURUSD	1.57	1.57	1.27
USDJPY	100	105	95
GBPUSD	1.70	1.70	1.73
USDCHF	0.97	0.99	1.19
USDCAD	1.03	1.00	1.11
AUDUSD	0.98	0.95	0.68
NZDUSD	0.78	0.76	0.58
USDSEK	6.21	6.11	7.53
USDNOK	5.10	5.03	6.75
USDCNY[2]	6.75	6.65	n.a.

[1] 7-day Interbank rate instead of 3-month LIBOR; [2] Chinese yuan; [3] purchasing power parity
Source: UBS



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