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Chief Investment Office GWM
Investment Research

What to watch in the week ahead

Weekly Global

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- The 10-year US Treasury yield reached its highest level since 2007 as the market-implied probability of an October Fed hike rose from 53% to 64% last week. US and Eurozone inflation data will test expectations for further tightening. We believe markets are pricing in more rate hikes than major central banks will ultimately deliver.
- The S&P 500 gained 1.2% last week, finishing within 1% of its record high despite higher yields. The September US employment report and manufacturing survey will test whether growth remains firm without adding to inflation. We expect resilient growth and robust earnings to support further equity gains.
- Rapid early adoption of Meta's Muse helped fuel enthusiasm for consumer AI agents. OpenAI's developer conference will give investors a closer look at new tools and what they might enable. We remain constructive on AI while favoring diversified exposure.

Can government bond markets regain their poise?
Government bond yields rose further last week as stronger economic activity and higher energy prices led investors to anticipate faster central-bank tightening. The 10-year US Treasury yield rose nearly 17 basis points to 5.16%, reaching its highest level since 2007, as the market-pricing implied probability of an October Federal Reserve rate hike climbed from 53% to 64%. The 30-year yield also rose nearly 17 basis points, its largest weekly increase since May, to 5.49%, the highest level since 2004. In Europe, the spread between 10-year French and German government bond yields, typically a measure of anxiety in fixed income markets, reached around 110 basis points, its widest since July 2012.

This week's inflation data in both the US and Eurozone will help determine whether such headwinds will persist. Investors will scrutinize Wednesday's August US personal consumption expenditures release, a key inflation measure, for signs of whether price pressures are spreading beyond energy. September's Eurozone flash inflation reading will provide a similar test after the prior month's data provided some reassurance that underlying inflation has so far remained under control. A wide range of top officials from the Fed, European Central Bank, and Bank of England are scheduled to speak, and will have the opportunity to respond to recent data and market developments. Contained underlying inflation, particularly if officials push back against expectations for rapid tightening, could help calm bond markets. Firmer readings or more hawkish comments could extend the selloff.

Government bond markets
- Read where we see opportunities in quality bonds after the rise in yields in Where are the opportunities in fixed income?
- Read GWM Chief Economist Paul Donovan's perspective on the sharp rise in US Treasury yields in his daily recording.
- For the data releases fixed income investors should be following in the week ahead, listen to Jump Start.

The equity rally
- See why growth and earnings could support European equities despite higher borrowing costs in our EMEA macro outlook and investment ideas.
- Watch CIO Mark Haefele explain why the equity rally could continue.
- For more on the portfolio decision behind staying invested, read Should investors pay more attention to cash?

The outlook for AI
- Listen to the latest Signal over Noise podcast on the infrastructure and business-adoption constraints to scaling AI.
- Read Ulrike Hoffmann-Burchardi and colleagues on their latest views on AI.
- Read more on why strong computing demand does not remove delivery and financing risks in AI infrastructure: Strong demand does not remove execution risks.

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We believe markets are pricing in too much tightening from all three central banks. Our base case is for the Fed to raise rates once more in December before keeping them steady. While higher energy costs may keep headline inflation elevated in the near term, they can also constrain growth by reducing household purchasing power and increasing companies' costs. We continue to rate fixed income as Attractive, with opportunities emerging across regions and market segments. The recent rise in yields has created tactical opportunities to add medium- to long-duration exposure to high-quality bonds, in our view. Stronger investment grade issuers offer attractive carry across medium maturities, while emerging market bonds offer appealing yields and diversified return potential. We remain more cautious on the longest maturities, and higher-risk credit should remain relatively short-dated.

Can the equity rally continue to withstand higher yields?
Equities showed resilience last week despite the sharp rise in government bond yields. The S&P 500 gained 1.2%, finishing within 1% of its record high, while the MSCI All Country World Index rose 0.9%. Although stronger activity contributed to the bond sell-off, it also pointed to continued demand for companies' goods and services—a tailwind for equities. The US flash composite purchasing managers' index rose to 58.4 in September, its strongest reading since July 2021. Eurozone business activity also reached its highest level in almost three and a half years. The equity market's advance suggests that investors have so far been willing to look past higher discount rates while growth remains firm.

Friday's September US employment report will provide a further test of that balance. August payrolls rose by 162,000, far above expectations and up from a revised gain of 21,000 in July, suggesting that demand for workers remained firm. Investors will assess whether hiring continues to support household income and consumer spending, without sparking rapid wage growth and adding to inflation. Thursday's ISM manufacturing survey will provide another check on the strength of demand after eight consecutive months of expansion through August. Its prices component will matter too: Firm activity without another rise in input-cost pressure would be easier for equities to absorb than growth accompanied by a further jump in yields.

