UBS House View

Europe
Chief Investment Office WM

Weekly

2 February 2017

Deeper dive

How to invest in a rising inflation environment

— p. 2

Regional view

The economy in the driver's seat

— p. 3

Market moves

	CIO view	–1w	– 3m	ytd
S&P 500	OW	–0.8%	9.2%	2.0%
Euro Stoxx 50		–2.0%	9.9%	–0.7%
MSCI EM		–0.4%	2.9%	5.9%
FTSE 100		–0.8%	4.4%	–0.5%
SMI		–0.7%	8.2%	1.3%
NIKKEI 225		–2.5%	10.5%	–1.0%
US high grade bonds	UW	0.2%	–2.5%	0.3%
Euro high grade bonds	UW	–0.4%	–2.6%	–1.9%
US investment grade bonds		0.1%	–1.9%	0.2%
Euro investment grade bonds		0.1%	–1.2%	–0.6%
US high yield bonds	OW	0.1%	3.5%	1.2%
European high yield bonds		–0.1%	2.0%	0.7%
EM sovereign bonds		0.0%	–1.0%	1.8%
EM corporate bonds		–0.5%	0.8%	1.5%

Source: Bloomberg, UBS as of 2 February 2017
OW = tactical overweight
UW = tactical underweight

Market comments

Calculations are based on the past five days

- **Equities** retreated across the board amid worries that the new Trump administration is prioritizing restrictions on immigration over a pro-growth fiscal policy. The S&P 500 fell 0.8%, while the Nikkei 225 was down 2.5%.
- **Fixed income** markets trod water over the past week, with US high yield advancing just 0.1%, while European high yield securities were down an equal amount. Emerging market sovereign bonds were flat.
- **Foreign exchange** markets were marked by a broad retreat in the US dollar, which lost ground against all other G10 currencies. The Norwegian krone was the biggest gainer, climbing 1.8%, while the Aussie dollar was up 1.6%.

In focus

US equity jitters. The S&P 500 Index logged its sharpest fall of the year on Monday, ending down 0.6% amid worries that the new Trump administration is prioritizing restrictions on immigration over pro-growth tax cuts and infrastructure spending. The market also declined on Tuesday, its fourth consecutive down session, as investors booked some post-election gains. *CIO believes the US economy remains on sound footing and is overweight US stocks versus high-quality bonds in global tactical asset allocations.*

Fear not. Wall Street's favorite fear gauge, the VIX index of implied volatility for the S&P 500 index, hit its lowest level since January 2007 on Monday. While the gauge climbed through the week on concerns that President Donald Trump was prioritizing immigration policy changes over growth-boosting fiscal measures, the VIX still indicates little investor anxiety. That makes it unusually cheap for investors to protect against falls in US stocks. *CIO is overweight US equities versus higher-quality bonds. But for cautious investors, hedging S&P 500 exposure may be an attractive alternative to sitting on the sidelines in cash.*

Eurozone inflation returns. Prices in the Eurozone rose by 1.8% in the year to January, their fastest rate of growth in four years. Meanwhile Eurozone unemployment fell to a post-recession low of 9.6%, and last year's GDP growth topped forecasts at 1.8%. So is it time for the European Central Bank to withdraw stimulus? Not just yet. The uptick stemmed mostly from the rising oil price. Core inflation was steady at 0.9%. *CIO is overweight the euro versus the US dollar in global tactical asset allocations.*

Finally Abeflation? Not quite. Excluding fresh food, Japan remained in deflation, with "core" prices falling 0.2% in the year to December. But Japanese inflation data did surprise on the upside. Headline consumer prices rose by 0.3% year on year in the final month of last year, above the 0.2% penciled in by economists. *CIO expects inflation to return this year, led by the weaker yen and higher oil prices; a solid pickup in inflation and growth could drive the Bank of Japan to begin tapering. CIO is neutral on Japanese equities in its global tactical asset allocation.*

2016 the Year of the Profit? Full-year profits for Chinese industrial firms rose 8.5% year over year in 2016, the most in three years. A construction boom drove gains in raw commodity producers. The December print increased 2.3% year on year, a deceleration from November's 14.5% expansion. *CIO believes China's economic growth will continue decelerating in an orderly fashion and is overweight Chinese equities in its regional Asia Pacific asset allocation.*

