US heading toward subpar growth, not recession

**Thought of the day**

Strong retail sales figures suggest US consumers are continuing to prop up the economy, helping partially to offset the hit to business confidence from the US-China trade conflict. Sales were up 0.7% month-on-month in July, the fifth consecutive increase and the fastest in four months. Even more encouraging, sales in the ‘control group’, which excludes volatile items and is viewed by economists as a more reliable measure of consumer demand, beat forecasts to rise by 1% in July.

The data reinforces our view that the US economy should avoid a recession in 2020. Assuming no further escalation in the trade dispute, we assign just a 25% chance that the US economy will contract for two consecutive quarters next year.

But despite the strength of the consumer side of the US economy, we do expect falling business activity to pull US growth below trend, forcing the Fed to cut rates more than we had previously expected.

- Evidence is mounting that the industrial and manufacturing side of the US economy is deteriorating. Data released yesterday showed factory output falling by 0.4% in July. Manufacturing output has now contracted in five of the past seven months. This mirrors a slowdown in manufacturing output worldwide, led by China and Germany.
- A swift resolution to the trade war remains unlikely. Although President Donald Trump has delayed the imposition of a 10% tariff on the full remaining USD 300bn of untaxed Chinese imports, we believe that this will come into effect in December. China’s announcement that it would retaliate also reduces the chances of an immediate de-escalation. Against this backdrop of uncertainty, we expect business investment to remain subdued globally. That should delay the pick-up in growth that we expected in the second half of this year. For 2020 we now expect US growth of around 1.8%, below trend.

So, while we don’t believe a recession is looming, and we remain cautiously positive on global equities, we now expect a longer period of lower rates. We now expect the Fed to cut rates by 25 basis points three more times, at its September, December, and March meetings. We also expect only a gradual

**Market update**

STOXX 600 +1.1%, European shares rising amid ECB stimulus chatter.

GBPUSD +0.5%, sterling getting a lift from data, Brexit maneuvering.

Spot gold −1.1%, safe haven demand abating slightly into the weekend.

**What to watch: 19 August 2019**

- ECB current account for June
- Eurozone CPI for June

---

This report has been prepared by UBS AG and UBS Switzerland AG. Please see important disclaimers and disclosures at the end of the document.
rise in the 10-year US Treasury yield, with an increase to 1.9% in 12 months, from 1.55% at present.

This environment of weak growth and central bank easing increases the appeal of income-producing strategies. We recently increased the size of our overweight in a basket of high-yielding emerging market currencies (Indonesian rupiah, Indian rupee, South African rand) against a basket of lower-yielding currencies (Australian, New Zealand, and Taiwanese dollars). We are also overweight in emerging market sovereign debt, and recommend a variety of dividend strategies in Europe and the US.

Caught our attention

- **Pound rising.** Sterling hit a two week high against the euro on Friday and closed in on its best weekly gain against the dollar since June. Better-than-anticipated data helped lift the currency, with retail sales for July unexpectedly expanding. UK headlines on Brexit manoeuvring added to optimism, with the narrative on the opposition Labour Party’s pitch to form a temporary government under Jeremy Corbyn marginally improving. *With the caveat that the ultimate outcome remains highly uncertain at this time, we believe no-deal Brexit risks for the next three to six months have been overpriced by markets. We remain overweight the British pound versus the US dollar in our FX strategy.*

- **Oil snaps losing streak.** After two days of declines, crude oil prices rose (WTI +1.5%, Brent +1.6%) on Friday, bolstered by strong US retail sales data that helped ease some concerns about a looming US recession. *While macro concerns are affecting oil demand growth prospects, we stay positive on oil’s near-term price outlook based on our anticipation of further inventory draws over the next coming months.*

- **The case for overshooting.** An influential ECB policymaker predicted the central bank would unveil a new stimulus package at its September meeting, in remarks published late Thursday. Finland’s Olli Rehn predicted “substantial and sufficient” bond purchases and interest rate cuts, according to the WSJ report, while extolling the virtues of overshooting rather than undershooting on policy measures. *In our view, trade tensions and weak economic data will cause the ECB to take a more accommodative stance, with a rising chance of renewed quantitative easing, and at least 20bps in rate cuts by year end.*
Appendix

UBS Chief Investment Office's ("CIO") investment views are prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland) or its affiliates ("UBS"). The investment views have been prepared in accordance with legal requirements designed to promote the independence of investment research.

