Report
Oakland University
Board of Trustees Formal Session
October 12, 2020

TREASURER'S REPORT

1. Division and Department: Finance and Administration, Budget and Financial Planning, Treasury Management, Controller's Office, and Facilities Management

2. General Fund Budget Performance: Oakland University's (University) actual year-to-date (through Summer II and Fall 2020) enrollment, measured by student credit hours, is 1.9% below prior year actual but exceeded budget by 6.1%. Financial aid distributions are tracking close to budget, resulting in year-to-date net tuition revenues over budget. Monthly State appropriation payments of $4,855,773 begin October 2020, in accordance with the State of Michigan's Public Act 165 of 2020. The final annual State appropriation exceeds the University's budget by $917,633. Expenditures are tracking consistent with budget and historical spending patterns at this point in the fiscal year, with no major spending variances in any division or unit.

A monthly budget monitoring process managed by the Budget and Financial Planning Office helps ensure budget management accountability.

3. Investment Performance: The results of the University's working capital and endowment investment activities for FY2020 is presented in Attachments A and B.

Investment performance associated with the working capital pool for the quarter ended June 30, 2020 was positive, exceeding the quarterly benchmark by ten basis points. Overall performance for FY2020 was positive but trailed the annual benchmark by 136 basis points.

The University's endowment portfolio performance for the quarter ended June 30, 2020 was up significantly (15.25%), exceeding the overall quarterly benchmark by 107 basis points. Performance for FY2020 was positive but fell short of the overall benchmark by 29 basis points. The June 30, 2020 endowment balance of $109.3 million was $2.5 million higher than the June 30, 2019 balance. The September 30, 2020 endowment balance of $115.1 million was $8.5 million higher than the September 30, 2019 balance.

NACUBO's FY2019 annual endowment survey revealed that the University's endowment portfolio exceeded the average investment performance of similar sized university endowments for all measured periods; one, three, five, and ten years.

Liquidity of both the working capital and endowment investments remains strong. The University's investments are being managed according to the Board's policies. The University's Investment Advisors (i.e. Commonfund for working capital and UBS for the endowment) continue to adhere to a long-term investment strategy that focuses on outperforming identified benchmarks over time. The Advisors will make their annual presentation to the Board at the October 12, 2020 Formal Session.

4. Debt Management: The *Capital Debt Report, September 30, 2020* (Attachment C) shows the University's amount of outstanding principal, unamortized premiums, rate of interest, weighted average cost of capital, type of debt, annual debt service, maturity, purpose of each debt issuance, and information about the University's two swap arrangements. The University's debt, which has a weighted average cost of capital of 3.596%, is being managed according to the Board's policies and approvals.

5. Construction Report: The *Construction Report, September 30, 2020* (Attachment D) includes budget information, source of funding, forecasted final costs, and comments for all ongoing capital projects over $500,000, as required by Board policy. All projects have been properly approved and are within budget.

6. University Reviews/Approvals: The Treasurer's Report and attachments were prepared by the Budget and Financial Planning, Treasury Management, Controller, and Facilities Management Departments, and reviewed by the Treasury Committee, Vice President for Finance and Administration and Treasurer to the Board of Trustees, and President.

7. Recommendation:
RESOLVED, that the Board of Trustees accepts the Treasurer's Report.

8. Attachments:

A. UBS – Oakland University Endowment Performance Review – Year Ended June 30, 2020
B. Commonfund – Oakland University June 30, 2020 Treasury Solutions Quarterly Investment Report
C. Capital Debt Report, September 30, 2020
D. Construction Report, September 30, 2020

Submitted to the President
on 10/8, 2020 by

JWBeaghan

John W. Beaghan, CMA
Vice President for Finance and Administration
and Treasurer to the Board of Trustees

Recommended on ___________, 2020
to the Board of Trustees for Approval

____
Ora Hirsch Pescovitz, M.D.
President

UBS

OAKLAND UNIVERSITY ENDOWMENT

Board Meeting – October 2020

Performance Review - Year Ended June 30, 2020

Presented By:
UBS Financial Services, Inc.

Rebecca S. Sorensen, CFP®, CIMA®
Senior Vice President – Wealth Management
Institutional Consultant
Wealth Advisor

Darin S McBride, CRPC®
Senior Vice President – Wealth Management
Senior Portfolio Manager

Mark Anderson
Senior Vice President – Wealth Management

UBS

Oakland University Endowment
Market Review

October, 2020

Recap of the Fiscal Year ended June 2020

The COVID pandemic of the year 2020 was largely unforeseen and significantly disruptive to the economy, but the one year period ended June 30th still provided positive returns for the Oakland University Endowment Fund. Equities, fixed income, and hedge funds provided positive returns in line with their benchmarks. Private equity detracted from returns. Large cap stocks out-performed small cap, while growth equities, once again, significantly out-performed value. International equities lagged US stocks; however, the Endowment Fund's international managers predominantly out-performed their benchmarks by a significant margin for the period.

During the time of increased turbulence, we made few changes to the portfolio - believing that over-reaction could cause long-term negative consequences. Before the virus, we anticipated a slowing economy and slightly reduced equity exposure and increased fixed income by adding to Treasury Inflation Protection Securities (TIPS). We also raised cash to meet the OU endowment's estimated distribution needs for the year. We reviewed in-depth the upside/downside capture ratio of all our managers – with specific analysis of our equity portfolios. Our equity managers were chosen and continue to be held primarily for their long-term positive returns when markets are good but also because of their attractive downside capture ratios.

Equities added 3.15% to the portfolio for the year ended June 30 net of fees. Fixed income contributed 8.08%; hedge funds added 19.16%, and private equity was down 4.98%. The net return for the endowment for the period ended June 30, 2020 was 4.27% compared to the Oakland University benchmark of 4.56% for the same period.

Going Forward

The COVID-19 crisis will end. Some of the smartest people in the world are working tirelessly to find a vaccine, with many companies in second and third phase trials. Our understanding of the disease has gotten much better, as have treatments and therapeutics. UBS' best estimate is that a vaccine will be widely available sometime in the second to third quarter of 2021. The US has bounced back from previous pandemics (most long forgotten), wars, and economic crises. We will come back from this too.

Other problems still remain. As of early September, the national unemployment rate was approximately 8.5%. We are weeks away from one of the most contentious elections in modern history; there is significant debate regarding the need for another stimulus package while the US deficit continues to skyrocket; and trade issues with other nations, especially China, persist.

Interest rates are at historic lows, dampening returns expectations for fixed income and putting increased pressure on portfolios to find other means of return. As of the end of September, the ten year treasury yielded .67%. We anticipate that interest rates will remain low for the next few years.

The next few months may not be smooth, but the end to political uncertainty, widespread availability of a vaccine, and an economic recovery driven by global fiscal and monetary stimulus should provide a long-term positive market and economic path forward.

Longer Term – UBS has changed its Capital Market Assumptions (CMAs)

Looking forward over a full business cycle, our anticipated average annual equity returns are relatively unchanged on an aggregate basis, with a projection of 7% for global equities. Our projection for fixed income is more profound, with a decline in expected returns between 100 and 300 basis points. The most significant declines in fixed income expected returns are in longer maturity bonds, which we now anticipate will be negative over the next full cycle. Overall, expected returns for most traditional asset classes are either significantly or moderately below the historical levels realized over the last 15 years.

For Oakland University's long-term endowment plan, we believe that a well-balanced diversified portfolio continues to be appropriate. As our economy eventually normalizes, our firm sees long term opportunities in the areas of mid-cap equities, emerging markets, and sustainability. We look forward to continuing to work with the finance department to help guide the direction of the University's Endowment portfolio.

UBS

Oakland University Endowment Review - Period Ending June 30 2020

Endowment Fund	Manager	Index	June 30, 2020 Value	June 30, 2020 % Alloc	Quarter Return 3/31/20-6/30/20 OU	Quarter Return 3/31/20-6/30/20 Benchmark	Fiscal Yr Return 6/30/19-6/30/20 OU	Fiscal Yr Return 6/30/19-6/30/20 Benchmark	Account Number
	Bahl & Gaynor LCV	S&P 500	$ 6,294,100	5.8%	14.39%	20.54%	-2.44%	7.51%	TZXX815
	MFS LCV	Russell 1000 V	7,404,874	6.8%	12.58%	14.29%	-4.45%	-8.84%	TZXX034
	Alger LCG	S&P 500	5,170,791	4.7%	29.93%	20.54%	22.16%	7.51%	TZXX824
	S&P 500 SPDR ETF	S&P 500	7,630,368	7.0%	20.47%	20.54%	7.50%	7.51%	TZXX824
	Loomis Sayles LCG	Russell 1000 G	8,990,109	8.2%	24.26%	27.84%	18.86%	23.28%	TZXX537
	MFS MCV	Russell MCV	3,269,849	3.0%	19.63%	19.95%	-9.78%	-11.81%	TZXX826
	Wm Blair SMG	Russell MCG	4,842,890	4.4%	26.45%	30.26%	5.64%	11.91%	TZXX837
	Russell Mid Cap ETF	Russell MCC	4,526,949	4.1%	24.57%	24.61%	-2.37%	-2.24%	TZXX837
	MFS New Discovery Value	Russell 2000 V	2,722,631	2.5%	21.30%	18.91%	-10.75%	-17.48%	TZXX827
	Russell 2000 ETF	Russell 2000	3,360,864	3.1%	25.41%	25.42%	-6.68%	-6.63%	TZXX827
	T. Rowe Price SCG	Russell 2000 G	3,508,635	3.2%	24.02%	30.58%	1.52%	3.48%	TZXX035
	American Fds SCW	MSCI ACWI x US Net	4,062,076	3.7%	31.83%	16.12%	10.94%	-4.80%	TZXX840
	American Fds International Gr	EAFE Free Net	2,791,965	2.6%	22.72%	14.88%	3.03%	-5.13%	TZXX836
	MFS International Value	MSCI ACWI x US Net	3,750,244	3.4%	16.58%	16.12%	8.31%	-4.80%	TZXX829
	MSCI EAFE ETF	EAFE Free Net	1,631,742	1.5%	14.90%	14.88%	-5.27%	-5.13%	TZXX836
	Am Fds New Wld	MSCI Emerg Mkt Eq Net	1,251,157	1.1%	24.51%	18.08%	4.91%	-3.39%	TZXX796
	Oppenheimer EM	MSCI Emerg Mkt Eq Net	1,679,254	1.5%	18.17%	18.08%	-2.09%	-3.39%	TZXX796
	MSCI EM ETF	MSCI Emerg Mkt Eq Net	1,778,315	1.6%	17.93%	18.08%	-3.95%	-3.39%	TZXX796
Equities Total			**74,666,813**	**68.3%**	**21.37%**	**21.33%**	**3.15%**	**2.17%**	
	FCI	BC GC	11,173,670	10.2%	4.50%	3.71%	11.88%	10.02%	TZXX811
	Lord Abbett High Yield	BoA-ML High Yield II	1,058,884	1.0%	10.72%	5.66%	-4.81%	4.16%	TZXX873
	Blackrock Strategic Income	BC Agg	3,077,402	2.8%	6.34%	2.90%	2.37%	8.74%	TZXX873
	SEIX High Yield	BoA-ML High Yield II	1,289,083	1.2%	7.83%	5.66%	2.20%	4.16%	TZXX812
	Fixed Income TIPS	BC US Tsy Infl Prot	3,224,691	3.0%	4.72%	4.24%	8.31%	8.28%	TZXX839
Fixed Income Total			**19,823,730**	**18.1%**	**5.34%**	**3.90%**	**8.08%**	**8.84%**	
	AG Energy Credit	Private Equity	23,743	0.0%	0.00%	0.00%	-27.92%	-27.92%	TZXX223
Real Asset Total			**23,743**	**0.0%**	**0.00%**	**0.00%**	**-27.92%**	**-27.92%**	
	Alphakeys	HFRI Fd Wgt Comp	1,561,280	1.4%	5.60%	9.40%	10.99%	0.44%	TZXX777
	Skybridge Multi Advisor HF	HFRI Fd of FDs Comp	695,772	0.6%	-22.52%	7.48%	-20.88%	0.08%	TZXX851
	Alkeon	HFRX Eq Hedge	4,006,102	3.7%	17.67%	14.47%	30.50%	2.54%	TZXX036
	Blue Mountain	BoA-ML High Yield II	230,449	0.2%	-8.61%	5.66%	-21.95%	4.16%	TZXX535
Hedge Funds Total			**6,493,603**	**5.9%**	**12.64%**	**12.19%**	**19.16%**	**1.83%**	
	NB Crossroads	Private Equity	597,603	0.5%	0.00%	0.00%	-9.88%	-9.88%	TZXX778
	Al-Canyon Distressed	Private Equity	457,304	0.4%	12.14%	12.14%	-39.91%	-39.91%	TZXX707
	Portfolio Advisors 2017	Private Equity	1,312,128	1.2%	0.00%	0.00%	4.32%	4.32%	TZXX644
	Portfolio Advisors 2019	Private Equity	459,936	0.4%	0.00%	0.00%	0.00%	0.00%	
	Al-StepStone Tactical Gr II	Private Equity	1,522,987	1.4%	0.00%	0.00%	6.66%	6.66%	TZXX643
	Al- Avenue Aviation Opp Fd II	Private Equity	1,338,692	1.2%	0.00%	0.00%	-0.96%	-0.96%	TZXX428
	Portfolio Advisors 2015	Private Equity	1,561,119	1.4%	0.00%	0.00%	5.89%	5.89%	TZXX717
Private Equity Total			**7,249,769**	**6.6%**	**-3.16%**	**-3.16%**	**-4.98%**	**-4.98%**	
Money Market Total	UBS Government Fund/UBS Bank	CG T-Bill	**994,713**	**0.9%**	**0.07%**	**0.07%**	**0.92%**	**0.92%**	TZXX818
		70%MSCI ACW/30% BC AGG				**14.18%**		**4.56%**	
	Returns gross of fees				**15.31%**		**4.46%**		
Endowment Total	Returns net of fees		**109,252,372**	**100.0%**	**15.25%**		**4.25%**		

Presented by UBS Financial Services Inc. - The Wealth Strategy Group;
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for convenience.

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Quarterly review & outlook

2Q20 into 3Q20

Chief Investment Office GWM

Erratum: Corrected Q2 2020 returns on slide 1 and 5, and equity return commentary on slide 5.

July 2020

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Please see important disclaimers and disclosures beginning at the end of this document.

In Q2, most risk assets staged a modest rally

Performance, select asset classes

	Q2 2020	Since 19 Feb peak	Since 23 March trough	YTD 2020
Cash	0.0%	0.3%	0.0%	0.5%
US Gov't FI (short)	0.1%	2.5%	0.3%	3.0%
US Gov't FI (intermediate)	0.7%	6.0%	1.2%	7.9%
US Gov't FI (long)	-0.7%	13.5%	-0.1%	21.6%
US TIPS	4.2%	4.0%	4.4%	6.0%
US Municipal FI	2.7%	0.1%	10.5%	2.1%
US IG Corp FI	8.2%	2.1%	14.9%	4.8%
US HY Corp FI	9.5%	-6.0%	19.8%	-4.8%
EM FI (Hard)	12.3%	-5.0%	19.8%	-2.8%
EM FI (Local)	9.8%	-5.7%	15.6%	-6.9%
US All-cap	22.0%	-8.2%	41.2%	-3.5%
US Large cap growth	27.8%	0.5%	46.6%	9.8%
US Large cap value	14.3%	-17.3%	33.8%	-16.3%
US Mid cap	24.6%	-12.5%	46.5%	-9.1%
US Small cap	25.4%	-14.3%	44.4%	-13.0%
Int'l Developed Markets	14.9%	-10.6%	32.7%	-11.3%
Emerging Markets	18.1%	-8.9%	32.3%	-9.8%
Preferreds	8.8%	-4.5%	31.6%	-3.4%
MLPs	50.2%	-31.4%	68.9%	-35.7%
US Real Estate	11.8%	-22.4%	37.1%	-18.7%
Senior loans	6.6%	-4.2%	23.6%	-3.9%

Source: Bloomberg, UBS, as of 1 July 2020.

Despite ongoing volatility, stocks have continued to recover

S&P 500 index level, with callouts for select news items

Source: Bloomberg, UBS, as of 30 June 2020

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Most risk assets remain underwater...

"Quilt chart" of select asset classes' calendar year performance

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	1999-2020 return (ann.)	1999-2020 return standard deviation
Highest return	66.5%	13.2%	7.2%	11.5%	55.8%	25.6%	34.0%	32.1%	39.4%	12.4%	78.5%	26.9%	10.7%	18.2%	38.8%	13.2%	3.3%	21.3%	37.3%	1.3%	31.4%	8.6%	8.0%	32.2%
	27.0%	11.7%	5.3%	9.6%	47.3%	20.3%	13.5%	26.3%	11.2%	-2.5%	58.2%	18.9%	9.0%	17.3%	33.1%	9.1%	0.9%	17.1%	25.0%	0.9%	25.5%	2.1%	7.1%	19.7%
	21.3%	**0.2%**	5.1%	-1.4%	38.6%	18.3%	**8.0%**	18.4%	8.7%	**-21.8%**	31.8%	16.1%	5.0%	16.4%	22.8%	**6.4%**	0.9%	12.1%	21.7%	-2.1%	22.0%	-2.8%	6.5%	17.8%
	20.9%	-3.0%	2.5%	**-4.2%**	29.9%	11.4%	6.3%	15.5%	**7.3%**	-26.2%	28.4%	15.1%	**1.8%**	16.3%	**11.8%**	4.9%	**0.1%**	11.2%	14.6%	**-4.2%**	18.4%	**-2.9%**	6.4%	15.7%
	13.5%	-5.9%	-2.6%	-6.2%	29.0%	11.1%	4.6%	**13.0%**	5.8%	-33.8%	27.2%	**9.2%**	1.5%	15.8%	7.4%	4.9%	-0.8%	**5.2%**	**14.4%**	-4.8%	**16.8%**	-3.8%	**5.9%**	**10.3%**
	2.4%	-7.8%	**-3.6%**	-15.9%	**21.9%**	**10.8%**	3.5%	11.8%	3.4%	-37.6%	**24.8%**	7.8%	-4.2%	**11.7%**	-2.6%	2.5%	-4.4%	1.0%	7.5%	-11.0%	14.3%	-9.8%	4.6%	4.4%
	-2.1%	-14.2%	-12.4%	-20.5%	5.3%	4.5%	2.7%	4.8%	1.9%	-43.4%	12.9%	5.5%	-12.1%	6.8%	-2.6%	-2.2%	-4.5%	1.0%	5.4%	-13.8%	7.5%	-11.3%	4.4%	4.7%
Lowest return	-2.2%	-30.8%	-21.4%	-21.7%	2.4%	3.5%	2.7%	3.5%	-1.6%	-53.3%	-2.2%	2.4%	-18.4%	2.0%	-2.6%	-4.9%	-14.9%	0.2%	2.3%	-14.6%	6.8%	-13.0%	3.6%	20.9%

US Large-cap Equities | US Small-cap Equities | US High Yield Credit | US Gov Fixed Income | US Municipals | **Moderate Diversified Portfolio** | EM Equities | Int'l Dev Equities

Source: Bloomberg, UBS, as of 30 June 2020

Note: The Moderate Diversified Portfolio performance calculations are a hypothetical analysis based on historical asset class returns. This backward-looking illustration assumes an investment in asset class indexes represented by the current Strategic Asset Allocation (SAA) for a moderate risk profile investor in a taxable portfolio without non-traditional assets. Performance calculations assume annual rebalancing, don't take into account any prior SAA for this investor profile, and include time periods before the SAA was created. See the latest "UBS House View: Detailed asset allocation tables" document for the detailed SAA. These calculations will not match the official published performance data, which reflect monthly rebalancing. For periods prior to 2009, this illustration assumes that the Bloomberg Barclays EM Local Currency Government Total Return Index allocation (inception date of 4 July 2008) was invested fully in the Bloomberg Barclays EM USD Aggregate Total Return Index.