Fed on hold. At its meeting on Wednesday the US Federal Reserve kept its fed funds target range the same at 0.50–0.75%, in line with market expectations. Changes to the statement were minor. Key phrases such as "Near-term risks to the economic outlook appear roughly balanced" were left as is, and there was also no alteration in the forward guidance. In our view, if the Fed intended to raise rates in March it would have sent a stronger signal in the statement. *CIO forecasts 25 basis point hikes in both June and December.*

UBS

This report has been prepared by UBS AG, UBS Switzerland AG and UBS Financial Services Inc.
Please see important disclaimer at the end of the document.

Deeper dive

How to invest in a rising inflation environment

Mark Haefele **Mark Andersen**

Cash has lagged other investments, returning just 2% over the past five years, relative to 61% for global stocks and 20% for investment grade credit (in US dollar terms). Perhaps the only saving grace for it has been low inflation, which has kept purchasing power fairly constant. But that could be set to change this year. Inflation is now on the rise.

Oil prices have doubled in the past 12 months, leading to sharp increases in consumer price indices (CPI) globally. Although oil only contributes around 5% to the US inflation basket, the magnitude of its price move has had a substantial impact, and higher oil prices also increase the costs of other CPI components, such as transportation and food.

Meanwhile, the US jobless rate of 4.7% is close to cyclical lows, and wages are rising at their fastest pace in eight years. Even in the slower-growing Eurozone, unemployment has fallen to 9.6%, a post-crisis low. This is important since local labor costs generate about 70% of the relative increase in prices.

The stage is set for a cash-eroding revival in inflation. We think it is time to shift more assets out of cash and into assets that can perform better in times of higher inflation.

Equities with pricing power
Equities are better positioned than other assets to generate returns in periods of inflation accompanied by growth. CIO expects US revenues in the fourth quarter of last year to have expanded at their fastest pace in more than two years. Still, investors will need to be selective: some companies can respond to wage and input cost pressures by raising prices, while others will face compressed margins.

CIO is overweight global and US equities in its global tactical asset allocation. Sector beneficiaries of rising inflation could include US and Eurozone energy stocks, US banks and real estate investment trusts (REITs), and Swiss dividend-paying stocks.

Inflation-linked bonds and senior loans
Rising inflation is generally not good news for fixed income returns – fixed coupons are eroded in real terms and increases in central bank rates adopted to curb inflation can also trim bond prices. The main exception to this rule is US Treasury Inflation Protected Securities (TIPS), whose par value climbs along with inflation. They stand to benefit as US inflation expectations rise, and can prove an attractive portfolio diversifier, with a low (+0.37) correlation to a balanced asset allocation.

Although more growth sensitive than inflation-linked bonds, US senior loans, in our view, can also deliver attractive returns if higher inflation is accompanied by rising rates, as their coupons reset higher when borrowing costs climb.

Palladium and platinum
Precious metals have historically benefited from falling real yields, and stand to benefit again today as central banks seem likely to raise rates more slowly than inflation rises. Palladium and platinum should be additionally supported by greater economic growth and industrial demand. The global auto industry accounts for 80% of total palladium and 40% of platinum demand.

CIO's analysis also shows that hedge funds tend to generate superior returns to cash and stocks when higher inflation drives interest rate hikes. The HFRI Fund Weighted Composite Index rose 11.4% per annum on average during the last three US rate-hike cycles, compared to a 4.3% increase for US dollar cash and 7.6% for the S&P 500 Index (based on 1994–2006 data).

For more details on our inflation investment ideas please refer to "CIO Top Ideas – Investment ideas expected to benefit from rising inflation" and "Global economy – Keeping it real."

Mark Haefele
Global Chief Investment Officer
Wealth Management

Mark Andersen
Head Regional Asset Allocation
Global Chief Investment Office WM

Bottom line

Inflation is set to climb further this year due to rising oil prices and falling unemployment. Higher inflation accompanied by growth should benefit equities over cash and bonds. In equities, particular beneficiaries could include US and Eurozone energy companies, US banks and REITs, and Swiss dividend-paying equities. To take advantage of rising inflation and growth in its tactical asset allocation, CIO is overweight global and US equities, US high yield credit, and US Treasury Inflation-Protected Securities all versus high-quality government bonds.