Generic investment research – Risk information:

This publication is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein does not constitute a personal recommendation or take into account the particular investment objectives, investment strategies, financial situation and needs of any specific recipient. It is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS). All information and opinions as well as any forecasts, estimates and market prices indicated are current as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria.

In no circumstances may this document or any of the information (including any forecast, value, index or other calculated amount ("Values")) be used for any of the following purposes (i) valuation or accounting purposes; (ii) to determine the amount due or payable, the price or the value of any financial instrument or financial contract; or (iii) to measure the performance of any financial instrument including, without limitation, for the purpose of tracking the return or performance of any Value or of defining the asset allocation of portfolio or of computing performance fees. By receiving this document and the information you will be deemed to represent and warrant to UBS that you will not use this document or otherwise rely on any of the information for any of the above purposes. UBS and any of its directors or employees may be entitled at any time to hold long or short positions in investment instruments referred to herein, carry out transactions involving relevant investment instruments in the capacity of principal or agent, or provide any other services or have officers, who serve as directors, either to/for the issuer, the investment instrument itself or to/for any company commercially or financially affiliated to such issuers. At any time, investment decisions (including whether to buy, sell or hold securities) made by UBS and its employees may differ from or be contrary to the opinions expressed in UBS research publications. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, divisions or affiliates of UBS. Futures and options trading is not suitable for every investor as there is a substantial risk of loss, and losses in excess of an initial investment may occur. Past performance of an investment is no guarantee for its future performance. Additional information will be made available upon request. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information.

Tax treatment depends on the individual circumstances and may be subject to change in the future. UBS does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon both in general or with reference to specific client’s circumstances and needs. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein. This material may not be reproduced or copies circulated without prior authority of UBS. Unless otherwise agreed in writing UBS expressly prohibits the distribution and transfer of this material to third parties for any reason. UBS accepts no liability whatsoever for any claims or lawsuits from any third parties arising from the use or distribution of this material. This report is for distribution only under such circumstances as may be permitted by applicable law. For information on the ways in which CIO manages conflicts and maintains independence of its investment views and publication offering, and research
and rating methodologies, please visit www.ubs.com/research. Additional information on the relevant authors of this
publication and other CIO publication(s) referenced in this report; and copies of any past reports on this topic; are available
upon request from your client advisor.

Important Information about Sustainable Investing Strategies: Incorporating environmental, social and governance
(ESG) factors or Sustainable Investing considerations may inhibit the portfolio manager’s ability to participate in certain
investment opportunities that otherwise would be consistent with its investment objective and other principal investment
strategies. The returns on a portfolio consisting primarily of ESG or sustainable investments may be lower than a portfolio
where such factors are not considered by the portfolio manager. Because sustainability criteria can exclude some investments,
investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such
criteria. Companies may not necessarily meet high performance standards on all aspects of ESG or sustainable investing
issues; there is also no guarantee that any company will meet expectations in connection with corporate responsibility,
sustainability, and/or impact performance.

Distributed to US persons by UBS Financial Services Inc. or UBS Securities LLC, subsidiaries of UBS AG. UBS Switzerland
AG, UBS Europe SE, UBS Bank, S.A., UBS Brasil Administradora de Valores Mobiliarios Ltda, UBS Asesores Mexico, S.A. de
C.V., UBS Securities Japan Co., Ltd, UBS Wealth Management Israel Ltd and UBS Menkul Degerler AS are affiliates of UBS
AG. UBS Financial Services Incorporated of Puerto Rico is a subsidiary of UBS Financial Services Inc. UBS Financial Services
Inc. accepts responsibility for the content of a report prepared by a non-US affiliate when it distributes reports to
US persons. All transactions by a US person in the securities mentioned in this report should be effected
through a US-registered broker dealer affiliated with UBS, and not through a non-US affiliate. The contents of
this report have not been and will not be approved by any securities or investment authority in the United States
or elsewhere. UBS Financial Services Inc. is not acting as a municipal advisor to any municipal entity or obligated
person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the
opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning
of the Municipal Advisor Rule.

