

Global Economics & Strategy

Core Convictions (Multi-Asset Rundown)

Economics
Global
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 expect Dec core CPI in the US to increase [by an above consensus 44bp Tuesday](#) (15bp of which is a reversal of the November report's downward bias), pushing YoY inflation back up from 2.6% to 2.9%. We also expect strong prints in Jan/Feb and by May core inflation could be running at 3.2%. One factor that could affect our forecast is the Supreme Court's ruling on the IEEPA tariffs (there had been some expectation of an announcement on Friday), though even if existing tariffs are ruled illegal we expect them to be largely replaced with tariffs under other legal authorities. The [US weekly](#) walks through scenarios and their economic impact.

We propose a number of new trades in FX on the next page that can perform in different risk scenarios: long USDJPY with an RKO, a dual digital aimed at capturing GBP and EUR strength vs USD, short EURAUD and a short AUDNZD trade. We also like selling rallies in EURSEK and EURNOK. In rates, we remain long US10y and expect spread tightening in US 30y vs SOFR (the announcement that Fannie and Freddie would buy 2% of the outstanding mortgage bonds underlines the administration's duration focus). We also like receiving ESTR1y in 2y, receiving 5y5y SARON as well as 1y1y Sonia. At the longer end we remain long UK 30y and expect stability in French spreads. In equity, we've moved to an overweight in luxury for the first time in 4 years.

In EM, the Jan 1 Qiushi article in China has fanned expectations of stronger housing stimulus ahead, supporting commodity prices. Several markets are technically overbought but we think China, Brazil, and EM local debt have stronger prospects to outperform this year.