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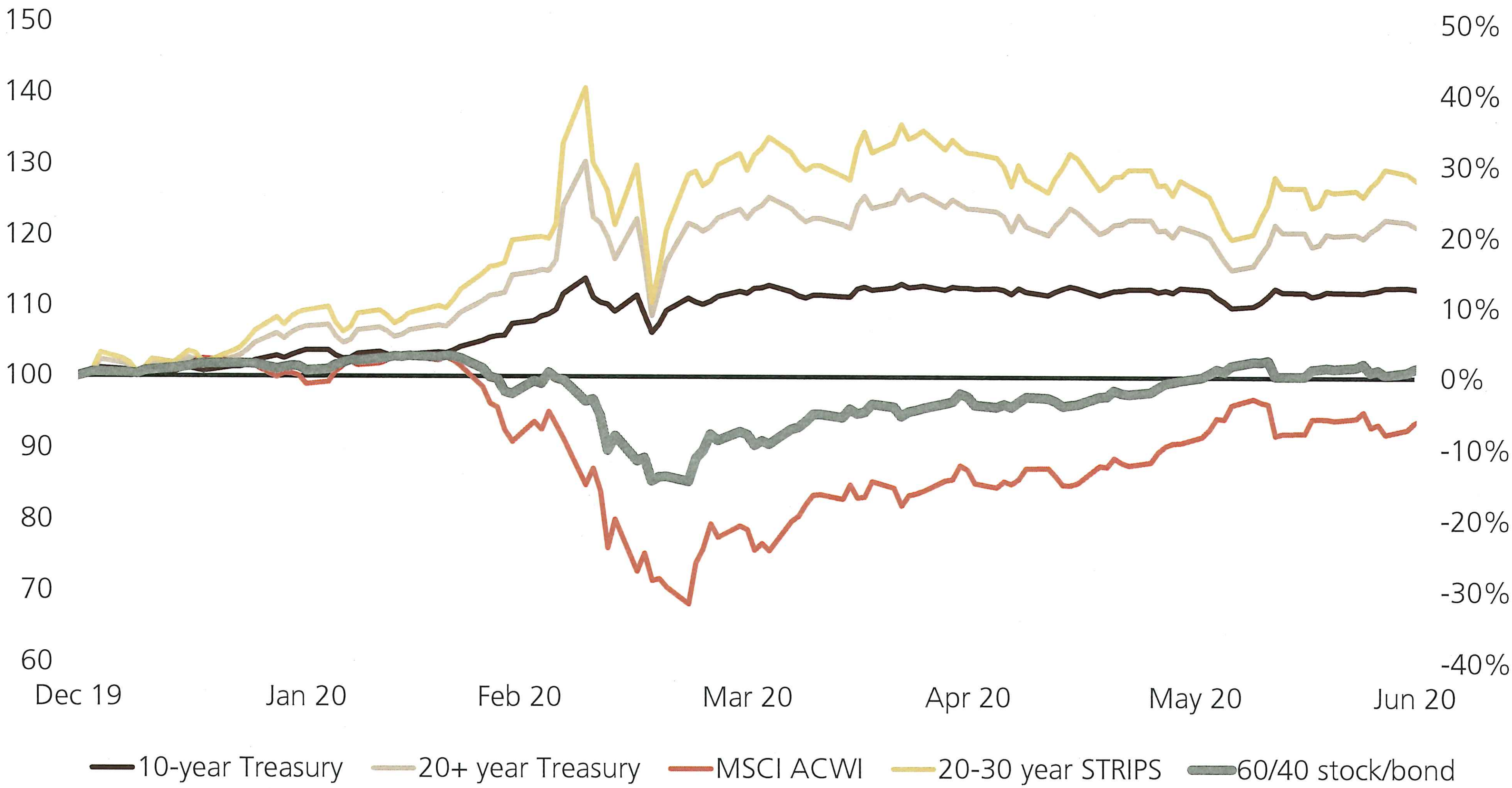
...but balanced portfolios have mostly recovered

Growth of USD 100 invested on 31 December 2019, with year-to-date total return on the right-hand scale



The 60/40 stock/bond portfolio is allocated 60% MSCI ACWI and 40% 10-year Treasury index (daily rebalance).
Source: Bloomberg, UBS, as of 30 June 2020.

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2Q20 economic review

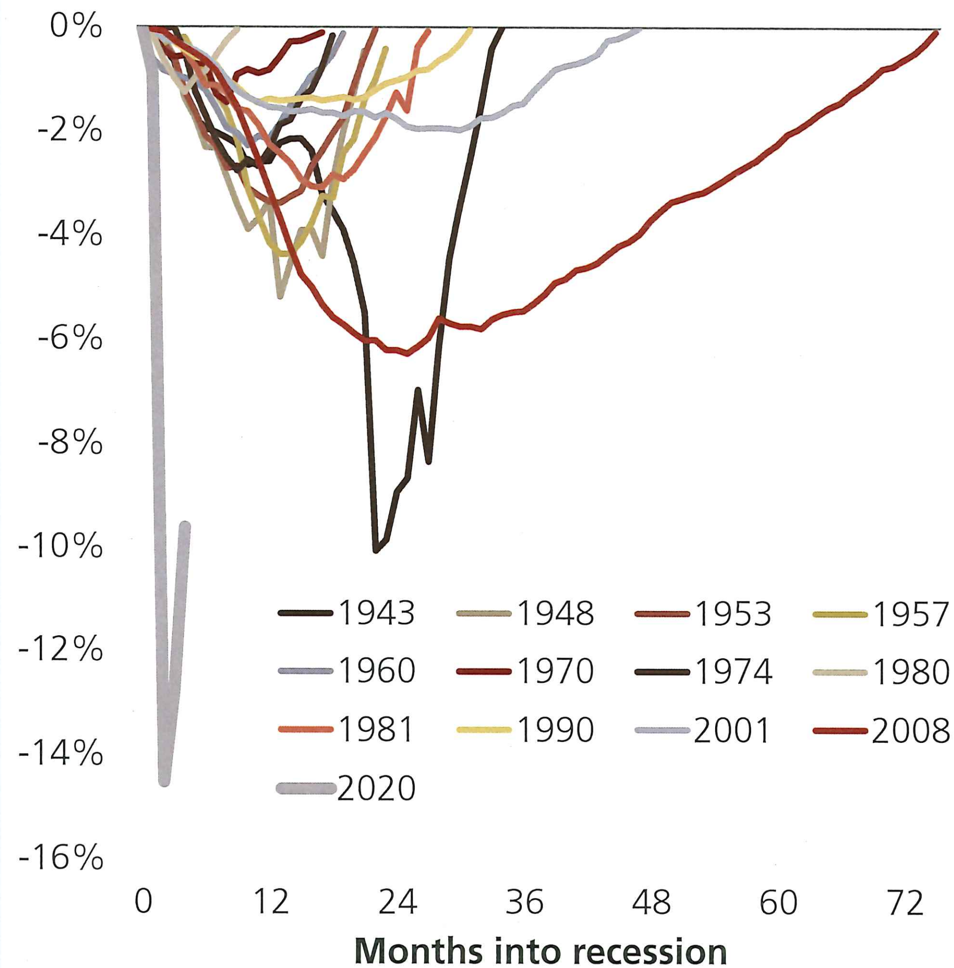
- **Economic growth** was sharply negative during the first weeks of 2Q, but started to recover rapidly during the quarter's final weeks as governments around the globe began to relax the unprecedented lockdown measures.

- **The US labor market** has experienced its largest ever shock, but we have also seen the beginnings of a sharp recovery. After 22 million job losses in March and April, 6.5 million jobs were added in May and June.

- **Inflation** has remained subdued. Year-over-year, Core PCE rose 1% and Headline PCE registered a 0.5% gain in May. With the demand shock from shelter-in-place orders, we continue to expect inflation to remain below the Fed's 2% target, but it is poised to accelerate somewhat as the recovery gains a foothold.

The economy is starting to recover

Job losses, % of pre-recession peak in non-farm payrolls



Source: Bloomberg, UBS, as of 1 July 2020.

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2Q20 market review

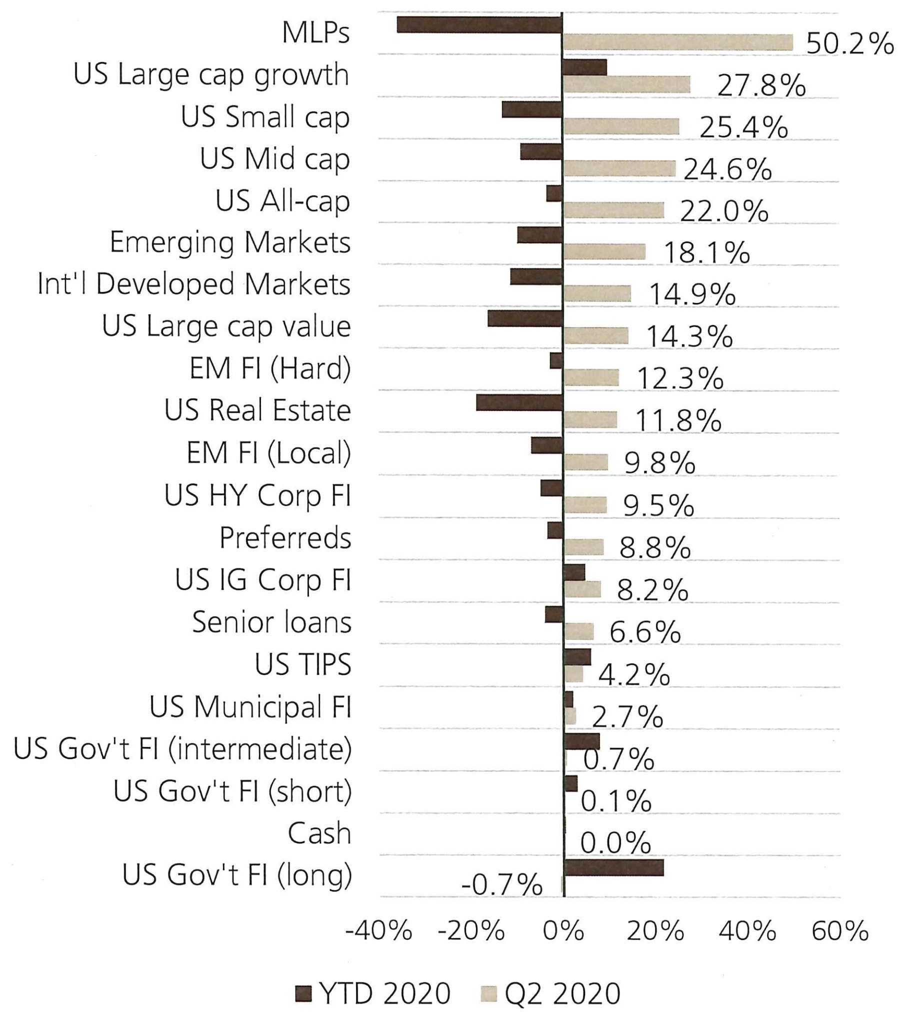
- **Equities –** Stocks are still recovering from their bear market losses, but staged a significant rally during the second quarter. With oil prices nearly doubling during the quarter, MLPs staged a particularly strong rally, up 50.2% during the quarter, but they are still down -35.7% year-to-date. Within US large-cap stocks, growth outperformed value 27.8% to 14.3% and registered a new all-time high.

- **Fixed income –** After a tumultuous first quarter in 2020, credit markets rebounded substantially in the second quarter. Central banks' promise of continued support—and signs of progress in eliminating the risk of the worst-case economic scenarios—helped to stabilize markets. Although nominal interest rates remained stagnant throughout the quarter, investor inflation expectations rose with growth expectations, bolstering the return for TIPS.

- **Commodities –** Commodities registered modest gains during the second quarter. Brent crude prices nearly doubled from USD 20.5/bbl to USD 39.3/bbl during the quarter. Gold rose 13% during the quarter, reaching USD 1,800/oz for the first time since 2011.

Losses across all risk assets

Total return, callouts for Q2 2020 returns



Source: Bloomberg, UBS, as of 30 June 2020.

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3Q20 economic and market outlook

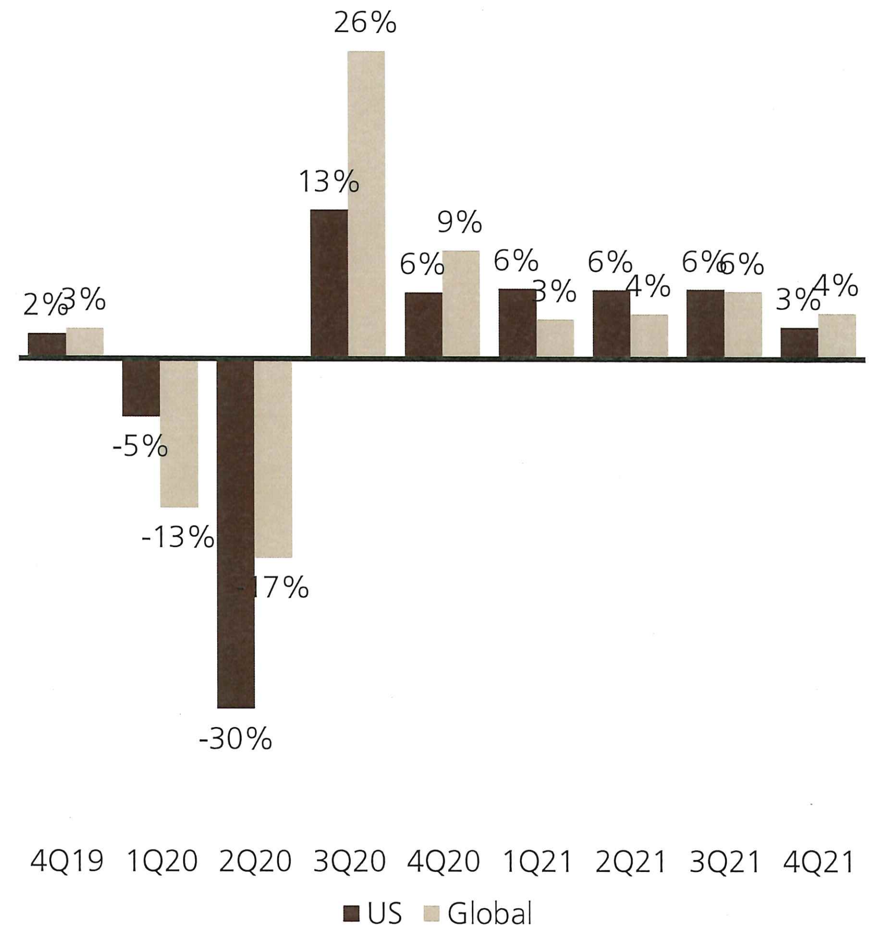
- **Overview –** Global monetary policy is extraordinarily supportive, and sizable fiscal stimulus is being implemented across the globe. With the virus's spread being effectively slowed across most of the globe, we see a lower risk of some of the worst-case economic scenarios. Still, the exact path remains highly uncertain—please see our scenarios on the next page.

- **Earnings & Valuations** – With the recent rally in stocks, we believe investors are "looking through" the earnings carnage this year and focusing on earnings expectations for 2021 and beyond. Valuations appear reasonable based on our view for a 28% increase in S&P 500 profits next year to USD 156 per share. But this still equates to an S&P 500 price-to-earnings (P/E) multiple of 19.5x, higher than the average multiple of 16.7x in the five years before COVID-19.

- **Interest rates –** Although equity valuations look high in aggregate, interest rates will be a key driver in 3Q and beyond. As long as economic activity continues to recover, low interest rates will support growth stocks' valuations. If interest rates rise from here because the economic growth outlook is improving, growth stock valuations could suffer; this could, on the other hand, provide a tailwind for value stocks' earnings and valuations.

We expect a deep (but short-lived) recession

US and global GDP q/q growth, with UBS forecasts, in % (annualized)



Source: UBS, as of 1 July 2020

UBS

The views expressed in this slide belong to CIO Americas, GWM

Given the uncertainty, we focus on three scenarios...

	Virus management and mitigation measures	Second wave(s)	Start of sustained recovery *	Back to normal **
Upside	– Highly effective vaccine available at full scale by end-2020 – Sophisticated test and trace model; virus reproduction remains low – Drug treatment and higher ICU capacity mitigate impact of the spread in the meantime	– No meaningful recurrence of the virus, though minor local outbreaks possible – Business-as-usual can resume in the second half of 2020	During 3Q 2020	3Q-4Q 2020
Central	– Partial rollout of test and trace models – Increased ICU capacity – Drug treatment partially reduces ICU demand in autumn – Reasonably effective vaccine with first doses by 4Q20; full rollout by mid-2021	– Future recurrences of the virus can be accommodated by healthcare systems – Public acceptance for lockdown measures diminishes – Major lockdown measures do not have to be reimposed – Minor restrictions remain in place to year-end ***	During 3Q 2020	1H 2021
Downside	– Delayed and limited rollout of test and trace models – Limited availability of drug treatment throughout 2020 – No vaccine available until mid-2021	– Future waves prove too large for healthcare systems – Some or all of the major restrictions have to be reimposed intermittently	1H 2021	2H 2021

* Sustained recovery is defined as a stage at which Google Community Mobility for Retail and Recreation stabilizes at 80% of the pre-pandemic level, or higher, in all major regions.

** "Back to normal" is defined as a stage at which Google Community Mobility for Retail and Recreation returns to pre-pandemic levels in all major regions.

*** Remaining minor restrictions would likely correspond to an Oxford Stringency Index value of around 35 points, or below, across major countries. Measures can include cancellations of public events, partial restrictions on gatherings and international travel, and general physical distancing guidelines.