External Asset Managers / External Financial Consultants: In case this research or publication is provided to an External
Asset Manager or an External Financial Consultant, UBS expressly prohibits that it is redistributed by the External Asset
Manager or the External Financial Consultant and is made available to their clients and/or third parties.

Austria: This publication is not intended to constitute a public offer under Austrian law. It is distributed only for information
purposes to clients of UBS Europe SE, Niederlassung Österreich, with place of business at Wächtergasse 1, A-1010 Wien.
UBS Europe SE, Niederlassung Österreich is subject to the joint supervision of the European Central Bank ("ECB"), the
German Central Bank (Deutsche Bundesbank), the German Federal Financial Services Supervisory Authority (Bundesanstalt
für Finanzdienstleistungsaufsicht), as well as of the Austrian Financial Market Authority (Finanzmarktaufsicht), to which this
publication has not been submitted for approval. UBS Europe SE is a credit institution constituted under German law in
the form of a Societas Europaea, duly authorized by the ECB. Bahrain: UBS is a Swiss bank not licensed, supervised or
regulated in Bahrain by the Central Bank of Bahrain and does not undertake banking or investment business activities in
Bahrain. Therefore, clients have no protection under local banking and investment services laws and regulations. Brazil: This
publication is not intended to constitute a public offer under Brazilian law or a research analysis report as per the definition
contained under the Comissão de Valores Mobiliários (“CVM”) Instruction 598/2018. It is distributed only for information
purposes to clients of UBS Brasil Administradora de Valores Mobiliários Ltda. and/or of UBS Consenso Investimentos Ltda.,
entities regulated by CVM. Canada: In Canada, this publication is distributed to clients of UBS Wealth Management Canada
by UBS Investment Management Canada Inc. China: This report is prepared by UBS Switzerland AG or its offshore subsidiary
or affiliate (collectively as "UBS Offshore"). UBS Offshore is an entity incorporated out of China and is not licensed, supervised,
or regulated in China to carry out banking or securities business. The recipient should not contact the analysts or UBS
Offshore which produced this report for advice as they are not licensed to provide securities investment advice in China. UBS
Investment Bank (including Research) has its own wholly independent research and views which at times may vary from the
views of UBS Global Wealth Management. This report shall not be regarded as providing specific securities related analysis.
The recipient should not use this document or otherwise rely on any of the information contained in this report in making
investment decisions and UBS takes no responsibility in this regard. Czech Republic: UBS is not a licensed bank in the Czech
Republic and thus is not allowed to provide regulated banking or investment services in the Czech Republic. Please notify
UBS if you do not wish to receive any further correspondence. Denmark: This publication is not intended to constitute a
public offer under Danish law. It is distributed only for information purposes to clients of UBS Europe SE, Denmark Branch,
"investment marketing" as defined under the Israeli Regulation of Investment Advice, Investment Marketing and Portfolio

The word "advice" and/or any of its derivatives shall be read and construed in conjunction with the definition of the term investment advice and/or investment marketing provided by the relevant licensee which is adjusted to each person needs.

Furthermore, this publication is not intended as an investment advice and/or investment marketing and is not replacing any

Authority. This publication is intended for information only and is not intended as an offer to buy or solicitation of an offer.

Dealer in cooperation with UBS Wealth Management Israel Ltd., a wholly owned UBS subsidiary. UBS Wealth Management

countries worldwide to individual, corporate and institutional investors. In Israel, UBS Switzerland AG is registered as Foreign

asset management and investment banking services from its headquarters in Switzerland and its operations in over 50

your investment objective, risk appetite and personal circumstances against the risk of the investment. You are advised to seek

obligations. You should carefully study and ensure that you understand and exercise due care and discretion in considering

financial or regulatory authority in your jurisdiction. The relevant investments will be subject to restrictions and obligations

deemed as such by UBS and you. The material may not have been reviewed, approved, disapproved or endorsed by any