Regional view

The economy in the driver's seat

Themis Themistocleous
Head CIO European Investment Office

The start of the year has been eventful, continuing a trend set last year. New US President Donald Trump began the process of rolling back some of the old administration's legislation only hours after taking office. He removed the US from the Trans-Pacific Partnership trade negotiations and followed up on his promises on immigration control.

In Europe, UK Prime Minister Theresa May set out her vision on Brexit, making clear she will pull the UK out of the single market. The French also delivered a surprise in the socialist primaries, with Benoît Hamon having been nominated as the party's candidate. In Germany, the leader of the SPD, Sigmar Gabriel, decided to step down and not run for chancellor; his replacement Martin Schulz has boosted SPD approval ratings.

Away from the political developments, the economy continues its strong performance. This year we expect growth to be more synchronized and for global growth to accelerate relative to last year. Inflation is clearly picking up worldwide, and in Europe it is likely to become much more of a topic for investors in the coming months.

In Europe, where only a few months ago the market feared deflation, we expect headline inflation to remain close to the European Central Bank's (ECB) target. However, given the uncertain political landscape and the still-fragile economic recovery, the ECB is likely to shift its focus from headline to core inflation to justify continuing its current quantitative easing (QE) program to the end of the year before possibly winding it down starting next January.

> "This year we expect growth to be more synchronized and for global growth to accelerate relative to last year."

In an election year for Germany, the topic of continuing the current QE program is likely to attract attention and become an election topic. If the market starts anticipating an earlier or sharper tapering, the spreads of peripheral government bonds could widen versus core bonds. Higher interest rate risk in coming years would also pressure EUR government bonds, and we see a high probability of negative total returns for EUR high grade bonds, with four to five year bonds being the least bad choice.

Higher interest rate expectations should support our positive view on the euro versus the USD. In addition, we see the USD as overvalued. Of course, what happens in the US will also play an important role in the EURUSD rate, but Trump is unlikely to want a stronger USD, especially if he intends to protect jobs and generate new ones.

After five years of stagnation, earnings for Eurozone equities should start growing again, aided by a meaningful pickup in nominal growth in Europe and more synchronized growth globally. This, together with an attractive dividend yield, should support positive returns from Eurozone equities.

Kind regards,
Themis Themistocleous

Generic financial research – Risk information: UBS Chief Investment Office WM's investment views are prepared and published by Wealth Management and Personal & Corporate Banking or Wealth Management Americas, Business Divisions of UBS AG (regulated by FINMA in Switzerland), its subsidiary or affiliate ("UBS"). In certain countries UBS AG is referred to as UBS SA. This material is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this material were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS). All information and opinions as well as any prices indicated are current as of the date of this report, and are subject to change without notice. The market prices provided in performance charts and tables are closing prices on the respective principal stock exchange. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria. UBS and any of its directors or employees may be entitled at any time to hold long or short positions in investment instruments referred to herein, carry out transactions involving relevant investment instruments in the capacity of principal or agent, or provide any other services or have officers, who serve as directors, either to/for the issuer, the investment instrument itself or to/for any company commercially or financially affiliated to such issuers. At any time, investment decisions (including whether to buy, sell or hold securities) made by UBS and its employees may differ from or be contrary to the opinions expressed in UBS research publications. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, divisions or affiliates of UBS. Futures and Options trading is not suitable for every investor as there is a substantial risk of loss, and losses in excess of an initial investment may occur. Past performance of an investment is no guarantee for its future performance. Additional information will be made available upon request. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. Tax treatment depends on the individual circumstances and may be subject to change in the future. UBS does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon both in general or with reference to specific client's circumstances and needs. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein. This material may not be reproduced or copies circulated without prior authority of UBS. UBS expressly prohibits the distribution and transfer of this material to third parties for any reason. UBS accepts no liability whatsoever for any claims or lawsuits from any third parties arising from the use or distribution of this material. This report is for distribution only under such circumstances as may be permitted by applicable law. In developing the Chief Investment Office (CIO) economic forecasts, CIO economists worked in collaboration with economists employed by UBS Investment Research. Forecasts and estimates are current only as of the date of this publication and may change without notice. For information on the ways in which UBS CIO WM manages conflicts and maintains independence of its investment views and publication offering, and research and rating methodologies, please visit www.ubs.com/research. Additional information on the relevant authors of this publication and other CIO publication(s) referenced in this report; and copies of any past reports on this topic; are available upon request from your client advisor.