Source: UBS.

UBS

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...which help us identify opportunities amidst uncertainty.

UBS CIO central, downside, and upside June 2021 expectations

Index	Current (2 July)	June 2021 forecasts, projected change		
		Central scenario	Upside scenario	Downside scenario
S&P 500	3,150	3,300 (4.8%)	3,500 (11.1%)	2,800 (-11.1%)
Euro Stoxx 50	3,320	3,300 (-.6%)	3,800 (14.5%)	2,600 (-21.7%)
MSCI EM	1,001	1,100 (9.9%)	1,200 (19.9%)	750 (-25.1%)
Swiss Market Index	10,188	10,800 (6.0%)	11,300 (10.9%)	9,000 (-11.7%)
US IG spread (bps)	158	150 bps (-8)	120 bps (-38)	350 bps (192)
US HY spread (bps)	634	550 bps (-84)	400 bps (-234)	1,250 bps (616)
EM USD bonds spread (bps)	449	400 bps (-49)	280 bps (-169)	700 bps (251)

Source: UBS, as of 2 July 2020

UBS

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Recap

- We believe market developments from here will be determined by three "market narratives": the "Fed" story, the "second wave" story, and the "US election" story.
- While the second wave and US election narratives will cause higher volatility in risky assets as each moves to the forefront of investors' minds, we think the Fed story has the greatest implications for markets over the near and medium term.
- Despite a 40+% rally in the S&P 500 since the 23 March low, we expect market volatility to persist for several months. Bear market rallies are common, and are often followed by further losses.
- Maintaining a balanced and well-diversified portfolio is always the first line of defense. In addition, investors can protect themselves from the risk of locking in otherwise-temporary losses using a well-funded Liquidity strategy—enough to meet the next 3-5 years of cash flow needs. This is the key to investing long-term capital with confidence that those assets won't have to be sold at bear market prices. Without locking in the losses we see during bear markets, the actual damage investors face can be significantly reduced.
- Tactically, we prefer taking risk in both equities and credit, which should be bolstered by unprecedented fiscal and monetary support around the world as well as improving confidence as downside risks recede.
  - Within credit we like emerging market hard-currency (USD-denominated) sovereign bonds, US investment grade bonds, and US high yield bonds. Spreads have compressed but remain elevated, and while there will be near-term volatility, these positions should perform strongly over the next 6-12 months.
  - We also like Treasury Inflation Protected Securities (TIPS), which should benefit from a "reflation" scenario.
  - Within stocks we like US mid-caps, which have lagged the performance of larger stocks and should rally strongly as the fundamental picture improves.
  - In other developed markets, we like UK equities, which are relatively cheap versus their Eurozone peers.

Source: UBS, as of 2 July 2020. Timeframes may vary. Strategies are subject to individual client goals, objectives, and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

Appendix: Investment committees

Global Investment Process and Committee Description
The UBS investment process is designed to achieve replicable, high-quality results through applying intellectual rigor, strong process governance, clear responsibility, and a culture of challenge.

Based on the analyses and assessments conducted and vetted throughout the investment process, the Chief Investment Officer (CIO) formulates the UBS Wealth Management Investment House View (e.g., overweight, neutral, underweight stances for asset classes and market segments relative to their benchmark allocation) at the Global Investment Committee (GIC). Senior investment professionals from across UBS, complemented by selected external experts, debate and rigorously challenge the investment strategy to ensure consistency and risk control.

Global Investment Committee Composition
The GIC comprises top market and investment expertise from across all divisions of UBS:
- Mark Haefele (Chair)
- Paul Donovan
- Simon Smiles
- Tan Min Lan
- Themis Themistocleous
- Bruno Marxer
- Andreas Koester

GWMA Asset Allocation Committee Description
We recognize that a globally derived house view is most effective when complemented by local perspective and application. As such, UBS has formed a Wealth Management Americas Asset Allocation Committee (WMA AAC). WMA AAC is responsible for the development and monitoring of UBS WMA's strategic asset allocation models and capital market assumptions. The WMA AAC sets parameters for the CIO Americas, WM Investment Strategy Group to follow during the translation process of the GIC's House Views and the incorporation of US-specific asset class views into the US-specific tactical asset allocation models.

GWMA Asset Allocation Committee Composition
The GWMA Asset Allocation Committee comprises nine members:
- Solita Marcelli
- Michael Crook
- Jason Draho
- Leslie Falconio
- Laura Kane
- David Lefkowitz
- Tom McLoughlin
- Brian Rose

Appendix: Statement of risk

1. Equity markets are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions, and other important variables.
2. Bond market returns are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions and other important variables. Corporate bonds are subject to a number of risks, including credit risk, interest rate risk, liquidity risk, and event risk. Though historical default rates are low on investment grade corporate bonds, perceived adverse changes in the credit quality of an issuer may negatively affect the market value of securities. As interest rates rise, the value of a fixed coupon security will likely decline. Bonds are subject to market value fluctuations, given changes in the level of risk-free interest rates. Not all bonds can be sold quickly or easily on the open market. Prospective investors should consult their tax advisors concerning the federal, state, local, and non-U.S. tax consequences of owning any securities referenced in this report.
3. Prospective investors should consult their tax advisors concerning the federal, state, local, and non-U.S. tax consequences of owning preferred stocks. Preferred stocks are subject to market value fluctuations, given changes in the level of interest rates. For example, if interest rates rise, the value of these securities could decline. If preferred stocks are sold prior to maturity, price and yield may vary. Adverse changes in the credit quality of the issuer may negatively affect the market value of the securities. Most preferred securities may be redeemed at par after five years. If this occurs, holders of the securities may be faced with a reinvestment decision at lower future rates. Preferred stocks are also subject to other risks, including illiquidity and certain special redemption provisions.
4. Although historical default rates are very low, all municipal bonds carry credit risk, with the degree of risk largely following the particular bond's sector. Additionally, all municipal bonds feature valuation, return, and liquidity risk. Valuation tends to follow internal and external factors, including the level of interest rates, bond ratings, supply factors, and media reporting. These can be difficult or impossible to project accurately. Also, most municipal bonds are callable and/or subject to earlier than expected redemption, which can reduce an investor's total return. Because of the large number of municipal issuers and credit structures, not all bonds can be easily or quickly sold on the open market.

Appendix

Emerging Market Investments
Investors should be aware that Emerging Market assets are subject to, amongst others, potential risks linked to currency volatility, abrupt changes in the cost of capital and the economic growth outlook, as well as regulatory and socio-political risk, interest rate risk and higher credit risk. Assets can sometimes be very illiquid and liquidity conditions can abruptly worsen. CIO-A WM generally recommends only those securities it believes have been registered under Federal U.S. registration rules (Section 12 of the Securities Exchange Act of 1934) and individual State registration rules (commonly known as "Blue Sky" laws). Prospective investors should be aware that to the extent permitted under US law, CIO-A WM may from time to time recommend bonds that are not registered under US or State securities laws. These bonds may be issued in jurisdictions where the level of required disclosures to be made by issuers is not as frequent or complete as that required by US laws.
For more background on emerging markets generally, see the CIO-A WM Education Notes "Investing in Emerging Markets (Part 1): Equities", 27 August 2007, "Emerging Market Bonds: Understanding Emerging Market Bonds," 12 August 2009 and "Emerging Markets Bonds: Understanding Sovereign Risk," 17 December 2009.
Investors interested in holding bonds for a longer period are advised to select the bonds of those sovereigns with the highest credit ratings (in the investment grade band). Such an approach should decrease the risk that an investor could end up holding bonds on which the sovereign has defaulted. Sub-investment grade bonds are recommended only for clients with a higher risk tolerance and who seek to hold higher yielding bonds for shorter periods only.

Non-Traditional Assets
Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.
Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.
In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:
•Hedge Fund Risk: There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
•Managed Futures: There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
•Real Estate: There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
•Private Equity: There are risks specifically associated with investing in private equity. Capital calls can be made on short no-tice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
•Foreign Exchange/Currency Risk: Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

Appendix: explanations about asset allocations

Sources of strategic asset allocations and investor risk profiles

Strategic asset allocations represent the longer-term allocation of assets that is deemed suitable for a particular investor. The strategic asset allocation models discussed in this publication, and the capital market assumptions used for the strategic asset allocations, were developed and approved by the Global Wealth Management Americas Asset Allocation Committee (GWMA AAC).

The strategic asset allocations are provided for illustrative purposes only and were designed by the GWMA AAC for hypothetical US investors with a total return objective under five different Investor Risk Profiles ranging from conservative to aggressive. In general, strategic asset allocations will differ among investors according to their individual circumstances, risk tolerance, return objectives and time horizon. Therefore, the strategic asset allocations in this publication may not be suitable for all investors or investment goals and should not be used as the sole basis of any investment decision. Minimum net worth requirements may apply to allocations to non-traditional assets. As always, please consult your UBS Financial Advisor to see how these weightings should be applied or modified according to your individual profile and investment goals.

The process by which the strategic asset allocations were derived is described in detail in the publication entitled "2019 Capital Market Assumptions Update," published on 4 February 2019 by the GWMA AAC. Your Financial Advisor can provide you with a copy.

Deviations from strategic asset allocation or benchmark allocation

The recommended tactical deviations from the strategic asset allocation or benchmark allocation are provided by the Global Investment Committee and the Investment Strategy Group within CIO Americas, Wealth Management. They reflect the short- to medium-term assessment of market opportunities and risks in the respective asset classes and market segments. Positive/zero/negative tactical deviations correspond to an overweight/neutral/underweight stance for each respective asset class and market segment relative to their strategic allocation. The current allocation is the sum of the strategic asset allocation and the tactical deviation.

Note that the regional allocations on the Equities and Bonds pages in UBS House View are provided on an unhedged basis (i.e., it is assumed that investors carry the underlying currency risk of such investments) unless otherwise stated. Thus, the deviations from the strategic asset allocation reflect the views of the underlying equity and bond markets in combination with the assessment of the associated currencies. The detailed asset allocation tables integrate the country preferences within each asset class with the asset class preferences in UBS House View.

Asset allocation does not assure profits or prevent against losses from an investment portfolio or accounts in a declining market.

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UBS House View

Investment Strategy Guide
October 2020

Chief Investment Office
Global Wealth Management
US edition

We got 'new normal.' What about 'more normal'?

UBS

Solita Marcelli

Chief Investment Officer Americas,
Global Wealth Management

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Dear reader,

In August, the S&P 500 rallied over 7%, but more than half of this rally was driven by five large stocks. Since the last all-time high in early September, the S&P 500 has fallen around 6%, and the tech-heavy NASDAQ index has given back about 10%. For this bull market to continue sustainably, we believe the rally will need to broaden. In this month's House View, we explain why we believe there is still room for upside moving forward, and why we think that investors will need to diversify beyond US mega-cap tech in order to participate.

In our **Feature** article, we review how technological disruption, deficit spending, and central bank action have driven the transition to the "new normal" for markets in 2020. For markets to move materially higher from here, we think investors want to see a path toward "more normal," especially when it comes to a widely available vaccine and a reduction in US political uncertainty. We think both factors will happen, but the timing is uncertain.

As discussed in this month's **Asset allocation implementation** section, risk assets should remain supported by a very accommodative Federal Reserve and other central banks, though volatility is likely to remain high until there is great clarity on the path to a vaccine and surrounding the US election. We maintain our preference for global equities, of which US equities account for a little over half. Within US stocks, we continue to prefer mid-caps, and cyclically exposed sectors that have, for the most part, lagged the overall market recovery. In addition, we continue to prefer credit as a broad asset class, despite recent spread tightening.

In this month's **Thematic Spotlight**, we review the 2020 back-to-school season and the various implications the pandemic has had on the technology and education sectors.

We hope you enjoy this edition of the House View. To find more information on the US election, we encourage you to check our ElectionWatch hub.

Regards,

Solita Marcelli

Monthly House View client call:
1 October, 2020
1:00 PM ET

This month's conversation will only be available through **ubs.com/ciolive** only (no dial in).

CIO Preferences

	Least preferred	Neutral	Most preferred
Cash		=	
Fixed Income			
US Gov't FI	−		
TIPS			+
US Municipal		=	
US IG Corp FI			+
US HY Corp FI		=	
EM Hard Currency FI			+
EM Local Currency FI		=	
Equity			+
Global Equity			+
US Large Cap Growth	−		
US Large Cap Value	−		
US Mid Cap			+
US Small Cap		=	
Int'l Developed Markets		=	
Emerging Markets		=	

Note: Our preferences represent the longer-term allocation of assets that is deemed suitable for a particular investor and were developed and approved by the Global Wealth Management Americas Asset Allocation Committee. Our preferences are provided for illustrative purposes only and will differ among investors according to their individual circumstances, risk tolerance, return objectives and time horizon. Therefore, our preferences in this publication may not be suitable for all investors or investment goals and should not be used as the sole basis of any investment decision. Minimum net worth requirements may apply to allocations to non-traditional assets. As always, please consult your UBS Financial Advisor to see how our preferences should be applied or modified according to your individual profile and investment goals.

Also in this report

We got 'new normal.' What about 'more normal'?

The 'new normal'

Accelerated by the pandemic, central bank action and digital trends have stoked a rally in technology and growth stocks.

Awaiting 'more normal'

To continue sustainably, the rally may need to broaden. The timing of this depends on vaccine and US fiscal developments.

Timing the market

We expect volatility, but investors should stay invested, aligned with their financial plan, and use volatility to build up long-term positions.

Diversify for the next leg

Investors should look to diversify beyond US mega-cap tech, into areas including the UK equity market, US mid-caps, emerging market value, and global industrials.

Mark Haefele
Global Chief Investment Officer
Wealth Management

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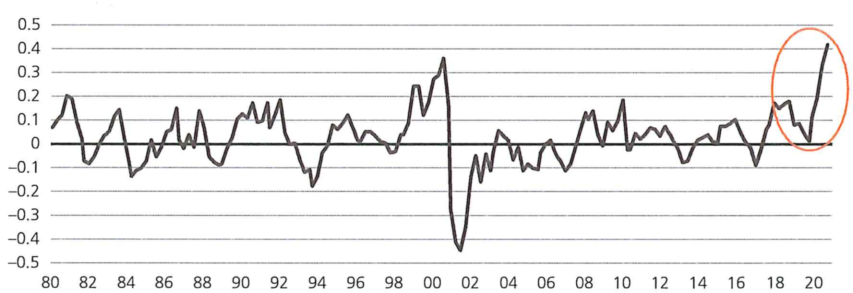
Since the peak of the pandemic, the market narrative has been dominated by the transition to a "new normal," driven by the forces of technological disruption, deficit spending, and further central bank action.

Yet, with recent gains in broad equity indexes concentrated in relatively few stocks, styles, and sectors, all linked to the new normal, we think that for markets to move materially higher in the near term we will need to see less "new normal" and more "more normal." In particular, we think investors want to see a path toward sustainable mobility gains (enabled by vaccine developments) and a reduction in US political uncertainty. We think both factors will happen, but the timing is uncertain.

Figure 1

Record outperformance for growth over value

12-month Russell 1000 Growth vs. 12-month Russell 1000 Value performance



Source: Bloomberg, UBS, as of 16 September 2020

In our base case, we think the combined metaphorical and literal shots in the arm of a successful vaccine, an end to election uncertainty, passage of new US fiscal stimulus, and continued extraordinary global monetary support will enable markets to move higher over the medium term. In our central scenario, we expect the S&P 500 to trade at 3,700 by the middle of next year. Investors holding cash and waiting for a large correction run the risk of disappointment, particularly given the potential for developments like a vaccine to arrive sooner than expected.

We will likely face a period of volatility in the near term.

Once a vaccine is approved, investors will have a much clearer picture of how quickly we will move to a more normal world. In the interim, however, we will likely face a period of volatility, particularly if no US fiscal stimulus is passed before the election, the Federal Reserve refrains from new policy measures, and rising virus cases dent consumer and business confidence. The series of upcoming event risks related to the US election, US-China relations, and Brexit will also contribute to higher volatility.

What should investors do? Trying to directionally time the market around the daily sequence of vaccine and stimulus announcements that speed up or delay the return to "more normal" is likely beyond human or artificial intelligence. We have much higher conviction around an eventual economic recovery driven by a vaccine as well as global fiscal and monetary stimulus. Based on our view that the longer-term trend is positive, we think the best strategy is to stay invested along the lines of your financial plan. Near-term volatility could, however, be seen as an opportunity to build up positions using, for example, options, structured solutions, or a disciplined phasing-in strategy.

Second, investors need to diversify into those areas most likely to drive the next leg of the rally. In our view, this will involve investing beyond US mega-cap technology stocks, and should include the UK equity market, US mid-caps, emerging market value stocks, and global industrials, as well as other technology stocks like those exposed to 5G and the future of humans—encompassing opportunities in education, healthcare, and consumer preferences as we explore in our eponymously titled new report.

Finally, investors need to consider how to reframe their investment thinking in light of the new normal that will emerge after the pandemic. One such area we are focused on is sustainable investing. In the aftermath of the pandemic, the world's top 50 economies are putting USD 583bn into boosting green efforts. We have made sustainable investing our preferred solution for private clients investing globally.

Markets have embraced the 'new normal'

Technology stocks have driven the market advance.

The rise in broad equity market indexes in recent months has been driven in large part by investors' embrace of a new normal. Supported by lower discount rates and exposure to a less mobile but more connected world, the FAAMNG mega-cap tech stocks—Facebook, Apple, Amazon, Microsoft, Netflix, and Alphabet, Google's parent company—have rallied by an average of 40% this year, and the tech-heavy Nasdaq index is up 24%, outperforming the broader S&P 500 (+6%). For the most part, we see the strong performance from the technology sector as justified, and do not think the sector's price-to-earnings ratio of 25x, with 17% forecast earnings growth, is a bubble.

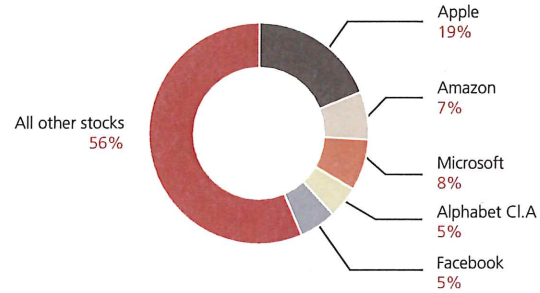
To continue sustainably, the rally will need to broaden to include cyclical and value stocks.

However, this embrace of the "new normal" has contributed to a relatively narrow advance. In August, just five stocks were responsible for almost half the gains in the S&P 500 (Fig. 2). Over the last year, only 32% of S&P 500 stocks are beating the benchmark. Growth's valuation relative to value is at its highest level since 2000, and 34% above the long-term average excluding the tech bubble. For equity indexes to move meaningfully higher over the medium term, the rally will need to broaden to also include value and cyclical stocks, in our view.