been provided upon your specific request or executed upon your specific instructions, as the case may be, and may be

depicted as such by UBS and you. The material may not have been reviewed, approved, disapproved or endorsed by any

ubis immediately. Any and all advice provided and/or trades executed by UBS pursuant to the material will only have been

satisfied upon your specific request or executed upon your specific instructions, as the case may be, and may be

deemed as such by UBS and you. The material may not have been reviewed, approved, disapproved or endorsed by any

financial or regulatory authority in your jurisdiction. The relevant investments will be subject to restrictions and obligations

transfer as set forth in the material, and by receiving the material you undertake to comply fully with such restrictions and

obligations. You should carefully study and ensure that you understand and exercise due care and discretion in considering

your investment objective, risk appetite and personal circumstances against the risk of the investment. You are advised to seek

independent professional advice in case of doubt. Israel: UBS is a premier global financial firm offering wealth management,

asset management and investment banking services from its headquarters in Switzerland and its operations in over 50
countries worldwide to individual, corporate and institutional investors. In Israel, UBS Switzerland AG is registered as Foreign

Dealer in cooperation with UBS Wealth Management Israel Ltd., a wholly owned UBS subsidiary. UBS Wealth Management

Israel Ltd. is a Portfolio Manager licensee which engages also in Investment Marketing and is regulated by the Israel Securities

Authority. This publication is intended for information only and is not intended as an offer to buy or solicitation of an offer.
Furthermore, this publication is not intended as an investment advice and/or investment marketing and is not replacing any

investment advice and/or investment marketing provided by the relevant licensee which is adjusted to each person needs.
The word "advice" and/or any of its derivatives shall be read and construed in conjunction with the definition of the term "investment marketing" as defined under the Israeli Regulation of Investment Advice, Investment Marketing and Portfolio