Our base case remains that resilient economic growth and robust earnings will support further equity gains over the next six to 12 months. We forecast S&P 500 earnings growth of 25% this year and 14% in 2027. Higher yields are more concerning for equities when growth starts to falter; for now, the US economy remains on solid footing, and we expect a measured tightening cycle to have only a limited effect on activity. A prolonged inflation-driven rise in rates would increase the risks to valuations. We continue to recommend positioning for further equity gains while diversifying and managing concentration risk.

Can AI agents sustain enthusiasm for the AI trade?
There was fresh evidence last week of public enthusiasm for AI services. Meta's Muse, a consumer agent, recorded more than 2.5 million downloads in its first 13 days and became the most downloaded free app on US Apple iOS and Google Play stores. The resulting positive sentiment helped the tech-heavy Nasdaq reach a record high.Agents that can carry out tasks, rather than only answer questions, could allow AI platforms to earn revenue from transactions as well as subscriptions and advertising.

OpenAI's developer conference on Tuesday offers the next opportunity to assess how quickly useful applications are developing. Although the

company has not signaled any specific product launches, it has scheduled a keynote, demonstrations, and technical sessions on its tools. Investors will be looking for evidence that developers can build agents capable of handling more practical tasks. New tools could sustain enthusiasm after Muse's strong start. The longer-term question is whether wider use can create a clearer link between the substantial investment in computing capacity and future revenue.

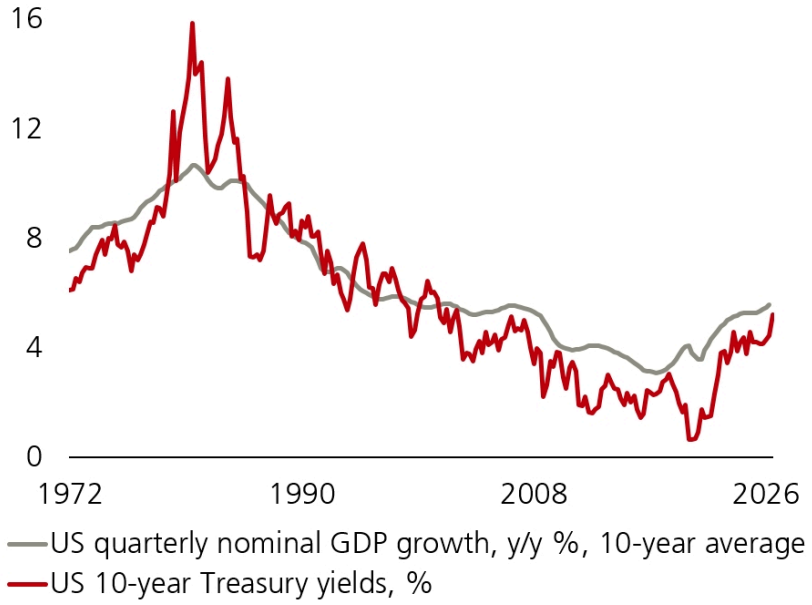
We maintain our constructive outlook on the AI trade, supported by rising adoption, potential new sources of revenue, and growing capital spending. Wider use of consumer agents could increase demand for computing power, benefiting high-quality semiconductor and hardware companies. Strong demand does not remove execution risks, however: Delays in bringing data centers online could postpone the revenue expected from that investment. We therefore favor diversified exposure across the AI value chain, including large technology platforms with diversified earnings, rather than relying on the success of any single agent.

Chart of the week

Recent data continue to underscore the strength of the US economy. The latest S&P Global US Flash Composite PMI rose to 58.4 in September, registering its strongest reading in more than five years. Coupled with strong corporate earnings growth over the recent quarter, this points to sustained economic momentum. Additionally, the Atlanta Fed's GDPNow model is tracking real GDP growth of around 5% in 3Q, further reinforcing our view that growth remains on a firm footing. Against this backdrop, higher Treasury yields should be seen as a recalibration to stronger growth rather than the start of a recession-inducing tightening cycle, in our view. As the chart below illustrates, 10-year US Treasury yields have tended to track nominal GDP growth. We think rising yields driven by stronger growth should not derail risk assets, as robust earnings can continue to provide support for equity markets. Therefore, we remain constructive on risk assets and continue to position for further broad equity upside.

Higher yields reflect strong economic growth

US quarterly nominal GDP growth, y/y %, 10-year average vs. 10-year Treasury yields, %



Source: Bloomberg, UBS, as of Sep 2026

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.
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- 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.
- 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.

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The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid and commonly known indices, House View scenarios, and analyst convictions over the next 12 months.
Absolute view
Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.
Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities.
Note: For equities, we have a five-tier rating system with two additional preferences. When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
Relative preferences
For the multi asset view, we also include relative preferences to help investors compare between items.
Preferred: We view this item more favorably than others within its asset class.*
Neutral: We see this item similarly to others within its asset class.*
Least preferred: We view this item less favorably than others within its asset class.*
*In the case of cross-asset, compared to other asset classes.
Note: The tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

Appendix

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