Figure 2

The August rally was driven by relatively few stocks

% contribution to S&P 500 performance, August 2020



Source: Bloomberg, UBS, as of 16 September 2020

The timing of a sector rotation depends on when conditions get "more normal."

Some of the potential beneficiaries of this transition are US mid-caps, UK equities, industrials in Europe and the US, and emerging market value stocks. We think investors should already begin to diversify into these areas. However, the timing of the rotation toward these market segments remains uncertain, and before fully embracing the rotation, investors are likely to want to see greater evidence that economic conditions are getting more normal.

Now we just need a bit 'more normal'

By the middle of 2021, we expect a return to normal economic functioning.

With China's recovery currently on track, global investors are focused on the pace of growth in Europe and the United States. Over the medium term, we are confident that we will see economic conditions get more normal and the equity market rally broaden out into cyclical and value stocks. By the middle of 2021, we expect a vaccine to be in the process of being rolled out, new US fiscal stimulus to have passed, and monetary policy to remain very accommodative. With the US election in the past, policy uncertainty will likely also be lower than today.

The timing of a return to "more normal" depends on vaccine and US fiscal stimulus developments.

The timing of this return to "more normal" could be accelerated if, for example, we see encouraging news on a vaccine or the passage of US fiscal stimulus sooner than expected. However, while investors shouldn't exclude the possibility of positive surprises, the near-term constellation of event risks suggests we could face a period of higher volatility:

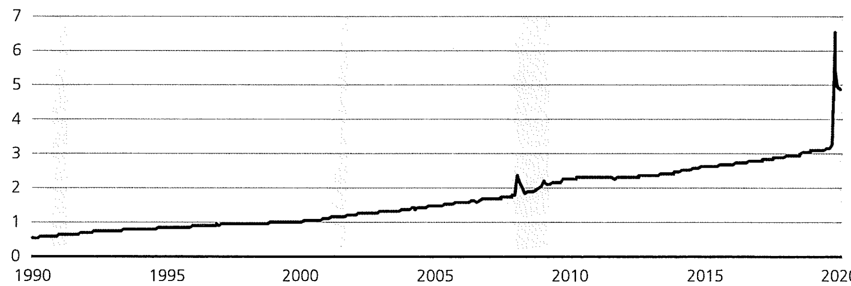
- **Vaccine trials.** Our base case is that a vaccine will be widely available by the second quarter of next year, helping facilitate a return to economic normality. Positive Phase 1 data from a broad range of candidates, large-scale Phase 3 trials underway at Moderna, BioNTech/Pfizer, and AstraZeneca, and strong government incentives to expedite approvals all speak in favor of successful vaccine development in the medium term. That said, like with all biotech development, we should not expect the path to be smooth. And with Pfizer's CEO stoking optimism that a vaccine could be available for delivery by the end of 2020, setbacks may disappoint. In an example of the potential risks faced in vaccine development, AstraZeneca was recently forced to pause its trial after a UK Phase 2/3 volunteer contracted transverse myelitis. Trials have since been resumed.

- **US stimulus.** The economic logic for replacing the USD 600 a week in emergency unemployment benefits that expired at the end of July is strong. Permanent layoffs are increasing, and the unemployed are more likely to spend rather than save the extra money. The White House and both parties in Congress have said the US needs more fiscal stimulus. But, with less than two months to go before the US election, political calculus will likely take prominence over economic logic. We also doubt the shortfall in fiscal stimulus will be made up for in additional monetary stimulus. Given the lagged effects of monetary policy, the Fed will be reticent to do more than it has if a fiscal package is likely to follow shortly after the election. Overall, this leaves the US economy temporarily short of policy support and facing a period of subpar economic data.

Figure 3

US government stimulus is fading

Personal income transfer payments from the US government to individuals, in USD tr.
Shaded areas indicate US recessions



Source: Bloomberg, UBS, as of 16 September 2020

- **Political event risks.** Various political event risks, ranging from the US election to US-China relations to Brexit, could all also contribute to market volatility. With both the US and China affirming their commitment to the Phase 1 trade deal, we don't expect a return to economically damaging tariff impositions. However, with both Republicans and Democrats wanting to be seen as tough on China ahead of the election, tensions between the US and China are likely to remain high. Elsewhere, the UK government's proposed Internal Market bill, which seeks to override parts of the already-signed Withdrawal Agreement, is stoking renewed conflict with the EU. We believe that political and economic incentives still point to a deal being reached, and we continue to like UK equities, but note that brinkmanship over the coming weeks will mean continued volatility for UK assets.

Scenarios

Central scenario

In our central scenario, we think that an effective vaccine becomes widely available by 2Q21, enabling social activity to normalize, and developed countries' GDP to recover to pre-pandemic levels by 2022. In the interim, we expect central banks to remain accommodative, don't foresee renewed national lockdowns, and, despite toughening political rhetoric, don't anticipate tensions between the US and China to derail growth.

Against this backdrop, we think markets will move higher over the medium term. The equity risk premium is now 390 basis points, slightly higher than the pre-crisis five year average of 380 basis points. As conditions normalize into 2021 we expect rapid earnings growth and some compression in the equity risk premium to drive the S&P 500 to 3,700 by June 2021—our central scenario target for the index.

In this scenario, we think a combination of private markets, commodities, dividend stocks, select credit, and sustainable investments would offer the best risk-return over the period.

Upside scenario

Potential upside could be greater and come more quickly if, for example, a vaccine becomes available or US political uncertainties subside sooner than expected. In our upside scenario, we target the S&P 500 at 3,900 by June 2021, with select value and cyclical stocks performing most strongly. In this scenario, we would also see opportunity for investors to diversify away from US large-cap tech and toward some of the "next tier" growth stocks, including those exposed to 5G, China's new economy, and the future of humans.

Downside scenario

In our downside scenario, the lack of a new vaccine means we do not see a return to "more normal" by the middle of 2021, and growth is damaged by deteriorating US-China tensions or an extended period of political gridlock in the US. Although this scenario would mean meaningful downside for markets, even in this scenario we do not expect to see a return to widespread nationwide lockdowns (which we consider a tail risk) and would expect market declines to be limited by additional action from the Fed. In this scenario, we would expect the S&P 500 to trade at 2,800.

Investment ideas

We retain our view that global equities will move higher over our investment horizon, with a particular preference for the more cyclical and undervalued UK market. Given elevated volatility and skew, we are also seeking opportunities to take on asymmetric exposure in options markets. In credit, we continue to like USD-denominated emerging market sovereign bonds and US investment grade credit relative to high grade bonds. We also retain a positive stance on broad commodity indexes, including gold.

Here are five key actions investors can take to position portfolios for the months ahead:

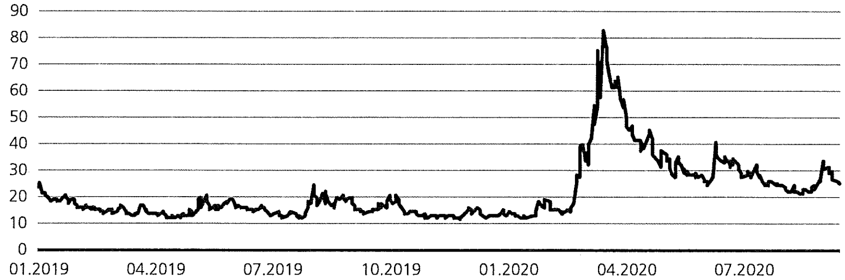
Take advantage of volatility. Amid uncertainty about the timing of vaccine and US fiscal developments, investors could face a period of volatility in the near term. But staying on the sidelines is likely to be costly, in our view. We remain confident on the longer-term trajectory for the economy, and recommend that investors put excess cash to work straight away. For cautious investors, or those with large deposits to invest, we recommend using near-term volatility as an opportunity to build up positions for the long term. This can be done, for example, by embarking on a disciplined phasing-in strategy, or, when appropriate, using options or structured solutions.

Position for the upside in equities. To advance sustainably, the rally will need to broaden beyond growth and US mega-cap tech stocks to also include value and cyclical stocks, in our view. Although the timing of this rotation is uncertain, we think investors should already look to position in select areas of the market that could drive the next leg. These include UK equities, US mid-caps, emerging market value stocks, and global industrials. Within the growth and technology space, we think areas like 5G and the future of humans have among the highest potential promise.

Figure 4

Equity volatility has remained elevated

VIX index since January 2019



Source: Bloomberg, UBS, as of 16 September 2020

Hunt for yield. We expect interest rates to remain at record lows for the foreseeable future, and more central banks have begun to discuss the possibility of negative interest rates. As such, investors will need to continue to work hard to find attractive income-generating assets. While credit spreads have tightened, we still see value in select segments of the market. In particular, we like USD-denominated emerging market sovereign bonds, European crossover bonds, green bonds, and Asia high yield bonds. Investors can also seek opportunities to generate income in high-dividend paying stocks.

Seek opportunities in commodities. We expect broad commodity indexes to rise in the months ahead. Prices of cyclical commodities are likely to go up as the economy returns to "more normal." Commodity returns tend to be double their 30-year average when looking at periods of accelerating economic growth in advanced economies. Gold also continues to look attractive in a portfolio context in an environment of negative real interest rates and elevated geopolitical uncertainty.

Buy into sustainability. As governments use fiscal stimulus to help economies recover from the pandemic, spending on green initiatives is rising. An analysis by the *Bloomberg New Energy Finance* calculated the world's top 50 economies were putting USD 583 billion into boosting green efforts. Investors have a variety of ways to gain exposure to sustainable investment opportunities, including replacing traditional asset classes with sustainable ones, investing in multilateral development bank or green bonds, or investing in equity themes aligned with the UN Sustainable Development Goals. We have made sustainable investing our preferred solution for private clients investing globally.

Mark Haefele
Chief Investment Officer
Global Wealth Management

Asset allocation implementation

The UBS House View is our current assessment of the global economy and financial markets, with corresponding investment recommendations. The asset allocation implementation of this view can vary based on the portfolio types and objectives.

Our tactical asset class preferences

Most preferred

- Treasury Inflation-Protected Securities (TIPS)
- US corporate investment grade fixed income
- Senior loans
- USD emerging market sovereign bonds
- Global equities
- US mid-cap equities
- UK equities
- India equities
- Commodities
- Gold
- Oil

Least preferred

- US government bonds
- US large-cap growth equities
- US large-cap value equities

Implementation guidance

Risk assets should remain supported by a very accommodative Federal Reserve and other central banks, though volatility is likely to remain high until there is greater clarity on the path to a vaccine and around the US election. Economic activity continues to recover, although the pace has moderated as COVID-19 cases remain elevated in the US and in parts of Europe, and the benefits of US fiscal stimulus have waned. With major equity markets near all-time highs, returns are likely to be more modest for the next six months. Equity and credit remain preferred asset classes, but the opportunity in the latter has become less attractive. The Fed's adoption of an average inflation targeting policy framework is supportive of higher inflation in the medium to long term, and real assets, including TIPS, gold, and commodities, should continue to benefit. We view them as most preferred assets for their diversification attributes and additional upside due to the recovery and reflation.

Equities

While most equity markets are near all-time highs, the overriding story this year has been the outperformance of US mega-cap tech and growth stocks. More recently, these stocks have been highly volatile, exacerbating the volatility of the market overall. While much of this has been the result of extreme call option positioning by certain investors, equity volatility will likely remain high at least until there is further clarity on the US political situation and meaningful news on vaccine development. At this point, we think it's more likely that other sectors and styles play catch-up rather than tech stocks catching down, as the global economy fully recovers on the back of normalizing activity. Thus, we maintain our preference for global equities, of which US equities account for a little over half. But we also maintain a neutral view on growth versus value. Growth stocks are relatively expensive, but value stocks are unlikely to sustainably outperform until there is a vaccine and clear path to recovery and normalization.

Within US stocks, we continue to prefer more cyclically exposed sizes and sectors that have, for the most part, lagged the overall market recovery. Specifically, we continue to like mid-caps, which have underperformed large-caps by about 7% in 2020 and should be outsize beneficiaries of improving economic activity. Among US equity sectors, we continue to recommend a cyclical tilt. We favor consumer discretionary (key beneficiary of economic reopening), industrials (recovery in economic data points to outperformance historically), and healthcare (political risks priced in, cheaper valuations). Our least preferred sectors remain consumer staples (relatively expensive defensive sector), real estate (some segments will continue to face very challenging business conditions), and utilities (defensive sector likely to lose investor interest as the recovery continues).

Internationally, UK equities are attractively positioned for the upside scenario. The UK market skews toward value and global cyclical stocks, and the valuation of UK equities is relatively low versus other regions. But near-term Brexit uncertainty is a headwind. Within emerging market equities, we like India, which lagged the initial recovery in Asian markets but is now catching up.

Fixed income
We continue to prefer credit as a broad asset class, but after significant spread tightening, returns will be lower in the coming months. US investment grade (IG) corporate bond spreads have tightened to around our June 2021 target level, which means returns over the next six to 12 months will be driven primarily by income, not price appreciation, in our view. On the other hand, we think USD-denominated emerging market sovereign bond spreads can still tighten further. These bonds have been the best performer within credit after adjusting for volatility. Ongoing Fed support remains a backstop for credit, as the central bank has barely used its lending facility programs.

US government bonds are expensive at current yields, though we don't expect rates to materially change over the coming months. As a result, we have a relatively neutral view on duration and do not favor any particular part of the Treasury curve.

We maintain a preference for Treasury Inflation-Protected Securities (TIPS). Market-implied inflation expectations have dramatically recovered from the sell-off in March, and in the near term they may increase only 20–30 basis points for longer-maturity TIPS. But the risk of higher inflation in the medium to long term means TIPS still offer good diversification for that scenario. Longer-maturity TIPS (10+ years) are better for Aggressive portfolios because of their longer duration. In Conservative portfolios, shorter maturities (0–5 years) are recommended because they have lower rising rate risk.

Additionally, we maintain a preference for green bonds. Their spreads are comparable to IG corporate bonds, but have a more defensive tilt due to their sector composition. These defensive bonds have outperformed broad IG indexes this year, in large part due to smaller drawdowns during the market sell-off in the first quarter.

Real assets
The commodity complex overall and gold and oil specifically are still most preferred assets. Gold's run to a record high in August was fueled by falling real interest rates. That tailwind has abated for now, and some of the speculation that also pushed the price to a record has eased. But gold should continue to benefit from the aggressive monetary stimulus of major central banks across the globe, ongoing US dollar weakness, and investor enthusiasm for the asset class. Gold is also a valuable insurance asset in the event that the recovery falters. But it should also do well if the monetary policy response remains aggressive even as the global recovery becomes more self-sustaining, pushing gold up to USD 2,300/oz.

For other commodities, oil and industrial metals are the main drivers of the positive view. Both should benefit from the global recovery, and supply-demand fundamentals remain favorable. Oil demand is recovering while supply is being curbed by voluntary OPEC+ output cuts and massive reductions in non-OPEC oil companies' capital expenditures. We maintain our positive outlook into 2H20 and expect Brent to trade near USD 45/bbl at the end of 2020 and at USD 55/bbl at end-2Q21. Commodities should also benefit from investor interest in real assets as an inflation hedge.

Our preferences

	Least preferred	Neutral	Most preferred
Cash		=	
Fixed Income			
US Gov't FI	−		
US Gov't Short		=	
US Gov't Intermediate		=	
US Gov't Long		=	
TIPS			+
US MBS		=	
US Municipal		=	
US IG Corp FI			+
US HY Corp FI		=	
Senior Loans			+
Preferreds		=	
CMBS		=	
EM Hard Currency FI			+
EM Local Currency FI		=	
Equity			+
Global Equity			+
US Equity		=	
US Large Cap Growth	−		
US Large Cap Value	−		
US Mid Cap			+
US Small Cap		=	
Int'l Developed Markets		=	
UK			+
Eurozone		=	
Emerging Markets		=	
Other			
Commodities			+
Gold			+
Oil			+
MLPs		=	
US REITs		=	

Note: See explanations about asset classes in the Appendix.

Bull Market Monitor

Equity markets have hit new record highs, confirming the bear market earlier this year as the shortest in history. Sustaining the rally from this point will be difficult without positive trends in the economy.

Current status
Economic conditions have improved but activity remains far below normal levels and unemployment is high. On the whole, social distancing restrictions are gradually being eased. Most measures of mobility are trending sideways.

What's new?
Recent data suggests that the economic recovery is continuing despite a high number of new COVID-19 cases. Pent-up demand has emerged, helping the manufacturing and housing sectors in particular. Nonfarm payrolls increased by 1.4 million in August, bringing total job gains since May to 10.6 million. This is by far the strongest period of job growth on record, although less than half of the job losses in March and April have been recovered. Congress has been unable to pass another fiscal package and now appears unlikely to take action until after the elections in November. The Federal Reserve indicated that it expects to keep rates near zero through the end of 2023.

Financial conditions remain easy. The yield curve is upward sloping with the short end near zero. Spreads on corporate debt are little changed. Overall we judge that mobility is roughly unchanged over the past month.

What are we watching?
We are carefully monitoring the spread of the virus and its impact on the economy, as well as progress on vaccines and new treatments. The failure to pass a new fiscal package in a timely manner creates new downside risks for the economy. Many businesses continue to see revenues far below normal, and have exhausted the money they borrowed under the Paycheck Protection Program. Some households that were surviving on enhanced unemployment benefits will become unable to pay their essential bills. Successfully reopening schools would be an important step in getting more people back to work. The announcement of a safe and effective vaccine would help to lift sentiment even if widespread distribution is months away.

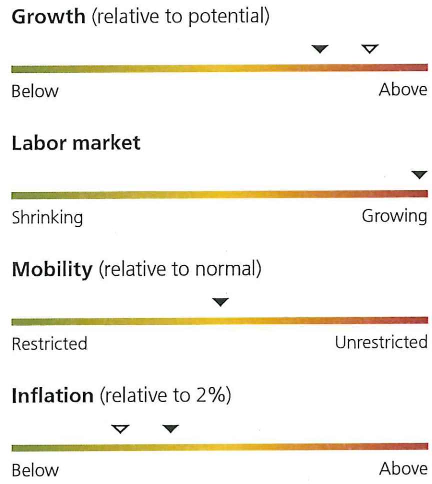
What are the investment implications?
The outlook is highly uncertain but global economic conditions continue to improve. We have a positive view on global equities, US investment grade corporate bonds, and emerging market bonds.