External Asset Managers/External Financial Consultants: In case this research or publication is provided to an External Asset Manager or an External Financial Consultant, UBS expressly prohibits that it is redistributed by the External Asset Manager or the External Financial Consultant and is made available to their clients and/or third parties. **Australia:** This notice is issued by UBS AG ABN 47 088 129 613 (Holder of Australian Financial Services Licence No 231087): This Document is issued and distributed by UBS AG. This is the case despite anything to the contrary in the Document. The Document is intended for use only by "Wholesale Clients" as defined in section 761G ("Wholesale Clients") of the Corporations Act 2001 (Cth) ("Corporations Act"). In no circumstances may the Document be made available by UBS AG to a "Retail Client" as defined in section 761G of the Corporations Act. UBS AG's research services are only available to Wholesale Clients. The Document is general information only and does not take into account any person's investment objectives, financial and taxation situation or particular needs. **Austria:** This publication is not intended to constitute a public offer under Austrian law, but might be made available for information purposes to clients of UBS Europe SE, Niederlassung Österreich, with place of business at Wächtergasse 1, A-1010 Wien. UBS Europe SE, Niederlassung Österreich is a branch of UBS Europe SE, a credit institution constituted under German Law in the form of a Societas Europaea, duly authorized by the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin), and is subject to the joint supervision of BaFin, the central bank of Germany (Deutsche Bundesbank), as well as of the Austrian supervisory authority (Finanzmarktaufsicht, FMA), to which this publication has not been submitted for approval. **Bahamas:** This publication is distributed to private clients of UBS (Bahamas) Ltd and is not intended for distribution to persons designated as a Bahamian citizen or resident under the Bahamas Exchange Control Regulations. **Bahrain:** UBS is a Swiss bank not licensed, supervised or regulated in Bahrain by the Central Bank of Bahrain and does not undertake banking or investment business activities in Bahrain. Therefore, Clients have no protection under local banking and investment services laws and regulations. **Brazil:** Prepared by UBS Brasil Administradora de Valores Mobiliários Ltda, entity regulated by Comissão de Valores Mobiliários ("CVM"). **Canada:** In Canada, this publication is distributed to clients of UBS Wealth Management Canada by UBS Investment Management Canada Inc.. **Czech Republic:** UBS is not a licensed bank in Czech Republic and thus is not allowed to provide regulated banking or investment services in Czech Republic. This material is distributed for marketing purposes. **Denmark:** This publication is not intended to constitute a public offer under Danish law, but might be distributed by UBS Europe SE, Denmark Branch, filial af UBS Europe SE, with place of business at Sankt Annae Plads 13, 1250 Copenhagen, Denmark, registered with the Danish Commerce and Companies Agency, under the No. 38 17 24 33. UBS Europe SE, Denmark Branch, filial af UBS Europe SE is a branch of UBS Europe SE, a credit institution constituted under German Law in the form of a Societas Europaea, duly authorized by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin). UBS Europe SE, Denmark Branch, filial af UBS Europe SE is subject to the joint supervision of the BaFin, the central bank of Germany (Deutsche Bundesbank) and the Danish Financial Supervisory Authority (DFSA) (Finanstilsynet), to which this document has not been submitted for approval. **France:** This publication is distributed by UBS (France) S.A., French "société anonyme" with share capital of € 125.726.944, 69, boulevard Haussmann F-75008 Paris, R.C.S. Paris B 421 255 670, to its clients and prospects. UBS (France) S.A. is a provider of investment services duly authorized according to the terms of the "Code Monétaire et Financier", regulated by French banking and financial authorities as the "Autorité de Contrôle Prudentiel et de Résolution". **Germany:** The issuer under German Law is UBS Europe SE, Bockenheimer Landstrasse 2–4, 60306 Frankfurt am Main. UBS Europe SE is authorized and regulated by the "Bundesanstalt für Finanzdienstleistungsaufsicht". **Hong Kong:** This publication is distributed to clients of UBS AG Hong Kong Branch by UBS AG Hong Kong Branch, a licensed bank under the Hong Kong Banking Ordinance and