05

UBS is a premier global financial firm offering wealth management, investment banking, asset management, corporate finance, and institutional services in over 50 countries worldwide. UBS provides a range of services to individual, corporate, and institutional clients, including investment management, wealth planning, and wealth protection.
**Italy:** This publication is not intended to constitute a public offer under Italian law. It is distributed only for information purposes to clients of UBS Europe SE, Succursale Italia, with place of business at Via del Vecchio Politecnico, 3-20121 Milano. UBS Europe SE, Succursale Italia is subject to the joint supervision of the European Central Bank ("ECB"), the German Central Bank (Deutsche Bundesbank), the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), as well as of the Bank of Italy (Banca d’Italia) and the Italian Financial Markets Supervisory Authority (CONSOB - Commissione Nazionale per le Società e la Borsa), to which this publication has not been submitted for approval. UBS Europe SE is a credit institution constituted under German law in the form of a Societas Europaea, duly authorized by the ECB. **Jersey:** UBS AG, Jersey Branch, is regulated and authorized by the Jersey Financial Services Commission for the conduct of banking, funds and investment business. Where services are provided from outside Jersey, they will not be covered by the Jersey regulatory regime. UBS AG, Jersey Branch is a branch of UBS AG a public company limited by shares, incorporated in Switzerland whose registered offices are at Aeschenvorstadt 1, CH-4051 Basel and Bahnhofstrasse 45, CH 8001 Zurich. UBS AG, Jersey Branch’s principal place business is 1, IFC Jersey, St Helier, Jersey, JE2 3BX. **Luxembourg:** This publication is not intended to constitute a public offer under Luxembourg law. It is distributed only for information purposes to clients of UBS Europe SE, Luxembourg Branch, with place of business at 33A, Avenue J. F. Kennedy, L-1855 Luxembourg. UBS Europe SE, Luxembourg Branch is subject to the joint supervision of the European Central Bank ("ECB"), the German Central Bank (Deutsche Bundesbank), the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), as well as of the Luxembourg supervisory authority (Commission de Surveillance du Secteur Financier), to which this publication has not been submitted for approval. UBS Europe SE is a credit institution constituted under German law in the form of a Societas Europaea, duly authorized by the ECB. **Mexico:** This information is distributed by UBS Asesores México, S.A. de C.V. ("UBS Asesores"), an affiliate of UBS Switzerland AG, incorporated as a non-independent investment advisor under the Securities Market Law due to the relation with a Foreign Bank. UBS Asesores is a regulated entity and it is subject to the supervision of the Mexican Banking and Securities Commission ("CNBV"), which exclusively regulates UBS Asesores regarding the rendering of portfolio management, as well as on securities investment advisory services, analysis and issuance of individual investment recommendations, so that the CNBV has no surveillance faculties nor may have over any other service provided by UBS Asesores. UBS Asesores is registered before CNBV under Registry number 30060. You are being provided with this UBS publication or material because you have indicated to UBS Asesores that you are a Sophisticated Qualified Investor located in Mexico. The compensation of the analyst(s) who prepared this report is determined exclusively by research management and senior management of any entity of UBS Group to which such analyst(s) render services. **Nigeria:** UBS Switzerland AG and its affiliates (UBS) are not licensed, supervised or regulated in Nigeria by the Central Bank of Nigeria or the Nigerian Securities and Exchange Commission and do not undertake banking or investment business activities in Nigeria. **Portugal:** UBS Switzerland AG is not licensed to conduct banking and financial activities in Portugal nor is UBS Switzerland AG supervised by the portuguese regulators (Bank of Portugal "Banco de Portugal" and Portuguese Securities Exchange Commission "Comissão do Mercado de Valores Mobiliários "). **Singapore:** This material was provided to you as a result of a request received by UBS from you and/or persons entitled to make the request on your behalf. Should you have received the material erroneously, UBS asks that you kindly destroy/delete it and inform UBS immediately. Clients of UBS AG Singapore branch are asked to please contact UBS AG Singapore branch, an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110) and a wholesale bank licensed under the Singapore Banking Act (Cap. 19) regulated by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with, the analysis or report. **Spain:** This publication is not intended to constitute a public offer under Spanish law. It is distributed only for information purposes to clients of UBS Europe SE, Sucursal en España, with place of business at Calle Maria de Molina 4, C.P. 28006, Madrid. UBS Europe SE, Sucursal en España is subject to the joint supervision of the European Central Bank ("ECB"), the German Central bank (Deutsche Bundesbank), the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), as well as of the Spanish supervisory authority (Banco de España), to which this publication has not been submitted for approval. Additionally it is authorized to provide investment services on securities and financial instruments, regarding which it is supervised by the Comisión Nacional del Mercado de Valores as well. UBS Europe SE, Sucursal en España is a branch of UBS Europe SE, a credit institution constituted under German law in the form of a Societas Europaea, duly authorized by the ECB. **Sweden:** This publication is not intended to constitute a public offer under Swedish law. It is distributed only for information purposes to clients of UBS Europe SE, Sweden Bankfilial, with place of business at Regeringsgatan 38, 11153 Stockholm, Sweden, registered with the Swedish Companies Registration Office under Reg. No 516406-1011. UBS Europe SE, Sweden Bankfilial is subject to the joint supervision of the European Central Bank ("ECB"), the German Central bank (Deutsche Bundesbank),
the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), as well as of
the Swedish supervisory authority (Finansinspektionen), to which this publication has not been submitted for approval. UBS
Europe SE is a credit institution constituted under German law in the form of a Societas Europaea, duly authorized by the
ECB. Taiwan: This material is provided by UBS AG, Taipei Branch in accordance with laws of Taiwan, in agreement with or
at the request of clients/prospects. UAE: UBS is not licensed in the UAE by the Central Bank of UAE or by the Securities &
Commodities Authority. The UBS AG Dubai Branch is licensed in the DIFC by the Dubai Financial Services Authority as an
authorised firm. UK: This document is issued by UBS Wealth Management, a division of UBS AG which is authorised and
regulated by the Financial Market Supervisory Authority in Switzerland. In the United Kingdom, UBS AG is authorised by
the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation
by the Prudential Regulation Authority. Details about the extent of regulation by the Prudential Regulation Authority are
available from us on request. A member of the London Stock Exchange. This publication is distributed to retail clients of
UBS Wealth Management.
Version 05/2019. CIO82652744
© UBS 2019. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.