Key cycle indicators

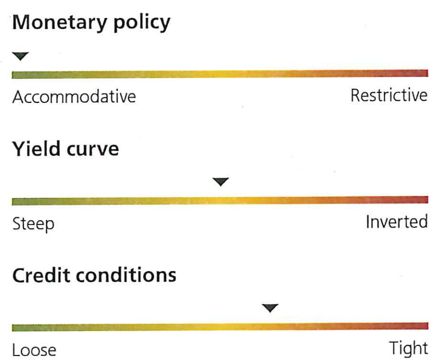
The cycle indicators gauge whether the economy is overheating and if financial conditions are restricting growth. These determine our assessment of where we are in the cycle.

▼ Current ▽ Previous

Economic indicators



Financial indicators



Each indicator is evaluated relative to a neutral level that is sustainable over time in order to determine whether the economy is at risk of overheating or if financial conditions will start to restrict growth.

Questions we're tracking

Should I sell tech?

The tech-heavy Nasdaq has suffered a 10% fall over the past two weeks. By contrast, the S&P 500 is down 7%. While tech has underperformed, we don't think it's time to sell the sector. The extent of the rally may spark concern, but we don't regard tech as a bubble. Specific areas of tech, including enabling technologies, security and safety, and e-commerce, offer long-term opportunity given their secular growth prospects.

Has dollar depreciation run its course?

The US dollar index has fallen by around 9% since March. Consolidation now looks likely as US virus and fiscal cliff concerns fade. But the longer-term trend for a weaker dollar remains intact, given continuing easy US monetary and fiscal policy, ongoing election uncertainty, and a reduction in USD exposure by long-term investors. While we do not recommend chasing further USD weakness, it is time to reconsider strategic exposure.

Why should I invest now?

Stocks have recently suffered a setback, with investors rotating out of tech. The VIX index spiked to 36, showing volatility has returned. But rather than marking the start of a renewed setback, we think that stocks can regain their poise. Central banks are still offering unprecedented support, equity risk premiums are attractive, and there is scope for positive medical developments. "Second wave" fears and the upcoming US election may add volatility, but should not derail the recovery. Rather than sitting on the sidelines amid uncertainty, we recommend entering the market today.

How can investors win from the US election?

The US election is less than seven weeks away. The stakes are high for investors given the stark contrast between the policy platforms of President Donald Trump and Democratic nominee Joe Biden. A decisive swing toward either party would impact a range of sectors, from energy and finance to technology and healthcare. We recommend equity baskets that reflect the impact of the major policy issues under different election outcomes.

Will US tensions derail China equities?

China equities have been one of the best-performing major markets in 2020, thanks in part to the country's first-in-first-out position in the pandemic. We continue to see long-term potential in Chinese stocks. China's market has a high exposure to secular growth trends in e-commerce and healthcare. But in the near term, China faces headwinds from rising tensions with the US, and we expect equity laggards like India and Singapore to deliver better regional returns in the near future.

Month in review

Following a historic equity market rally in August, volatility reared its head again this month, starting with the S&P 500 declining 3.5% on 3 September. The sell-off was largely driven by tech stocks, which had previously rallied over 70% from their March lows, and was exacerbated by options-related selling.

Economic and policy developments also contributed to this month's volatility. Progress has remained elusive around another comprehensive fiscal package as Democrats and Republicans instead reached a temporary agreement to avoid a government shutdown. Meanwhile, economic data has remained mixed. While certain signs have pointed to a continued recovery, weekly jobless claims data has been mixed, and the ISM services PMI for August fell to 56.9.

On the monetary policy front, the Federal Reserve continued to reiterate its commitment to supporting the economy at all costs. In its September policy statement, the central bank confirmed that it expects to leave interest rates near zero through at least 2023.

Developments around COVID-19 also remained top of mind this month. In-person classes in New York City were delayed again and Florida reported an acceleration in virus spread. California saw its positivity rate decline and Texas further eased some restrictions. Three companies in the west are currently undergoing Phase 3 clinical trials and hope to have data available around October or November.

A back-to-school season like no other

Laura Kane, CFA, CPA

Head Thematic Research Americas

Michelle Laliberte, CFA

Thematic Investment Associate

The start of September tends to evoke a sense of nostalgia. As the summer heat gives way to the first autumnal breezes, one can almost smell the pumpkin spice and pencil shavings in the air. It's a time for new beginnings as children return to school and older adults get that "back-to-school" feeling, which encourages a renewed focus on personal and professional goals. But this year feels decidedly less familiar. There are fewer school buses on the road. Many classrooms remain empty or half full. And back-to-school shoppers are seeking masks and laptops instead of the usual notebooks and footwear. The COVID-19 pandemic has cast a cloud of uncertainty over back-to-school proceedings, with many schools opting to supplement or replace in-classroom learning with virtual options until virus risks are further mitigated. While we expect these disruptions to prove temporary, the trend toward increased usage of technology within the education sector is one we expect to endure.

Over the next decade, we expect that tech-enabled solutions will help meet the growing and changing demands for education. Today a wide gap exists between the skills our education system delivers and the skills demanded by the digital economy. Technology is changing so rapidly that the skill set a university degree provides will "expire" faster than before, which means that learning will become a lifelong pursuit rather than one that ends at graduation. Demographics are also adding to the case for change within education. Aging and longevity trends are translating into longer working lives, and population growth patterns indicate that we will see a higher concentration of youth in developing countries, where educational resources are already inadequate. Looking forward, we do not believe that in-classroom learning will be replaced, but we expect that technology will supplement in-person learning, improve access to education, and expand options for lifelong learning. Online training programs will continue to scale for corporate upskilling and reskilling initiatives, and edtech platforms will bring educational opportunities to underserved populations as internet and smartphone penetration rises in those areas. We will also see artificial intelligence capabilities deployed to make customized education available at a relatively low cost. For example, AI algorithms can be used to tailor learning programs, including content and teaching methods, suited to individuals' different modes of learning.

The new possibilities for education are exciting, but they will require students and workers to adapt to a shifting paradigm. Among the top concerns is the question of what to study in school. We believe that students will be well served to hone their "human" skills, with the goal of complementing rather than competing with machines. With that in mind, we believe education will increasingly focus on technical skills that help workers use technology more effectively, as well as interpersonal capabilities, creativity, critical thinking, and flexibility. In other words, renewed demand for humanities degrees is not out of the question. Another major concern is increased screen time, as online learning becomes commonplace. Numerous studies point to the negative impact on mental well-being from increasingly interacting with machines versus humans and leading more sedentary lifestyles. While these risks will need to be carefully managed, we believe that technology can actually be a part of the solution. We are seeing a rise in teletherapy and meditation mobile apps, as well as more digital fitness platforms, in part spurred by COVID-19.

In our view, the changes taking place within the education sector represent an opportunity for investors. We recommend gaining exposure to edtech and education services companies, in addition to enabling technology companies. We also believe these trends bode well for the private higher education sector. For more information, please see our report "Future of humans" and our longer-term investment theme "Education."

Themes universe

For guidance on how to invest in each of the themes on this page, please contact your Financial Advisor.

Technology

Automation and robotics
A fourth industrial revolution is underway, which we believe will transform the future of manufacturing.

Digital data
Companies that both enable digital data and invest their infrastructure will likely continue strong earnings growth over the coming years.

E-commerce
E-commerce is altering the global retail landscape and omnichannel companies should lead the way forward.

Enabling technologies
We identify five enabling technologies that should offer solid long-term growth amid irreversible technological disruption.

Fintech
The global fintech industry is at an inflection point and set to drive a major digital transformation in the financial services industry.

Health Tech
Aging populations are straining global healthcare budgets, spurring healthcare providers to explore new technologies that could improve efficiency.

Medical devices
The medical device industry has matured but opportunities exist for increased penetration in emerging markets (EMs).

Oncology
Advances in cancer therapeutics will create new opportunities for successful drugs.

Security and safety
Growing trends such as urbanization, digital data growth, and increased regulation support demand for security and safety.

Smart Mobility
Global urbanization will call for structural changes in technology that will alter the way we "consume" mobility in the coming decades.

Space
Growing private sector investment and lower entry barriers to the space economy are causing an inflection point.

Resources

Agricultural yield
The world faces a growing food production crisis as the global population increases. Companies that help to boost agricultural yields stand to benefit.

Clean air and carbon reduction
Rising populations and urbanization are fueling the need for clean-air technologies.

Energy efficiency
Stricter regulation and corporate competition to improve product efficiency are driving demand for energy-efficiency solutions.

Energy transition
The world is facing relentless demand for energy, and several types of energy resources will be needed to satisfy that demand.

Food revolution
Greater technology utilization and investment throughout the food supply chain will be needed to create a health, sustainable food system.

Renewables
Increasing energy demand from urbanization and population growth will benefit renewable energy as lower costs drive competitiveness with fossil fuels.

Waste management and recycling
Low waste treatment rates in EMs offer big catch-up potential that could lead to extraordinary growth rates.

Water scarcity
Water scarcity is one of the biggest risks to mankind. If limited water resources can be better harnessed, the benefits could be enormous.

Society

Education services
With limits to many governments' education resources, there is increased opportunity for the private education market.

Emerging market healthcare
An aging EM population requires stepped-up investment in healthcare. We believe global healthcare companies can benefit.

Emerging market infrastructure
Growing urbanization and high economic growth rates will drive demand for infrastructure investment in EMs.

Genetic Therapies
Genetic therapies could revolutionize medicine by removing the fundamental causes of inherited genetic conditions.

Obesity
Urbanization and rising per-capita GDP in EMs will contribute to an ever-greater prevalence of global obesity.

Retirement homes
A larger population of seniors and evolving social trends support opportunity in retirement homes investment.

Retirement planning
Changing demographics are increasing demand for retirement planning.

Silver spending
As the global population ages, those 55 and older are expected to account for an ever-increasing proportion of consumer spending.

Fixed income

Beyond benchmark
By diversifying fixed-income exposure investors can avoid the shortcomings of heavily government-weighted taxable fixed-income benchmarks.

MLP bonds
Master limited partnership bonds offer attractive coupon income relative to other investment-grade sectors.

Yield opportunities in Latin America
A theme constructed around a basket of Latin American bonds that have the potential to outperform the ICE BofA Corporate IG index on a 6-12 month horizon.

Taxable munis
Taxable munis can be attractive to taxable fixed income buyers for three principal reasons.

US senior loans
Senior loans offer attractive floating-rate coupons with low correlation to other asset classes and lower volatility than high-yield bonds.

Yield for the short end
Short-end corporate bonds offer attractive current yield without taking on excessive credit or interest-rate risk.

Equity

5G infrastructure
5G creates an attractive opportunity and infrastructure companies should benefit before smartphone-focused companies.

Campaign warriors
We believe these companies are relatively less exposed to election-related volatility.

India profits and reforms reloaded
Promarket policy measures and relatively strong earnings growth should be supportive of equities.

Pricing power standouts
Companies with pricing power should be better insulated from the headwinds of slowing growth.

Reopening America
We identify companies well positioned for the economic recovery as well as long-term winners of a post-pandemic economy.

Equity–ESG

Sustainable value creation in EM
Incorporating ESG considerations into EM equity investment decisions may provide a competitive edge.

Gender lens
Evidence suggests that gender-diverse companies are more profitable and tend to outperform their less-diverse peers.

Alternatives

Event-driven strategies
Event-driven strategies can represent attractive ways to capitalize on companies' corporate actions.

Opportunities in dislocated credit markets
Stress in the credit market has expanded the opportunity for hedge fund and private managers to deploy capital toward dislocations.

KEY

- Sustainable longer-term investment theme
- Longer-term investments = Multi-business cycle
- Shorter-term investments = Current business cycle

Global economic outlook

The economic impact of the COVID-19 pandemic varies greatly by country and continues to add uncertainty to the outlook. Conditions in China continue to improve and have mostly returned to normal. The US recovery has made progress, but the number of new cases is too high to fully open the economy, and fading support from fiscal policy poses a downside risk. Weak demand should keep global inflation low in the near term despite central banks printing money on a vast scale.

Global growth in 2020 expected to be –3.9%

	Real GDP growth in %			Inflation in %		
	2019F	2020F	2021F	2019F	2020F	2021F
US	2.2	-5.2	4.0	1.8	1.2	1.7
Canada	1.6	-5.7	4.0	1.9	0.7	1.6
Brazil	1.1	-4.5	3.0	3.7	2.7	3.0
Japan	0.7	-5.8	2.5	0.5	0.0	-0.1
Australia	1.8	-4.1	2.2	1.6	0.8	1.7
China	6.1	2.5	7.6	2.9	2.5	2.1
India	4.2	-8.6	10.0	4.8	5.7	4.5
Eurozone	1.3	-7.7	6.1	1.2	0.3	1.0
Germany	0.6	-6.3	4.6	1.4	0.4	0.9
France	1.5	-10.0	7.7	1.3	0.5	0.9
Italy	0.3	-9.6	6.9	0.6	-0.2	0.2
Spain	2.0	-11.5	8.5	0.8	-0.4	0.5
UK	1.5	-10.1	7.0	1.8	0.7	1.7
Switzerland	1.2	-5.1	4.0	0.4	-0.6	0.2
Russia	1.3	-4.1	3.1	4.5	3.3	3.9
World*	3.0	-3.9	5.8	3.1	2.5	2.7

*Excluding Venezuela
Source: Reuters EcoWin, IMF, UBS, as of 17 September 2020
Note: In developing the CIO economic forecasts, CIO economists work 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.

Economic outlook summary

Brian Rose, PhD
Senior Economist Americas

House view

Probability: 60%*

Economic bounce-back is beginning

Consumer spending has remained strong in developed economies, fueled by "forced" savings from lockdown being spent. Fiscal stimulus will provide additional support, mainly in 2021. Consumer spending is focused on durable goods. The sharp increase in business creation rates across economies suggests good confidence in the outlook. Supply chain disruption seems to have eased, with global trade performing better than expected. This means that production rather than inventories will be used to meet the rising levels of demand for goods. People seem to be returning to work relatively quickly, and in larger numbers than had been anticipated (though they may be working from home, which means mobility data will lag economic data). This economic downturn was not caused by imbalances (which delay labor market recoveries). However, accelerated structural changes will lead to higher long-term unemployment. Central bank policy will provide liquidity as needed, signaling that rates will remain low for a long time.

↗ Positive scenario

Probability: 20%*

Stronger bounce-back

Structural damage to the labor markets is less than expected, allowing a faster normalization of economic activity. Fiscal policy smooths the process of adjustment in the Fourth Industrial Revolution.

↘ Negative scenario

Probability: 20%*

Fear or fiscal policy creates a new downturn

Fiscal policy in the US fails to reassure consumers about income security, causing them to increase savings and reduce consumption. Fear of the virus or of unemployment increases globally.

*Scenario probabilities are based on qualitative assessment.

Equities

David Lefkowitz, CFA; Matt Tormey

Global equities have had a strong run since March. US elections, a coronavirus resurgence, or a breakdown in Brexit negotiations are risks, but we still think equities will continue to grind higher. Economies are running below potential, but data is improving. Progress on vaccine development and better testing and treatment capacities mean full lockdowns are unlikely to reoccur. Given high uncertainty, central banks and governments will have to stay in full stimulus mode. Earnings estimates have been cut dramatically, and net earnings revisions have turned positive for global stocks.

Eurozone

⊖ Neutral

Eurozone equities had good relative performance in the early summer, but have rolled over again, as the rising euro and mixed 2Q results weighed on share prices. Europe's policy response is strong, with closer coordination and integration likely to help the medium-term activity outlook. Money supply is growing steadily, credit transmission is functioning, and bank lending is resilient, which should all help the recovery in growth. We expect the fall in Eurozone EPS this year to be around 39%. In 2021, we expect earnings to grow by 36%, versus the consensus view of 52%.

EURO STOXX (index points, current: 3,339)	June 2021 target
House view	**3,600**
↗ Positive scenario	3,900
↘ Negative scenario	2,800

Emerging markets

⊖ Neutral

EM equities are expensive based on the 15x price-to-earnings (P/E) and 1.8x price-to-book ratios. We think multiples will normalize closer to the recent average of 12.5x, on the back of an earnings rebound in the next 12 months. The corporate earnings outlook continues to recover as both one- and three-month forward earnings growth has turned positive. In addition, the China-led rebound along with abundant liquidity in capital markets should provide a benign fundamental outlook for companies. Risks remain a worsening of US-China tensions and failure to control the spread of COVID-19.

MSCI EM (index points, current: 1,117)	June 2021 target
House view	**1,180**
↗ Positive scenario	1,250
↘ Negative scenario	900

Japan

⊖ Neutral

The Japanese equity market has been flattish for the last two months, after outperforming other developed markets in May. While the Bank of Japan's asset purchases serve as downside protection, we believe the market is now fairly valued with its P/E ratio well above the historical average. We have recently revised our earnings forecasts and now expect a 4.5% fall this fiscal year, and a 41% rise next fiscal year, from –1% and +30%, implying a stronger earnings rebound. June quarter earnings were above our estimates. We continue to expect earnings growth starting from the December quarter.

TOPIX (index points, current: 1,644)	June 2021 target
House view	**1,770**
↗ Positive scenario	1,900
↘ Negative scenario	1,300

UK

⊕ Most preferred

While earnings growth for 2020 will be very negative, the momentum has troughed. We anticipate a significant rebound in earnings in 2021. A return of UK dividends will likely be supportive of the UK index in the coming months. Brexit negotiations continue to provide volatility. The market offers an attractive valuation at 16x 12-month trailing P/E, a premium to the 20-year historical average. Trailing relative valuations look undemanding, with MSCI UK trading at a 30% discount to MSCI All-Country World. Its long-run average discount is 10%.

FTSE 100 (index points, current: 6,078)	June 2021 target
House view	**7,200**
↗ Positive scenario	7,500
↘ Negative scenario	5,000

Note: All current values as of 17 September 2020

US Equities

We believe US equities have additional upside over the next several months, but markets could be choppy in the near term due to election-related uncertainty, the lack of additional government stimulus until after the election, and the continued unwinding of speculative positioning in growth and tech stocks. Still, we remain encouraged by vaccine developments, and once these uncertainties are resolved, markets should move higher driven by a normalization in economic activity and a sharp rebound in S&P 500 profits in 2021.

US equities overview

Neutral

The drivers of the powerful rally off the March low remain in place: aggressive government support; extraordinarily low interest rates; relaxing social distancing measures; and vaccine progress. While equities have rebounded faster than the economy, stocks are forward-looking and are anticipating a high (but not yet 100%) probability of economic activity returning to normal over the next 12–18 months. With respect to the election, defeating the pandemic and getting the economy back on its feet will be the primary policy objectives of whoever is in the White House come next January. We continue to expect S&P 500 EPS of USD 125 (– 24% y/y) this year and USD 160 (+28% y/y) in 2021. Our S&P 500 price target for December 2020 is 3,500 and 3,700 for June 2021.