a registered institution under the Securities and Futures Ordinance. **India:** Distributed by UBS Securities India Private Ltd. 2/F, 2 North Avenue, Maker Maxity, Bandra Kurla Complex, Bandra (East), Mumbai (India) 400051. Phone: +912261556000. SEBI Registration Numbers: NSE (Capital Market Segment): INB230951431, NSE (F&O Segment) INF230951431, BSE (Capital Market Segment) INB010951437. **Indonesia:** This research or publication is not intended and not prepared for purposes of public offering of securities under the Indonesian Capital Market Law and its implementing regulations. Securities mentioned in this material have not been, and will not be, registered under the Indonesian Capital Market Law and Regulations. **Israel:** UBS Switzerland AG is registered as a Foreign Dealer in cooperation with UBS Wealth Management Israel Ltd, a wholly owned UBS subsidiary. UBS Wealth Management Israel Ltd is a licensed Portfolio Manager which engages also in Investment Marketing and is regulated by the Israel Securities Authority. This publication shall not replace any investment advice and/or investment marketing provided by a relevant licensee which is adjusted to your personal needs. **Italy:** This publication is distributed to the clients of UBS Europe SE, Succursale Italia, Via del Vecchio Politecnico, 3 – 20121 Milano, the branch of a German bank duly authorized by the "Bundesanstalt für Finanzdienstleistungsaufsicht" to the provision of financial services and supervised by "Consob". **Jersey:** UBS AG, Jersey Branch, is regulated and authorized by the Jersey Financial Services Commission for the conduct of banking, funds and investment business. Where services are provided from outside Jersey, they will not be covered by the Jersey regulatory regime. UBS AG, Jersey Branch is a branch of UBS AG a public company limited by shares, incorporated in Switzerland whose registered offices are at Aeschenvorstadt 1, CH-4051 Basel and Bahnhofstrasse 45, CH 8001 Zurich. UBS AG, Jersey Branch's principal place business is P.O. Box 350, 24 Union Street, St Helier, Jersey JE4 8UJ. **Luxembourg:** This publication is not intended to constitute a public offer under Luxembourg law, but might be made available for information purposes to clients of UBS Europe SE, Luxembourg Branch, with place of business at 33A, Avenue J. F. Kennedy, L-1855 Luxembourg. UBS Europe SE, Luxembourg Branch is a branch of UBS Europe SE, a credit institution constituted under German Law in the form of a Societas Europaea, duly authorized by the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin), and is subject to the joint supervision of BaFin, the central bank of Germany (Deutsche Bundesbank), as well as of the Luxembourg supervisory authority, the Commission de Surveillance du Secteur Financier (the "CSSF"), to which this publication has not been submitted for approval. **Mexico:** This document has been distributed by UBS Asesores México, S.A. de C.V., a company which is not part of UBS Grupo Financiero, S.A. de C.V. or of any other Mexican financial group and whose obligations are not guaranteed by any third party. UBS Asesores México, S.A. de C.V. does not guarantee any yield whatsoever. **Netherlands:** This publication is not intended to constitute a public offering or a comparable solicitation under Dutch law, but might be made available for information purposes to clients of UBS Europe SE, Netherlands branch, a branch of a German bank duly authorized by the "Bundesanstalt für Finanzdienstleistungsaufsicht" for the provision of financial services and supervised by "Autoriteit Financiële Markten" (AFM) in the Netherlands, to which this publication has not been submitted for approval. **New Zealand:** This notice is distributed to clients of UBS Wealth Management Australia Limited ABN 50 005 311 937 (Holder of Australian Financial Services Licence No. 231127), Chifley Tower, 2 Chifley Square, Sydney, New South Wales, NSW 2000, by UBS Wealth Management Australia Ltd. You are being provided with this UBS publication or material because you have indicated to UBS that you are a client certified as a wholesale investor and/or an eligible investor ("Certified Client") located in New Zealand. This publication or material is not intended for clients who are not Certified Clients ("Non-Certified Clients"), and if you are a Non-Certified Client you must not rely on this publication or material. If despite this warning you nevertheless rely on this publication or material, you hereby (i) acknowledge that you may not rely on the content of this publication or