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Cross-Asset Views

<p>Economic Backdrop</p> <p>The global economy appears to have held up through Q4, in part because the tariff impact on US inflation and global exports seems further delayed. US policy uncertainty remains high, but outside the US the data are slowly improving, and global confidence is inching higher. Policy is turning more supportive, with several major advanced economies expected to benefit from fiscal stimulus, and policy rates now back to close to neutral in most economies. AI's footprint is visible everywhere, and still driving almost all of US investment growth, half of global trade growth and the bulk of equity returns.</p>	<p>UBS key macro forecasts</p> <p>Real GDP growth (2026E):</p> <ul style="list-style-type: none"> • Global: 3.2% • US: 2.1% • China: 4.5% • Eurozone: 1.1% 	
<p>Rates: US duration management and weak private job growth</p> <ul style="list-style-type: none"> • We stay long US 10y as the labour market remains weak. We estimate that US net supply as a % of GDP will moderate in 10y equivalent terms in 2026 so we expect the spread between US 30y and SOFR to tighten further. President Trump's order for Freddie Mac and Fannie Mae to buy \$200 bn of mortgage bonds underlines the administration's continued focus on duration management. • We expect stability in French 10y spreads notwithstanding media reports pointing to the use of article 49.3 or new elections. French 10y spreads fell 5 bps to 66 bps so far in 2026 as euro area inflation was weaker than expected and demand for EGBs was strong in primary markets. We like receiving 1y ESTR in 2 years (target: 2.20%). In Switzerland, we have been receiving 5y SARON (target of 20bp) since December's sell-off. • In the UK, we are receiving 1y1y Sonia, targeting 3.05% (3.4% currently). We remain long UK 30y targeting 3.4% on lower duration supply, falling inflation, a weaker labour market, low volatility and expectations of quieter politics. 	<p>FX: Thematic trades to start 2026</p> <ul style="list-style-type: none"> • Long USDJPY 6m 154.30 (atmf) with 162.10 RKO to perform in a scenario where JPY stays on the backfoot due to 1) negative real rates, 2) a cautious BoJ, and 3) no signs of a capital rotation in Japan's favour. But with upside capped by potential MoF intervention. • Long 6m dual digital, GBPUSD \geq 1.32, EURUSD \leq 1.17, and long GBPUSD 1.40 digital call, leaning more constructive on GBP where sentiment has been bearish for some time, BoP data show a benign flow backdrop, fiscal risk premium and uncertainty is reduced, business investment has improved and BoE rate cuts are already well priced. • We maintain our positive stance on AUD, reiterating our existing short EURAUD idea as the RBA shifts to policy tightening. However, we recommend tactically selling AUDNZD by going long a 6m 1.12 digital put given stretched positioning and potential for NZD catch-up in the near term. • Sell rallies in EURSEK at 10.95 and EURNOK at 11.95. SEK continues to benefit from positive flow dynamics from looser fiscal policy while NOK offers attractive carry vs G10. 	<p>Rate forecasts</p> <p>10y yields at end-2026E:</p> <ul style="list-style-type: none"> • US Treasury: 4.00% • Bund: 3.00% • JGB: 2.25% • Swiss: 0.40% • UK: 4.05% • Aus: 4.00% • NZ: 4.20%
<p>Equities: We recently raised Luxury to overweight</p> <ul style="list-style-type: none"> • In our 2026 sector outlook, we raised luxury to overweight for the first time in nearly 4 years. The rationale is: i) EPS is now back to trend (having been 100% above it); ii) capex is now below trend, having been well above, and this helps protect future margins which are themselves back to pre-covid levels; iii) earnings growth expectations are at the low end of their range against the market (at 2%), and with it earnings revisions have improved sharply; iv) Different valuations metrics are between reasonable and cheap: P/E relative to the market ex Hermes is close to normal levels but it is cheap on HOLT; v) 25% of the luxury cluster revenue is from the US. Each 10% in the S&P 500 could add 7% to luxury sales. The OBBS boosted the top income deciles household income by \$12,000 a year; vi) it is sector we want to buy early as high end luxury is one of the least disrupted sectors. The risk is China but at least our proxy for China spend- Macao casino stocks has stabilised. 	<p>Credit: A Tighter Start to the New Year</p> <ul style="list-style-type: none"> • US: Spreads started the year on a benign note, with IG unch'd at 78bps, HY tighter by -3bps to 258bps and LL unch'd at 446bps. Fund flows were positive at +\$4.3bn/\$0.3bn/\$0.5bn in IG/HY/LL. We expect spreads to remain range-bound/tighter in January as has been the case historically. Improved consumer sentiment and a push by the Trump admin to address housing affordability are spread supportive. Our December default report shows growing convergence between HY/LL default rates at 0.9% and 1.6%, respectively, but this trend is fragile with rising distressed ratios and reduced prospects for near-term rate cuts. • EU: EU spreads compressed to start the year, with IG holding at 78bps and HY tightening -10bps to 252bps. Primary market issuance was slightly slower than in the US, but with plenty of activity, particularly in Financials and Utilities. We expect wider IG spreads in Q1, followed by a better Q2 (see EU Macro and IG credit outlook). Tactically, we remain modestly long credit/carry but are cautious on duration. 	<p>FX, Commodities forecasts</p> <p>All forecasts end-2026E:</p> <ul style="list-style-type: none"> • EUR/USD: 1.14 • USD/CNY: 7.00 • USD/JPY: 152 • EUR/GBP: 0.88 • EUR/CHF: 0.90 • AUD/USD: 0.67 • NZD/USD: 0.58 • USD/CAD: 1.40 • EUR/NOK: 11.75 • EUR/SEK: 10.60 • Gold: 4,500 • ICE Brent (4Q avg) : 64/bbl
<p>EM: China, Brazil & EM local debt offer best outperformance prospects</p> <ul style="list-style-type: none"> • See here for our 2026 EM outlook and here for its video summary. We expect 7-8% EM equity; 5-6% local debt; 2-3% credit and -2-3% spot FX returns. We see stronger upside risks in H1 than H2 with US local mkt weakness posing downside risks to the USD. • EM equities are off to a strong start (led by Korea already up 10% YTD, China 4%) while the BRL (+2%) has outperformed in FX. The Jan 1 Qiushi article in China has fanned expectations of stronger housing stimulus ahead, despite auto/consumer subsidies seemingly off to a weak start, supporting commodity prices. Several markets are technically overbought but we think China, Brazil, and EM local debt have stronger prospects to outperform this year. • FX: Long CNH basket. Long BRL and HUF carry. Short CLP, IDR. • Equities: OW China, Brazil, Malaysia, Indo. UW India, Saudi Arabia, Thailand. • FI: Rates: Long 10y BRL 2y2y ZAR. Long 10y KRW and THB vs. JPY. Long 5y ILS vs. PLN. Credit: Long Argent 2035; OW MX/RO/NI vs. ID/PL/EG. 	<p>Key events</p> <p>12 Jan – India CPI, Japan trade, Fed Speeches, ECB's Guindos/Villeroi speaks 13 Jan – US CPI/housing permits, Japan eco watchers, Fed's Musalem/Barkin Speaks, ECB's Kocher speaks 14 Jan – Poland rates decision, US/Japan PPI, US retail sales/housing sales, Japan machine tool orders, China trade, Fed Speeches, BOE's Taylor/Ramsden Speaks, ECB's Guindos speaks 15 Jan – Korea rates decision, UK GDP/P/mfg. prod, Germany GDP, Sweden CPI, NZ mfg. PMI, EZ IP, US Fed Philly/Claims/Empire mfg./TIC, UK/EZ/Norway/India trade, Sweden/India unemployment, Fed's Barkin speaks 16 Jan – Germany/Sweden CPI, US IP, Fed's Jefferson speaks, Poland meeting minutes</p>	<p>Equity & Credit forecasts</p> <p>All forecasts end-2026E:</p> <ul style="list-style-type: none"> • MSCI ACWI: 1,090 • S&P 500: 7,500 • Stoxx 600: 650 • TOPIX: 3,500 • MSCI EM: 1,510 • MSCI AxJ: 1,000 • US IG OAS: 85bp • US HY OAS: 300 bp • EU IG OAS: 80 bp • EU HY OAS: 275 bp

Source: UBS estimates

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