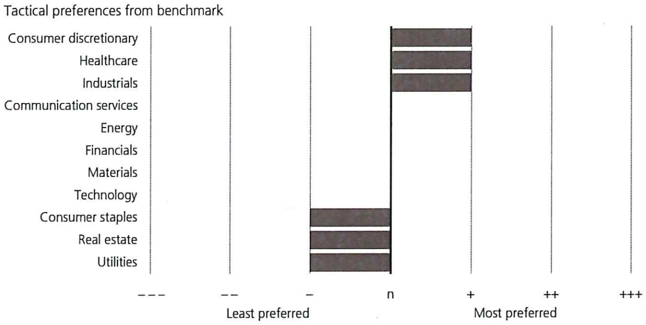
US equities – sectors

We continue to have a moderate cyclical bias in our sector positioning. Low mortgage rates, secular trends in e-commerce, and an improving labor market should benefit consumer discretionary while industrials should benefit as global manufacturing ramps up. Healthcare looks to be pricing in quite dire political outcomes that appear unlikely. Utilities and consumer staples—classic defensive sectors—are likely to lag in a recovery. Real estate continues to face headwinds in office and retail segments.

Figure 1

A modest cyclical tilt in our sector positioning

Tactical preferences from benchmark



– moderately least preferred
– – less preferred
– – – least preferred
+ moderately preferred
+ + preferred
+ + + most preferred
n = neutral

Note: Scale represents degree of preference relative to the S&P 500 benchmark allocation
Source: UBS, as of 17 September 2020

US equities – size

We maintain our preference for mid-caps versus large-caps. Smaller-size segments continue to lag this year due to the uneven recovery that has benefited stay-at-home companies that are prevalent in the large-cap benchmark. However, mid-caps are more cyclical and have scope to recoup lost ground as social distancing measures ease and economic mobility picks up. These trends are likely to accelerate once a successful vaccine becomes widely available, which our base case assumes will happen by mid-2021. Finally, recent data supports our view as earnings expectations for mid-caps are improving relative to large-caps.

US equities – style

Despite the recent setback in growth stocks, the Russell 1000 Growth index is still outperforming its value counterpart by roughly 35% this year. The pandemic has boosted profits for some growth companies (e-commerce, cloud) while punishing them for value (banks, energy, aerospace, airlines). Still, growth stocks look very expensive and could be vulnerable if earnings snap back for value companies, perhaps on the heels of a successful vaccine. Interest rates could also rise as the economy more fully recovers, which would further support value stocks. However, given the fiscal and election uncertainties in the near term, we remain neutral on growth versus value.

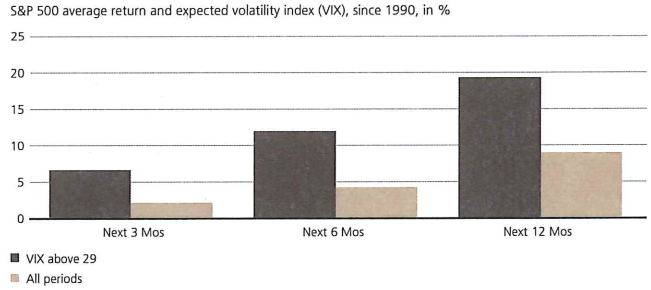
S&P 500 (index points, current: 3,385)	June 2021 target
House view	**3,700**
↗ Positive scenario	3,900
↘ Negative scenario	2,800

Note: All current values as of 17 September 2020.

Figure 2

High volatility suggests attractive forward returns

S&P 500 average return and expected volatility index (VIX), since 1990, in %



Source: Bloomberg, UBS, as of 15 September 2020

Bonds

Leslie Falconio; Kathleen McNamara, CFA, CFP; Barry McAlinden, CFA; Frank Sileo, CFA

We maintain our outlook for a gradual rise in interest rates into year-end. The Fed is anchoring short-term rates close to zero, and we think they will remain there for years. While longer-term rates could move gently higher given ongoing recovery from the pandemic-induced slowdown, we believe any spikes would be short-lived in light of the Fed's active management of interest rates and its balance sheet. This, along with low inflation, should prevent longer-term rates from rising more than modestly as the year progresses. Ongoing Fed asset purchases should also continue to suppress market volatility.

Government bonds

Least preferred

After falling toward the 0.5% range at the end of July, the 10-year Treasury yield has resumed the 0.6–0.8% range. With the Fed on hold and the US election around the corner, we do not see a material rise in 10-year yield, reaching a maximum of 0.95%.

US 10-YEAR YIELD (current: 0.6%)	June 2021 target
House view	**0.85%**
↗ Positive scenario	0.3%
↘ Negative scenario	1.25%

US investment grade corporate bonds

Most preferred

We still think IG bonds offer value. While further price upside is limited from here, in our view, there's still some carry versus higher-rated alternatives. Investor demand for the asset class is strong and unlikely to fade, given the ongoing search for yield, the credible Fed backstop via its emergency credit facilities, as well as relatively favorable currency hedging costs for foreign investors. The Fed's corporate credit facilities, which were recently extended until the year-end, remain a credible backstop to counter material spread widening and funding pressure.

US IG SPREAD (current: 135bps*)	June 2021 target
House view	**140bps**
↗ Positive scenario	110bps
↘ Negative scenario	250bps

*Data based on ICE BofA IG corporate index.

US high yield corporate bonds

Neutral

The search for yield will likely be a persistent supportive factor for the asset class, reinforced by the Fed's average inflation targeting framework. We think this justifies a reduction in the additional risk premium for HY credit. We therefore lower our June 2021 HY spread target by 50bps to 500bps. Following the strong spread compression and given lingering near-term default risks, we maintain our neutral preference toward the asset class. The HY default rate increased to 8.5% in August. Our forecast is for defaults to peak at 10–12% by year-end.

USD HY SPREAD (current: 509bps)	June 2021 target
House view	**500bps**
↗ Positive scenario	400bps
↘ Negative scenario	700bps

Emerging market bonds

Most preferred

USD-denominated EM bonds have tightened significantly since their late March highs driven by sizable monetary and fiscal easing globally, the prospects for gradual easing of lockdown measures in many parts of the world, and higher commodity prices. Sovereign and corporate bonds have recovered first-quarter losses, delivering positive year-to-date returns. Economic and financial market outlooks remain uncertain, but we expect affected countries to bring the disease under control, a successfully developed vaccine, commodity prices to grind higher, and spreads to trade slightly tighter in our forecast period. We maintain USD-denominated sovereign bonds as a most-preferred bond segment on the back of ongoing search for yields by global investors.

EMBIG DIV. / CEMBI DIV. SPREAD (current: 400bps / 370bps)	June 2021 target
House view	**360bps / 335bps**
↗ Positive scenario	280bps / 280bps
↘ Negative scenario	550 bps / 500 bps

Note: Current values as of 17 September 2020
Most preferred is to EM hard-currency sovereign bonds.

Municipal bonds

⊖ Neutral

Following three straight months of positive returns, munis lost some steam in August. Year-to-date, munis have gained 3.2%. By comparison, US Treasuries (+9.2%) and corporate debt (+7.2%) have posted stronger results. The timing and amount of additional fiscal stimulus targeted to the muni market remain uncertain. We anticipate more downward credit rating or outlook revisions. We favor high-grade munis for the core of a muni portfolio. We see value in taxable municipal bonds amid increased issuance.

Current AAA 10-year muni-to-Treasury yield ratio: 120% (last publication: 104%)

Non-US developed fixed income

⊖ Neutral

Over the past month, bond yields in non-US developed markets moved mostly lower, helping the asset class. On foreign exchange markets, the dollar was mixed, gaining against the euro and the pound but depreciating versus the yen. On the whole, the asset class showed a modest gain for the month. With yields negative on many bonds, non-US developed market fixed income remains unattractive. We do not recommend a strategic asset allocation position on the asset class.

Additional US taxable fixed income (TFI) segments

Agency bonds

Agency debt spreads have tightened a bit in the 3-year over the month, even with increased supply. Three-year FHLMC is now at about 8bps spread to the 3-year Treasury while 5-year debt is about 16bps. Callable agency debt remains in high demand given the current level of rates and higher coupon or spread. Overall, we continue to assign a least preferred weighting to agency debt given the relative value pickup in MBS and IG corporates.

Current spread is +16bps to the 5-year (versus +9bps last publication).

Mortgage-backed securities (MBS)

MBS spreads have consolidated between 70bps and 100bps. With the Fed continuing to buy MBS, the potential for large spread widening has waned. The 30-year mortgage rate reached the 2.8% level as mortgage servicers continue to heal from the March shock, and the state of the housing market remains stronger than economists originally anticipated. Our recommendation continues to be a barbell strategy within MBS coupon. Combining lower coupon 2.5% with the higher coupon 4.5% lowers volatility and increases convexity. Volatility into the US election may widen MBS spreads and therefore we remain with a neutral allocation to the sector.

Current spread is +93bps to the 5-year and 10-year Treasury blend (versus +88bps last publication).

Figure 1

UBS CIO interest rate forecast

UST	16-09-2020	Dec-20	Mar-21	Jun-21	Sep-21
2-year	0.1	0.3	0.3	0.3	0.3
5-year	0.3	0.5	0.5	0.5	0.5
10-year	0.7	0.8	0.8	0.9	0.9
30-year	1.4	1.4	1.4	1.5	1.5

Source: Bloomberg, UBS, as of 16 September 2020

Preferred securities

Preferred stock investors enjoyed a solid rally over the summer months. Yet yield spreads over Treasuries remain above historical averages. However, the Fed's unprecedented actions over the past few months, along with the subsequent Treasury curve paradigm, mean historical comparisons may be less meaningful. The backdrop is challenging for floaters and fixed-to-floats (F2Fs) near first call date; intuitively, coupons float lower for the foreseeable future, while investors want higher yields (wider credit spreads). For these, higher reset spreads and more call protection are better traits (while being mindful of prospectus language on coupon calculation in the absence of Libor). Strategically, we favor fixed rate coupons, but some F2Fs may offer value and good structures.

Treasury Inflation-Protected Securities (TIPS)

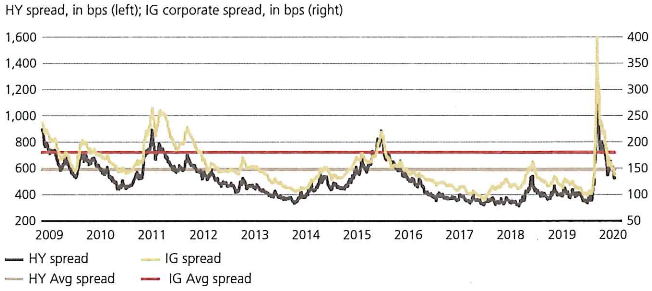
We remain with a preferred allocation on 10-year TIPS versus nominal US Treasuries for investors that hold large equity portfolios. After 10-year breakeven inflation rates reached their year-to-date high of around 1.82%, TIPS have given some performance back over the past several weeks. This has been partially due to the lack of clarity regarding the Fed's average inflation targeting combined with the simple large run-up in risk assets the market has witnessed since March.

Current 5-year breakeven inflation rate of 1.55% (1.53% last month).

Figure 2

High yield and IG spreads are below their decade average as risk assets recover

HY spread, in bps (left); IG corporate spread, in bps (right)



Source: ICE BoA, UBS, as of 15 September 2020

Commodities and other asset classes

Dominic Schnider, CFA, CAIA; Giovanni Staunovo; Thomas Veraguth; Wayne Gordon

Macroeconomic dynamics and a well-behaved supply side should push commodity prices higher. We expect broadly diversified commodity indexes to appreciate by about 10–15% over the next 12 months (spot performance). While all sectors are expected to rise, albeit at varying degrees, we think cyclical commodities are poised for the greatest gains, especially crude oil. We recommend investors to be long broadly diversified commodity indexes.

Commodities

Most preferred

Precious metals Ongoing geopolitical tensions, a further decline in real interest rates, and a weakening US dollar can drive further inflows to gold over the next six months; however, in 2021 we believe a COVID-19 vaccine will lift confidence in the recovery and support risk assets. This would likely weigh on investors' demand for gold. Hence, we expect gold prices to peak over the next six months at around USD 2,000/oz, before easing in 2H21.

GOLD (current: USD 1,959/oz)	June 2021 target
House view	**USD 1,900/oz**
↗ Positive scenario	USD 2,200–2,300/oz
↘ Negative scenario	USD 1,600–1,700/oz

Crude oil We still envision a gradual recovery of oil demand through the end of the year and into 2021. We also expect oil supply to stay in check, as we think crude prices need to trade above USD 50/bbl in order to entice stronger production beyond OPEC+. Overall, given our demand and supply estimates, we anticipate the oil market will be undersupplied in 2H20 and 2021. Against this backdrop, the Brent price should rise to USD 45/bbl by the end of the year, USD 50/bbl by the end of 1Q21, USD 55/bbl by mid-2021, and USD 60/bbl by the end of 3Q21.

BRENT (current: USD 42.22/bbl)	June 2021 target
House view	**USD 55/bbl**
↗ Positive scenario	USD 70–80/bbl
↘ Negative scenario	USD 30–40/bbl

Base metals The recovery of base metal prices this year has been truly remarkable, although the same is true of many risk assets. Overall, metal prices are up in the mid- to high-single digits, and zinc, nickel, and copper are leading the recovery. We believe base metal prices have not yet reached their peak. We look for further spot gains in the mid- to high-single digits over the next 3–6 months. While we remain bullish on metal prices broadly, we also acknowledge that some price gains from current levels could be transitory as growth momentum peaks in 1H21 and the supply side responds to higher prices and has adjusted to the new pandemic environment. Our metals of choice toward the end of the year and into 2021 are aluminum, copper, and lead.

Agriculture So far this quarter our benchmark UBS CMCI Agricultural Index has posted its strongest gains since 2Q16, with coffee (28%), soybean oil (14%), and wheat (10%) the top three best performers, while sugar (1%), corn (1%), and Kansas wheat (5%) the worst. Weather-related downgrades to grains and oilseed crops in the US and Western Europe and the subsequent liquidation of short positions in futures markets have been the key drivers of the rebound so far. Beijing also stepped up its purchases of agricultural products, which coincided with positive headlines from the US-China Phase 1 trade review. Select soft commodities have also rebounded as COVID-related restrictions eased—cocoa prices have already reached our year-end price target and coffee surprised even our upbeat expectations. Livestock have performed strongly in 3Q20 (UBS CMCI Index up 8%), though futures curves already reflect our price forecasts over six and 12 months. Hence, we cut the sector to neutral from most preferred. Finally, La Niña risks have increased in recent weeks, though it's too early to assign any impacts to crop production in North and South America.

Other asset classes

Listed real estate We expect earnings to fall 4.2% in 2019–20 and grow 8.5% in 2020–21 (ex. emerging markets), driven by short-term poor rent collection and value impairment on the downside, but medium-term trends and attractive development projects on the upside. Retail landlords need to deleverage, and their situation continues to deteriorate. Some companies' risk spreads have expanded amid sharper cyclical and structural uncertainties in their specific markets (retail, lodging, healthcare), while others may even enjoy very good refinancing conditions and increased tenant demand (industrial, residential, some offices). Occupancy is key.

RUGL Index (current: USD 4,956)	June 2021 target
House view	**USD 5,200**
↗ Positive scenario	USD 5,400
↘ Negative scenario	USD 4,600

Note: Current values as of 17 September 2020

Foreign exchange

Thomas Flury, Strategist

Among G10 currencies, we remain bearish on the US dollar. The euro and other G10 currencies should benefit relative to the USD from a rebound of economic growth.

USD

Least preferred

Among G10 currencies, we remain bearish on the US dollar. US interest rates have collapsed and the Federal Reserve has supplied markets with an unprecedented amount of USD cash to alleviate funding issues, easing its policy stance more proactively than other central banks globally. The USD may become volatile if the winner of the presidential election is not clear immediately after Election Day.

EUR

Neutral

We think the EURUSD will consolidate for now, but will overcome resistance at 1.20 either at the end of this year or early next year. In the long term, the dollar is likely to weaken further. Stronger global growth is needed for a stronger euro rally. US elections might also help.

UBS CIO FX forecasts

	Dec 20	Mar 21	Jun 21	Sep 21	PPP
EURUSD	1.20	1.20	1.21	1.22	1.29
EURCHF	1.09	1.09	1.09	1.10	1.21
USDCHF	0.91	0.91	0.90	0.90	0.94
GBPUSD	1.35	1.36	1.39	1.40	1.53
EURGBP	0.89	0.88	0.87	0.87	0.84
GBPCHF	1.22	1.24	1.25	1.26	1.44
USDJPY	104	104	104	104	77
EURJPY	125	125	126	127	99
USDCAD	1.31	1.29	1.27	1.25	1.20
AUDCAD	0.71	0.72	0.73	0.74	0.64
NZDUSD	0.65	0.66	0.67	0.68	0.54
EURSEK	10.30	10.30	10.30	10.30	10.06
EURNOK	10.40	10.30	10.20	10.20	10.86

Source: UBS, as of 17 September 2020
Note: Past performance is not an indication of future returns.
*PPP = Purchasing Power Parity

GBP

Neutral

UK political developments have interrupted the uptrend in GBPUSD as doubts have risen about the success of negotiations on an EU-UK trade deal. We still expect GBPUSD to rise to 1.35 by end-2020.

CHF

Neutral

The Swiss franc gained due to its safe-haven status and a reacceleration in Swiss exports. Carry trades, which usually hurt the CHF, are unpopular given very low global policy rates. A test of the support at 0.90 failed once with a wave of profit-taking. More tests are likely and they should eventually lead to a break.

JPY

Neutral

The JPY should profit from investors being increasingly skeptical about the US current account and fiscal deficit, while at the same time the confidence of a rebound of growth in Asia Pacific improves. We expect USDJPY to fluctuate around 104 in the coming year.

Other developed market currencies

Neutral

A healthy Canadian economic recovery and positive global sentiment pulled USDCAD to test 1.30, unsuccessfully for the moment. The reopening part of the economic recovery is now mostly done. With further economic gains more uncertain and US political uncertainty, USDCAD could stall around 1.30 until next year.