material and that any recommendations or opinions in this publication or material are not made or provided to you, and (ii) to the maximum extent permitted by law (a) indemnify UBS and its associates or related entities (and their respective directors, officers, agents and advisers (each a "Relevant Person") for any loss, damage, liability or claim any of them may incur or suffer as a result of, or in connection with, your unauthorised reliance on this publication or material and (b) waive any rights or remedies you may have against any Relevant Person for (or in respect of) any loss, damage, liability or claim you may incur or suffer as a result of, or in connection with, your unauthorised reliance on this publication or material. **Saudi Arabia:** This publication has been approved by UBS Saudi Arabia (a subsidiary of UBS AG), a Saudi Arabian closed joint stock company incorporated in the Kingdom of Saudi Arabia under commercial register number 1010257812 having its registered office at Tatweer Towers, P.O. Box 75724, Riyadh 11588, Kingdom of Saudi Arabia. UBS Saudi Arabia is authorized and regulated by the Capital Market Authority of Saudi Arabia. **Singapore:** Please contact UBS AG Singapore branch, an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110) and a wholesale bank licensed under the Singapore Banking Act (Cap. 19) regulated by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with, the analysis or report. **Spain:** This publication is distributed to its clients by UBS Europe SE, Sucursal en España, with registered office at Calle María de Molina 4, C.P. 28006, Madrid, entity supervised by Banco de España and the Bundesanstalt für Finanzdienstleistungsaufsicht. UBS Europe SE, Sucursal en España a branch of UBS Europe SE, a credit institution constituted in the form of a Societas Europaea authorized and regulated by the Bundesanstalt für Finanzdienstleistungsaufsich. **Sweden:** This publication is not intended to constitute a public offer under Swedish law, but might be distributed by UBS Europe SE, Sweden Bankfilial with place of business at Regeringsgatan 38, 11153 Stockholm, Sweden, registered with the Swedish Companies Registration Office under the Reg. No 516406-1011. UBS Europe SE, Sweden Bankfilial is a branch of UBS Europe SE, a credit institution constituted under German Law in the form of a Societas Europaea, duly authorized by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin). UBS Europe SE, Sweden Bankfilial is subject to the joint supervision of the BaFin, the central bank of Germany (Deutsche Bundesbank) and the Swedish financial supervisory authority (Finansinspektionen), to which this document has not been submitted for approval. **Taiwan:** This material is provided by UBS AG, Taipei Branch in accordance with laws of Taiwan, in agreement with or at the request of clients/prospects. **UAE:** This research report is not intended to constitute an offer, sale or delivery of shares or other securities under the laws of the United Arab Emirates (UAE). The contents of this report have not been and will not be approved by any authority in the United Arab Emirates including the UAE Central Bank or Dubai Financial Authorities, the Emirates Securities and Commodities Authority, the Dubai Financial Market, the Abu Dhabi Securities market or any other UAE exchange. This material is intended for professional clients only. UBS AG Dubai Branch is regulated by the DFSA in the DIFC. UBS AG/UBS Switzerland AG is not licensed to provide banking services in the UAE by the Central Bank of the UAE nor is it licensed by the UAE Securities and Commodities Authority. The UBS AG Representative Office in Abu Dhabi is licensed by the Central Bank of the UAE to operate a representative office. **UK:** Approved by UBS AG, authorised and regulated by the Financial Market Supervisory Authority in Switzerland. In the United Kingdom, UBS AG is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. A member of the London Stock Exchange. This publication is distributed to private clients of UBS London in the UK. Where products or services are provided from outside the UK, they will not be covered by the UK regulatory regime or the Financial Services Compensation Scheme. **USA:** This document is not intended for distribution into the US, to US persons, or by US-based UBS personnel. UBS Securities LLC is a subsidiary of UBS AG and an affiliate of UBS Financial Services Inc., UBS Financial Services Inc. is a subsidiary of UBS AG.

Version 11/2016.

© UBS 2017. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.