Key forecasts

+ Most preferred
= Neutral
− Least preferred

						Forecast (June 2021)		
Asset class	Preference	Change this month	Benchmark	Value	m/m perf. in %[1]	House View	Positive scenario	Negative scenario
EQUITIES	+							
US	=	–	S&P 500	3385	0.3%	3700	3900	2800
Eurozone	=	–	Euro Stoxx	3339	0.6%	3600	3900	2800
UK	+	–	FTSE 100	6078	-0.5%	7200	7500	5000
Japan	=	–	Topix	1644	1.9%	1770	1900	1300
Switzerland	=	–	SMI	10552	2.3%	11000	11500	9000
Emerging Markets	=	–	MSCI EM	1117	1.6%	1180	1250	900
BONDS	=	–						
US Government bonds	−	–	10yr Treasury yield	0.70%	0.0%	0.85%	0.3%	1.25%
US Corporate bonds (IG)	+	–	ICE BofA IG spread	135	0.2%	140 bps	110 bps	250 bps
US High-yield bonds	=	–	ICE BofA US HY spread	507	0.7%	500 bps	400 bps	700 bps
EM Sovereign	+	–	EMBI Diversified spread	400	0.2%	360 bps	280 bps	550 bps
EM Corporate	=	–	CEMBI Diversified spread	370	1.1%	335 bps	280 bps	500 bps
OTHER ASSET CLASSES								
Gold	+	–	Spot price	1959 /oz.	1.6%	1900	2200-2300	1600-1700
Brent crude oil	+	–	Spot price	42.22 /bbl.	-6.9%	55	70-80	30-40
Listed real estate	=	–	RUGL Index	4956	4.3%	5200	5400	4600
CURRENCIES			Currency pair					
USD	−	–	USD	NA	NA	NA	NA	NA
EUR	=	–	EURUSD	1.18	-0.2%	1.21	NA	NA
GBP	=	–	GBPUSD	1.30	-1.0%	1.39	NA	NA
JPY	=	–	USDJPY	105	-1.1%	104	NA	NA
CHF	=	–	USDCHF	0.91	-0.6%	0.90	NA	NA

Source: Bloomberg, UBS. Current values as of 17 September 2020. Currency values as of 16 September 2020.
[1] Month over month.
Past performance is no indication of future performance. Forecasts are not a reliable indicator of future performance.

Investment committee

Global Investment Process and Committee description
The UBS investment process is designed to achieve replicable, high-quality results through applying intellectual rigor, strong process governance, clear responsibility, and a culture of challenge.

Based on the analyses and assessments conducted and vetted throughout the investment process, the Chief Investment Officer (CIO) formulates the UBS Wealth Management Investment House View at the Global Investment Committee (GIC). Senior investment professionals from across UBS, complemented by selected external experts, debate and rigorously challenge the investment strategy to ensure consistency and risk control.

Global Investment Committee composition
The GIC comprises top market and investment expertise from across all divisions of UBS:

- Mark Haefele (Chair)
- Solita Marcelli
- Paul Donovan
- Tan Min Lan
- Themis Themistocleous
- Bruno Marxer (*)
- Adrian Zuercher
- Mark Andersen

US Investment Strategy Committee description
We recognize that a globally derived house view is most effective when complemented by local perspective and application. As such, UBS has formed a Wealth Management Americas US Investment Strategy Committee.

US Investment Strategy Committee:

- Solita Marcelli
- Jason Draho (chair)
- Leslie Falconio
- David Lefkowitz
- Brian Rose
- Daniel Scansaroli

(*) Business area distinct from Chief Investment Office Global Wealth Management

Cautionary statement regarding forward-looking statements

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Equities - Stock market returns are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions and other important variables.

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Appendix

Emerging Market Investments
Investors should be aware that Emerging Market assets are subject to, among others, potential risks linked to currency volatility, abrupt changes in the cost of capital and the economic growth outlook, as well as regulatory and socio-political risk, interest rate risk and higher credit risk. Assets can sometimes be very illiquid and liquidity conditions can abruptly worsen. CIO Americas, WM generally recommends only those securities it believes have been registered under Federal US registration rules (Section 12 of the Securities Exchange Act of 1934) and individual State registration rules (commonly known as "Blue Sky" laws). Prospective investors should be aware that to the extent permitted under US law, CIO Americas, WM may from time to time recommend bonds that are not registered under US or State securities laws. These bonds may be issued in jurisdictions where the level of required disclosures to be made by issuers is not as frequent or complete as that required by US laws.

For more background on emerging markets generally, see the CIO Americas, WM Education Notes "Investing in Emerging Markets (Part 1): Equities," 27 August 2007, "Emerging Market Bonds: Understanding Emerging Market Bonds," 12 August 2009 and "Emerging Markets Bonds: Understanding Sovereign Risk," 17 December 2009.

Investors interested in holding bonds for a longer period are advised to select the bonds of those sovereigns with the highest credit ratings (in the investment-grade band). Such an approach should decrease the risk that an investor could end up holding bonds on which the sovereign has defaulted. Subinvestment-grade bonds are recommended only for clients with a higher risk tolerance and who seek to hold higher-yielding bonds for shorter periods only.

Nontraditional Assets
Nontraditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments; there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund, and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

Hedge Fund Risk: There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-US securities and illiquid investments.

Managed Futures: There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.

Real Estate: There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.

Private Equity: There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.

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UBS

Oakland University

June 30, 2020

Treasury Solutions Quarterly Investment Report

commonfund

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About Commonfund

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Quarterly Investment Report

Portfolio Highlights

- The Oakland University Treasury Solutions portfolio returned 5.90 percent for the quarter and returned 3.87 percent for the fiscal year 2020. The final value of the portfolio was $235,687,979. A growing challenge for investors in the 2nd quarter has been the impact of seemingly perpetual accommodative policies to support asset prices. While this growing market inefficiency will create new opportunities for discerning investors, ultimately, opportunities are best rewarded when market forces, not government intervention, drive asset pricing. Nevertheless, the stock market seems disconnected not only from the economy and future earnings, but also from the tone of the nation.

- For the quarter, the Intermediate Term Fund and the Contingent Asset portfolio outperformed the ICE BAML 1-3-year index. The Intermediate Term Fund returned 1.66 while its benchmark, the ICE BAML 1-3 Year Treasury Index, returned 0.13 percent. The Contingent Asset Portfolio, LLC returned 1.05 percent. The funds' exposure to spread sectors was the main contributor to outperformance as spreads narrowed across all fixed income products causing short-term corporates, residential and commercial mortgages and ABS to post positive excess returns relative to duration-adjusted U.S. Treasuries. In both cases, the funds' exposure to high coupon residential mortgages aided return due to security selection supported by mortgages outperforming U.S. Treasuries more broadly, however these instruments underperformed other spread sectors on relative basis. The High-Quality Bond Fund was up 5.13 percent for the quarter outperforming the Bloomberg Barclays U.S. Aggregate Bond Index, which returned 2.90 percent. Exposure to spread sectors helped return on the back of significant spread tightening in the corporate and securitized sectors during the quarter as intervention by the Fed and the improving confidence of market participants caused these securities to rally.

- In the core allocation, the Core Equity Fund returned 21.48 percent for the quarter, outperforming the 20.54 percent return of the S&P 500 Index. The Core Equity Fund outperformed the benchmark by 96 basis points during the quarter with two out of three managers outperforming the Index. The Strategic Solutions Equity Fund (low volatility equities) returned 14.34 percent for the quarter. Low volatility equities continued to struggle in the second calendar quarter. What this meant was an environment that favored high beta over low beta, in both sector concentration and within sectors.

- The trade wars of the last two years, coupled with the vulnerability of global supply chains revealed by the pandemic, suggest that globalization is unlikely to be the same robust trigger of a return to growth as it was in 2009. Moreover, the impact of the pandemic will have far reaching implications, many still unknown, on how we conduct business in public and private sectors. It looks as if the rapid adoption of new technology will flow through to a future boost in productivity and will ultimately be positive for corporations. However, the potential for increasing small business failures and prolonged unemployment is quite high and will remain so for the foreseeable future. Going forward, we expect to see continued vol-

Past performance is not indicative of future results.
Returns are depicted net of fees. Please see Important Notes | Market Commentary, Benchmarks and Performance.

atility as investors navigate uneven data, uncertainty around the timing of a return to a more normal environment, earnings, and valuations in a world where government action is the primary driver of markets.

Economic Commentary

- In the final quarter the of the fiscal year, the National Bureau of Economic Research officially declared the U.S. entered a recession in February 2020. This put an end to the longest expansionary cycle since the tracking began in 1854. It was further confirmed when the release of real GDP for the 1Q2020 showed a decline of -5 percent. However, higher frequency economic data throughout the 2Q2020 focused on employment, manufacturing and consumer behavior provided hope that a recovery had already begun. The incremental improvements in the 2Q2020 were largely the result of the expansive monetary and fiscal policies implemented globally as well as the early steps towards re-opening the economy. Nonetheless, the contrasting data highlight how difficult this environment is for investors to navigate as near-term data will likely be inconsistent while long-term data will depend on COVID-19 trends that are increasingly harder to predict.
- The S&P 500's unrelenting rally from its March low has defied many business fundamentals. In the first quarter of 2020 corporate profits fell more than 8 percent and more than 40 percent of the reporting companies in the S&P 500 lowered or eliminated forward earnings guidance. Share repurchases – a mainstay of the equity rally that powered markets to all-time highs – have been all but been eliminated as the coronavirus lockdown put a premium on conserving cash. When the recent rally in equities began, it was our belief that it represented multiple expansion, not healthy fundamentals. The combination of lower earnings and a move in excess of 30 percent from the lows has stretched the valuations of global indices – which now have forward price to earnings ratios far above long-term averages. Domestically, it is also concerning that the current rally has been exceedingly narrow. The rebound has been sustained by a small basket of high-quality growth stocks. This narrow leadership has created a broad dispersion in returns between growth and value stocks with growth outperforming by more than 25 percent year-to-date.

Economic Indicators

Economic Indicators	**3/31/2020**	**6/30/2020**
Gross Domestic Product	2.1% (4Q19)	-5.0% (1Q20)
Unemployment Rate	4.4%	11.1%
Consumer Price Index (yoy)	1.5%	0.6%
CPI excl Food and Energy (yoy)	2.1%	1.2%
Real Personal Consumption Expenditures	1.8% (4Q19)	-6.8% (1Q20)

Source: Bloomberg

Past performance is not indicative of future results.
Returns are depicted net of fees. Please see Important Notes | Market Commentary, Benchmarks and Performance.

Capital Markets

- Investment grade credit rebounded in the 2Q2020 as the Bloomberg Barclays U.S. Aggregate Bond Index returned 2.9 percent, bringing year-to-date performance to 6.1 percent. Investment grade and high yield corporate bond spreads recovered from their widest levels since 2009. The Fed continues to intervene in every corner of the high-grade debt market and stands ready to do even more if needed. New programs implemented during the quarter allowed the central bank to expand its holdings to include fixed income ETFs and create a portfolio dedicated to corporate bonds with its balance sheet. These unprecedented policies are supporting assets prices as well as playing an important role of ensuring access to the credit markets for individuals, small businesses and large corporates in a distressed environment.
- The Bloomberg Barclays U.S. Treasury Index returned 0.48 percent for the quarter, while the Bloomberg Barclays U.S. Inflation-Linked Index returned 4.36 percent. The Treasury yield curve steepened from the 2-year to the 30-year point on the curve. Investment grade corporates outperformed duration-matched U.S. Treasuries, generating excess return of 845 basis point for the quarter. From a sector perspective, industrials outperformed by 890 basis points, while utilities and financials outperformed by 991 and 729 basis points, respectively. Given the massive rally in investment grade credit, it is unsurprising that on the back of Fed intervention and the renewed confidence of market participants, high yield corporates also outperformed U.S. Treasuries. Within the securitized sector, agency fixed-rate pass-throughs, a substantial component of the sector, outperformed duration-matched U.S. Treasuries by 38 basis points. CMBS outperformed by 321 basis points, while ABS outperformed by 324 basis points.

Other Markets

Other Markets	12/31/2019	3/31/2020	6/30/2020
S&P 500 Index	3231	2585	3100
WTI Lt Crude ($/barrel)	$61.06	$20.48	$39.27
US Dollar Index	96.39	99.05	97.39
BAML High Yield Credit Index	1411.387	1226.17	1343.96
Volatility Index	13.8	53.5	30.4

Source: Bloomberg

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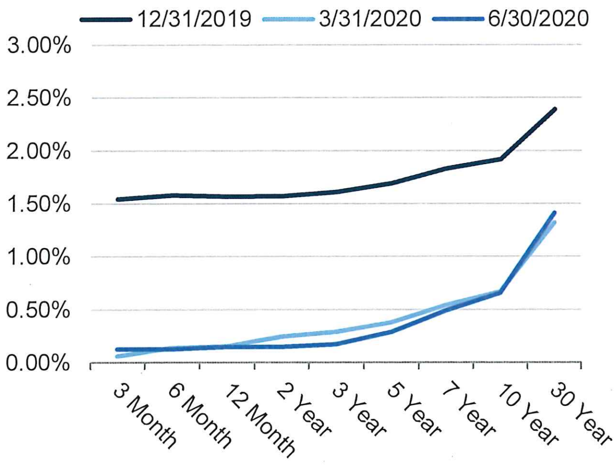
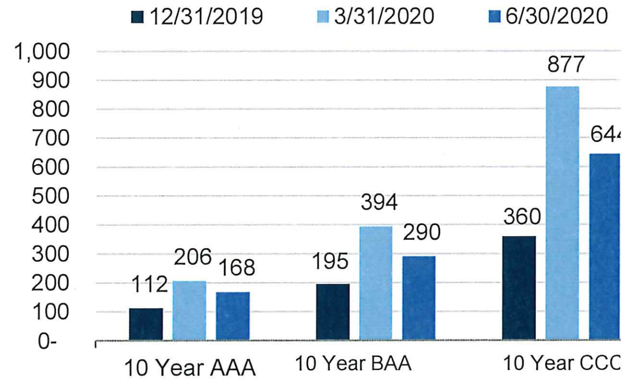
Returns are depicted net of fees. Please see Important Notes | Market Commentary, Benchmarks and Performance.

U.S. TREASURY YIELD CURVE



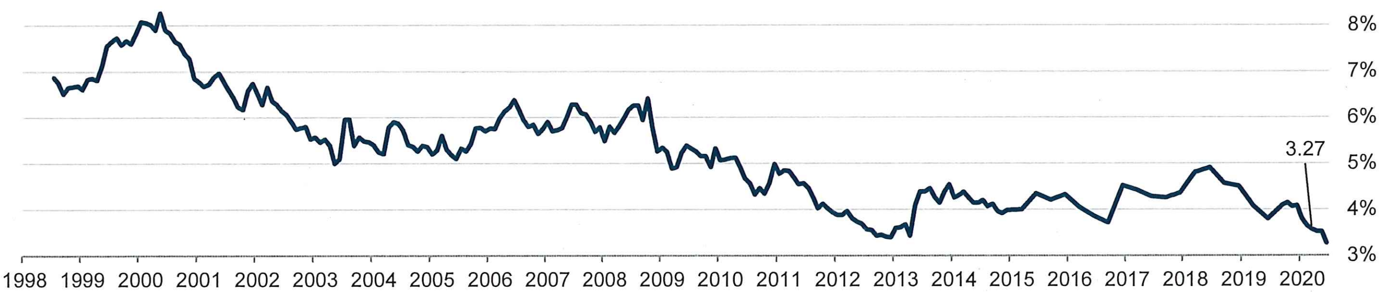
Source: Bloomberg

COMPOSITE CREDIT SPREADS



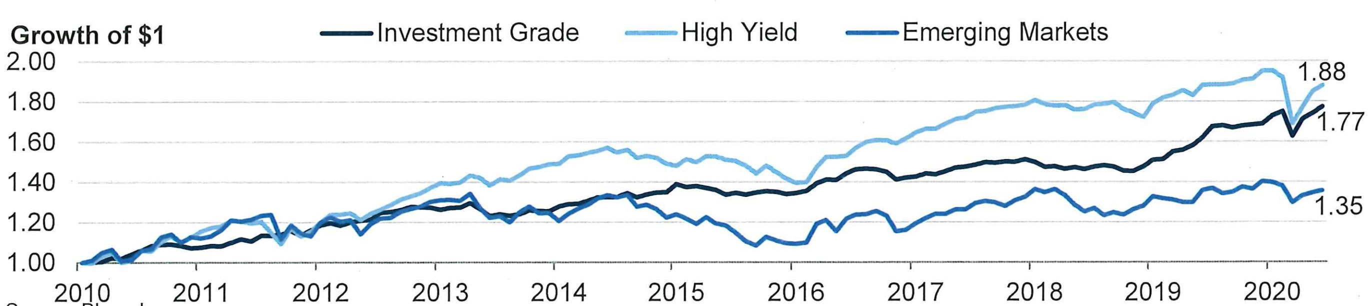
Source:Bloomberg, Moody's

30-YEAR FIXED MORTGAGE RATE



Source: Bloomberg, Bankrate

BLOOMBERG CREDIT INDICES



Source: Bloomberg

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Investment Report

PERFORMANCE – TREASURY SOLUTIONS

As of June 30, 2020

Performance Item	MTD	QTD	CYTD	FYTD	3 Years	Account Inception Date
State Street Inst US Govt Money Mkt Fund	**0.01**	**0.04**	**0.36**	**1.32**	**1.58**	**12/31/2015**
ICE BofA ML 3-Month US T-Bill Index	0.01	0.02	0.48	1.47	1.68	12/31/2015
Total Liquidity Funds	**0.01**	**0.04**	**0.36**	**1.32**	**1.58**	**5/31/2014**
Intermediate Term Fund	**0.38**	**1.66**	**3.03**	**4.01**	**2.90**	**8/31/2013**
ICE BofA Merrill Lynch (ML) 1-3 Yr Treasury	0.04	0.13	2.94	4.08	2.69	8/31/2013
Income Research & Management	0.59	2.54	3.07	4.43	3.00	
MetLife Investment Management, LLC	0.40	1.75	2.83	4.07	2.87	
Sit Investment Associates	0.12	0.38	3.65	4.05	3.52	
CF Contingent Asset Portfolio, LLC	**0.21**	**1.05**	**1.87**	**2.83**	**2.33**	**12/31/2014**
ICE BofA Merrill Lynch (ML) 1-3 Yr Treasury	0.04	0.13	2.94	4.08	2.69	12/31/2014
Sit Investment Associates	-0.02	0.47	3.24	4.04	3.25	
MetLife Investment Management, LLC	0.37	2.00	1.24	2.47		
MD Sass Investors Services	0.44	1.03	1.66	2.94		
High Quality Bond Fund	**1.34**	**5.13**	**5.34**	**7.87**	**5.36**	**9/30/2007**
Bloomberg Barclays US Aggregate Bond Index	0.63	2.90	6.14	8.74	5.32	9/30/2007
Rimrock Capital Management	1.79	4.16	3.68	4.76	4.58	
Income Research & Management	1.24	4.46	6.53	9.16	5.57	
Western Asset Management Company	1.27	6.58	5.36	8.78	6.13	
Total Contingency	**0.62**	**2.55**	**3.33**	**4.78**	**3.56**	**9/30/2007**
Core Equity Fund	**2.45**	**21.48**	**-2.63**	**6.17**	**9.07**	**5/31/2014**
S&P 500 Index	1.99	20.54	-3.08	7.51	10.73	5/31/2014
AJO	2.64	20.47	-2.88	5.71	10.17	
Two Sigma Advisers[1]	3.01	22.35	-3.47	3.54	10.22	
CF Direct Management Core Equity	1.66	21.38	-0.95	7.77		
Wellington Management Company LLP	1.94	21.67	-1.33			
CF Strategic Solutions Equity Fund, LLC	**-0.58**	**14.34**	**-6.42**	**0.13**	**7.82**	**10/31/2014**
S&P 500 Index	1.99	20.54	-3.08	7.51	10.73	10/31/2014
Martingale Asset Management	-0.55	14.56	-6.17	0.57	8.18	
Total Core	**0.61**	**17.14**	**-4.92**	**2.52**	**8.38**	**5/31/2014**
Time Weighted Return	**0.56**	**5.90**	**1.04**	**3.87**	**5.16**	**9/30/2007**
Traditional Benchmark	0.14	0.43	1.11	2.75	3.18	
Policy Benchmark	0.61	5.45	1.71	5.47	5.11	
Overall Performance (Including Third Party Returns)	0.45	4.79		3.10		
Related Benchmarks	0.52	4.69		4.46		

Source: Commonfund Client Reporting Portal. Please see Important Notes | Performance Comparisons.

Composite Scopes and Weightings:

Policy Benchmark: 7/1/2014 to 06/30/2020 35.0% ICE BofA Merrill Lynch (ML) 1-3 Yr Treasury; 25.0% S&P 500 Index; 25.0% 3 Month Tbill; 15.0% Bloomberg Barclays US Aggregate Bond Index

Traditional Benchmark: 7/1/2014 to 06/30/2020 100.0% 3 Month Tbill + 150

Note: Manager Performance depicted is net of the sub-advisor's management fees and expenses, and gross of Commonfund Fund fees and expenses.

The Fund periodically makes changes to its managers. There can be no assurance that the Fund will continue to invest with any of the listed managers. Third party managers' investment approach and portfolio construction are subject to change and are governed by the Fund's Offering Documents or Investment Management Agreement.

[1]. Two Sigma returns are gross of incentive fee prior to 01/01/2018.

Third party returns and overall performance data provided by Oakland University. Past performance is not indicative of future results. Returns are depicted net of fees. Please see Important Notes | Market Commentary, Benchmarks and Performance.

FUND ALLOCATION – TREASURY SOLUTIONS

As of June 30, 2020

	Target Allocation %	6/30/2020 Allocation %		6/30/2020 Market Value ($)
Total Liquidity Funds	**25.00**	**28.85**	**$**	**68,003,557**
Fifth Third Bank	25.00	18.42	$	43,401,077
Comerica Bank		0.01	$	31,322
Dexia Credit		1.51	$	3,550,000
JPM Cash – MMA Account		2.15	$	5,069,357
State Street Inst US Govt Money Mkt Fund		6.77	$	15,951,801
Total Contingency	**50.00**	**50.79**	**$**	**119,716,150**
Intermediate Term Fund	20.00	20.09	$	47,341,643
CF Contingent Asset Portfolio, LLC	15.00	15.27	$	35,981,658
High Quality Bond Fund	15.00	15.44	$	36,392,849
Total Core	**25.00**	**20.35**	**$**	**47,968,272**
Core Equity Fund	10.00	8.04	$	18,936,971
CF Strategic Solutions Equity Fund, LLC	15.00	12.32	$	29,031,301
Total Portfolio	**100.00**	**100.00**	**$**	**235,687,979**

Source: Commonfund Client Reporting Portal

Note: The Fund periodically makes changes to its managers. There can be no assurance that the Fund will continue to invest with any of the listed managers. Third party managers' investment approach and portfolio construction are subject to change and are governed by the Fund's Offering Documents or Investment Management Agreement.

MANAGER ALLOCATION AND PERFORMANCE – TREASURY SOLUTIONS

As of June 30, 2020

	Fund Breakdown	AUM	Bucket % AUM	Fund % AUM	Fund % of Sub	Mgr. % AUM	QTD June-20
Liquidity Funds			**28.85%**				
State Street US Govt Money Market		**$15,951,810**		6.77%	23.46%	6.77%	**0.04%**
JP Morgan MMKT		**$5,069,356**		2.15%	7.45%	2.15%	**0.09%**
Comerica Bank		**$31,322**		0.02%	0.05%	0.01%	**0.00%**
Dexia Credit		**$3,550,000**		1.51%	5.22%	1.51%	**0.06%**
Fifth Third Bank		**$43,401,077**		18.41%	63.82%	18.41%	**0.06%**
Contingency Funds			**50.79%**				
Intermediate Term Fund		**$47,341,643**		20.09%	39.54%		**1.66%**
Income Research & Management	40%	$18,936,657				8.03%	2.54%
MetLife Investment Management, LLC	35%	$16,569,575				7.03%	1.75%
Sit Fixed Income Advisors	25%	$11,835,411				5.02%	0.38%
High Quality Bond Fund		**$36,392,849**		15.44%	30.40%		**5.13%**
Income Research & Management	40%	$14,557,140				6.18%	4.46%
Rimrock Capital Management	20%	$7,278,570				3.09%	4.16%
Western Asset Management Company	40%	$14,557,140				6.18%	6.58%
Contingent Asset Portfolio		**$35,981,658**		15.27%	30.06%		**1.05%**
MetLife Investment Management, LLC	32%	$11,514,130				4.89%	2.00%
MD Sass Investors Services	33%	$11,873,947				5.04%	1.03%
Sit Fixed Income Advisors	33%	$11,873,947				5.04%	0.47%
Core Funds			**20.35%**				
Strategic Solutions Equity Fund		**$29,031,301**		12.32%	60.52%		**14.34%**
Martingale Asset Management	100%	$29,031,301				12.32%	14.56%
Core Equity Fund		**$18,936,971**		8.03%	39.48%		**21.48%**
Two Sigma Advisers	31%	$5,870,461				2.49%	22.35%
CF Direct Management Core Equity	3%	$568,109					21.38%
Wellington Management Company LLP	34%	$6,438,570				2.73%	21.67%
Aronson Johnson Ortiz	32%	$6,059,831				2.57%	20.47%
Total Assets		**$235,687,988**					

Source: Commonfund Client Reporting Portal. Please see Important Notes | Performance Comparisons.

Note: Manager Performance depicted is net of the sub-advisor's management fees and expenses, and gross of Commonfund Fund fees and expenses.

The Fund periodically makes changes to its managers. There can be no assurance that the Fund will continue to invest with any of the listed managers. Third party managers' investment approach and portfolio construction are subject to change and are governed by the Fund's Offering Documents or Investment Management Agreement.

MANAGER ALLOCATION AND PERFORMANCE – TREASURY SOLUTIONS

As of August 31, 2020

	Fund Breakdown	AUM	Bucket % AUM	Fund % AUM	Fund % of Sub	Mgr. % AUM	QTD - August 2020
Liquidity Funds			**32.83%**				
State Street US Govt Money Market		**$35,954,113**		13.12%	39.97%	13.12%	**0.02%**
JP Morgan MMKT		**$5,069,784**		1.85%	5.64%	1.85%	**0.06%**
Comerica Bank		**$93,929**		0.03%	0.10%	0.03%	**0.00%**
Dexia Credit		**$3,310,000**		1.21%	3.68%	1.21%	**0.09%**
Fifth Third Bank		**$45,534,741**		16.62%	50.62%	16.62%	**0.04%**
Contingency Funds			**47.64%**				
Intermediate Term Fund		**$49,517,100**		18.07%	37.93%		**0.37%**
Income Research & Management	40%	$19,806,840				7.23%	0.46%
MetLife Investment Management, LLC	35%	$17,330,985				6.33%	0.46%
SIT Fixed Income Advisors	25%	$12,379,275				4.52%	0.25%
High Quality Bond Fund		**$36,928,066**		13.48%	28.29%		**1.47%**
Income Research & Management	40%	$14,771,226				5.39%	1.08%
Rimrock Capital Management	20%	$7,385,613				2.70%	1.60%
Western Asset Management Company	40%	$14,771,226				5.39%	1.90%
Contingent Asset Portfolio		**$44,093,479**		16.09%	33.78%		**0.31%**
MetLife Investment Management, LLC	33%	$14,550,848				5.31%	0.27%
MD Sass Investors Services	33%	$14,550,848				5.31%	0.51%
SIT Fixed Income Advisors	33%	$14,550,848				5.31%	0.32%
Core Funds			**19.52%**				
Strategic Solutions Equity Fund		**$32,151,730**		11.73%	60.11%		**10.75%**
Martingale Asset Management	100%	$32,151,730				11.73%	10.82%
Core Equity Fund		**$21,332,134**		7.79%	39.89%		**12.65%**
Two Sigma Advisers	12%	$2,559,856				0.93%	12.36%
CF Direct Management Core Equity	21%	$4,479,748				1.64%	16.81%
Wellington Management Company LLP	39%	$8,319,532				3.04%	14.07%
Aronson Johnson Ortiz	28%	$5,972,998				2.18%	10.62%
Total Assets		**$273,985,077**					

Third party returns provided by Oakland University. Past performance is not indicative of future results.
Returns are depicted net of fees. Please see Important Notes | Market Commentary, Benchmarks and Performance.

Important Notes

GENERALLY

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Past performance is not indicative of future results. An investor may lose all or a substantial portion of their investment in an Investment Product.

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Oakland University
Capital Debt Report
September 30, 2020

Bonded Indebtedness:	Amount	Rate of Interest	Interest Type	FY 21 Debt Service	Expires	Bond Rating	Purpose	Underwriter
Variable Rate Demand Bonds, Series 1998	$ 3,720,000	0.120%	Variable	$ 43,970	2023	Aa2	Sharf Golf Course	Comerica
General Revenue Refunding Bonds, Series 2008	39,700,000 [2]	3.373%	Variable/Hedged	3,200,607	2031	Aa2	AVN, Pawley, OC Expansion, Elec. Upgrade, Parking Deck I	Lehman
General Revenue Bonds, Series 2012	38,840,000	4.075%	Fixed	2,952,000	2042	A1	Engineering Center	Barclay's, 5/3rd
Unamortized Premium	2,714,467							
General Revenue Bonds, Series 2013A	52,215,000	4.028%	Fixed	3,892,800	2043	A1	Oakview, Parking Deck II, Upper Play Fields	BOAML, 5/3rd
Unamortized Premium	4,081,823							
General Revenue Refunding Bonds, Series 2013B	12,280,000	2.995%	Fixed	2,299,859	2026	A1	Recreation and Athletics Center	5/3rd, BOAML
General Revenue Refunding Bonds, Series 2014	23,785,000	3.562%	Fixed	1,969,250	2039	A1	HHB, Infrastructure Projects	JPM Chase
Unamortized Premium	2,562,067							
General Revenue Refunding Bonds, Series 2016	109,410,000	3.656%	Fixed	7,470,500	2047	A1	Hillcrest, Oakland Center, Other Capital Projects	Citigroup, PNC, 5/3rd, Stifel
Unamortized Premium	16,123,550							
General Revenue Bonds, Series 2019	79,205,000	3.307%	Fixed	-	2050	A1	South Foundation, Varner, Dodge, Lepley, CHP, Research	BOAML, PNC
Unamortized Premium	18,130,450							
Other Capital Debt:								
2005 ESA II Loan	8,248,169	3.785%	Fixed	1,302,687	2027		Energy Services Agreement II	
2014 Central Heating Co-Gen	12,718,750	3.880%	Fixed	1,323,750	2031	A1	Combined Heat and Power Co-Generation System	
Unamortized Premium	1,061,535							
	$ 424,795,811	3.596% [1]		$ 24,455,424				

[1] Weighted Average Cost of Capital
[2] The 3.373% interest rate is the synthetic fixed interest rate paid to the swap counterparty. The variable interest rate for the bonds resets weekly and is hedged with a LIBOR based rate.

Debt covenant compliance:
The University has a general revenue covenant in many of its borrowing agreements including bonded debt and other capital debt.
These covenants are consistent in all University debt agreements and commit the University to maintain "General Revenues" to exceed the sum of twice the annual debt service on senior debt and one times annual debt service on subordinate debt each fiscal year. The University is in compliance with its debt service covenant ratio requirements.

Debt-Based Derivatives:	Counterparty	Current Notional Amount	Termination Present Value	Expires	Counterparty Rating	Purpose/Comment
Constant Maturity Swap (CMS)	JP Morgan Chase Bank	$ 27,745,000	$ 899,181	2031	Aa2	
Interest Rate Swap - Synthetically Fix 2008 Bonds	Dexia Credit Local	39,700,000	(8,247,423)	2031	Baa3	Current low variable rates = High termination costs.

The CMS is performing as expected with total swap proceeds exceeding $5 million.
The Interest Rate Swap fixes the interest rate paid to the counterparty on the 2008 bond issue at 3.373% for the life of the bond issue (and the swap agreement).
The Termination Present Value is dynamic, changing daily depending on interest rates and eventually becoming zero at the end of the swap agreements.

Bond Ratings:
The rating on the variable rate bonds reflects the current rating of the letter of credit provider, JP Morgan Chase Bank.
The rating on the fixed rate bonds reflects the University's underlying credit rating at the time the bonds were issued.

Oakland University's underlying credit rating, according to Moody's Investors Service's Global Rating Scale, is A1 - Stable.

Oakland University
CONSTRUCTION REPORT
September 30, 2020

Item	Projects in Progress - over $500,000	JCOS Approval/Notification Required		Original Budget	Revised Project Budget	Actual Expenditures to Date	Forecast of Final Cost	Source of Funding
1	**Oakland Center Expansion** Fund Number: 70232 Status: Completed, closeout in process Board of Trustees Approved: February 22, 2016 Projected Completion Date: October 2020	Yes	6/30/2016	$ 3,281,000	$ 47,326,974	$ 47,063,814	$ 47,326,974	$ 40,000,000 - #70228 2016 General Revenue Bonds $ 6,058,874 - #70215 Chartwells $ 615,695 - #14520 FY17 Excess Debt Service $ 519,305 - #24350 Capital Projects Supplement $ 133,100 - OU Credit Union
2	**SFH Renovation and Expansion** Fund Number: 70009 Status: On Hold; Design Complete; State Funding On Hold Board of Trustees Approved: April 8, 2019 Projected Completion Date: TBD	Yes	6/30/2019	$ 40,000,000	$ 40,000,000	$ 1,332,821	$ 40,000,000	$30,000,000 - State of MI Capital Outlay Appropriation $10,000,000 - #70046 2019 General Revenue Bonds
3	**WH Renovation & Expansion (Project S.U.C.C.E.S.S.)** Fund Number: 70285 Status: Design Phase - In Progress Board of Trustees Approved: February 7, 2019 Projected Completion Date: August 2022	Yes	6/30/2019	$ 833,710	$ 20,535,000	$ 796,849	$ 20,535,000	$ 5,760,000 - #70228 2016 General Revenue Bonds $ 14,775,000 - #70046 2019 General Revenue Bonds
4	**CHP-HTHW Replace to Hill House** Fund Number: 70053 Status: Pre-Constructiion Phase - In Progress Board of Trustees Approved: August 3, 2020 Projected Completion Date: September 2023	Yes	6/30/2020	$ 488,840	$ 5,000,000	$ 603,687	$ 5,000,000	$ 5,000,000 - #70046 2019 General Revenue Bonds
5	**Fitzgerald / Anibal House Renovation** Fund Number: 70061 Status: Pre-Construction Phase - In Progress Board of Trustee Approved: April 6, 2020 Projected Completion Date: March 2021	Yes	6/30/2020	$ 2,000,000	$ 3,700,000	$ 28	$ 3,700,000	$ 3,700,000 - #70046 2019 General Revenue Bonds
6	**DH-2019 Renovation** Fund Number: 70050 Status: Pre-Construction Phase - In Progress Board of Trustee Approved: August 12, 2019 Projected Completion Date: June 2021	Yes	12/31/2019	$ 3,000,000	$ 3,000,000	$ 435,775	$ 3,000,000	$ 3,000,000 - #70046 2019 General Revenue Bonds
7	**Business School Expansion** Fund Number: 70233 Status: On Hold Board of Trustee Approved: Design only February 22, 2016 Projected Completion Date: TBD	Yes	6/30/2016	$ 1,968,500	$ 1,968,500	$ 1,034,519	$ 1,968,500	$ 1,968,500 - # TBD
8	**Ann V. Nicholson Apartments - Exterior Renovation** Fund Number: 70147 Status: Completed, closeout in process Board of Trustee Approved: February 7, 2019 Projected Completion Date: October 2020	Yes	6/30/2019	$ 55,000	$ 1,816,035	$ 1,798,335	$ 1,816,035	$ 1,816,035 - #45489 Residence Halls
9	**HTHW Tunnel Piping Repair** Fund Number: 70283 Status: 95% Completed Projected Completion Date: December 2020	No		$ 200,000	$ 865,000	$ 842,977	$ 865,000	$ 865,000 - #24810 Plant Renewal Supplement

Oakland University
CONSTRUCTION REPORT
September 30, 2020

Item	Projects in Progress - over $500,000	JCOS Approval/Notification Required	Original Budget	Revised Project Budget	Actual Expenditures to Date	Forecast of Final Cost	Source of Funding
10	**RAC Energy Saving** Fund Number: 70250 Status: 92% Completed Projected Completion Date: June 2021	No	$ 364,305	$ 859,541	$ 650,664	$ 859,541	$ 859,541 - #14685 FY17 Excess Debt Service
11	**CMP-Replace Water Lines-HH to NFH** Fund Number: 70146 Status: Completed, closeout in process Projected Completion Date: October 2020	No	$ 382,000	$ 682,000	$ 665,217	$ 682,000	$ 682,000 - #24810 Plant Renewal Supplement
12	**VAR-2019 Renovation** Fund Number: 70023 Status: Design Phase - In Progress Projected Completion Date: June 2023	No	$ 14,800	$ 566,173	$ 17,383	$ 566,173	$ 566,173 - #70046 2019 General Revenue Bonds
13	**Katke Cousins Hole #17 Stormwater Enhancement** Fund Number: 70015 Status: 99% Completed; waiting on final invoices Projected Completion Date: November 2020	No	$ 500,000	$ 500,000	$ 414,576	$ 500,000	$ 500,000 - #42465 Katke Cousins Golf Course
	TOTAL PROJECTS IN PROGRESS		$ 53,088,155	$ 126,819,223	$ 55,656,643	$ 126,819,223	

Notes:

A. Revised Project Budget equals the Original Budget plus all approved changes to the budget.

B. Projects are added to the report when a funding source has been identified, a plant fund is authorized for the project, and the project is proceeding.

C. The project status will be reported as CLOSED when the Actual Expenditures to Date equals the Forecast of Final Costs, work order system ties to Banner, and no additional expenditures or work are anticipated on the project.

D. A project whose status has been reported as CLOSED to the Board will be removed from the report for the next Board meeting.