UBS investor's guide

Chief Investment Office
Clients of UBS Switzerland / Swiss domicile
4 May 2012

Switzerland

Central and Eastern Europe
Growing without the euro

Interview "Poland should push for reforms regardless of the euro": Professor Leszek Balcerowicz, former president of the National Bank of Poland

Market outlook Global growth on track despite European concerns

Fault lines Europe's backfire of the vanities

UBS

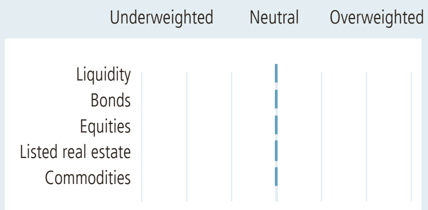
Asset allocation – How to invest

The bar charts below depict relative preferences within asset classes and are therefore not comparable across classes.

> See more on **page 16**

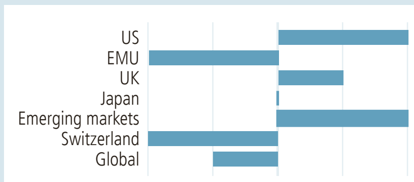
Asset allocation

With China's outlook stabler, we are comfortable with a moderate overweight risk position, made up of an overweight in credit, an underweight in government bonds, and a neutral position in equities and commodities.



Equities

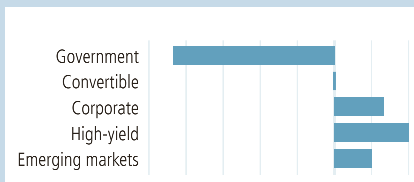
We maintain a neutral allocation, preferring the US and emerging markets (EM). The current reporting season supports expectations of solid earnings growth for US firms. Easier monetary policy and ample global liquidity should lift EM equities. Least preferred markets are the Eurozone and Switzerland.



*including currency view

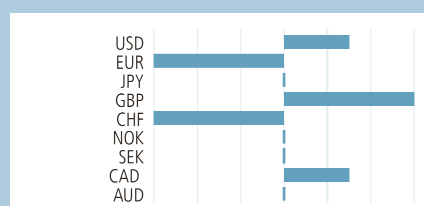
Bonds

Developed market sovereign yields again hit record lows; they are now even less attractive. We thus now advise buying shorter-duration bonds, still preferring corporate bonds, foremost from lower-rated segments still offering a good return outlook. EM corporate and sovereign bonds also show appeal.



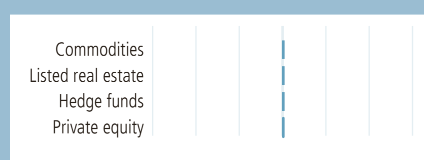
Currencies

The GBP is our preferred currency among the majors; it will likely be supported by falling inflation, better growth figures and the end of quantitative easing. We favor the USD over the EUR and (as a result of the peg) the CHF, as the ongoing Eurozone crisis weighs on the EUR.



Commodities and NTAC

We close the gold overweight; investor demand is unlikely to offset rising production, and safe-haven appeal has dropped. Expecting stronger Chinese growth in 2Q, we close the underweight in base metals; good entry points should arise in months ahead. Copper could have a short-term setback.



This page contains investment recommendations that were not issued solely by UBS CIO WM Research and therefore are not subject to all the legal provisions governing the independence of financial analysis.

Key investment ideas

NEW IDEA

Equities **US mid caps: The sweet spot**

Even though the growth outlook in the US is below its long-term trend, it is likely to be resilient with little risk to the upside or downside over the next six months. US mid caps usually have higher expected top-line (sales) and bottom-line (earnings) growth than large caps in such a growth environment. This supports the superior relative performance of US mid caps, although it does come with the risk of more cyclical earnings.

> See **page 18**

STILL OPEN

Equities **Emerging market equities**

Currently, average emerging stock market valuations are not demanding. Given a longer-term investment horizon, we would expect emerging equities, on average, to outperform developed market equities. Near term, however, uncertainty about global growth has increased volatility.

NEW IDEA

Bonds **Emerging market corporates: A growing asset class**

We forecast a base case return of 7% for EM corporate credit over the next 12 months in USD, but temporary setbacks cannot be ruled out. We recommend building up exposure to EM corporate bonds in a well-diversified way and advise using cash positions and exposure to developed market government bonds as the main funding source.

> See **page 20**

STILL OPEN

Bonds **US high-yield corporate bonds**

In an economic environment of low positive growth, moderate inflation and low interest rates, US high-yield corporate bonds are expected to achieve superior total returns over the next 12 months. We currently avoid European issuers as they are more exposed to further deterioration of the debt crisis in Europe.

STILL OPEN

Currencies **GBP – the best of the majors**

The combination of political stability and strong fiscal consolidation kept the UK's AAA rating intact and falling inflation should lift real interest rates – both supporting the GBP. We like equities and selected real estate, but prefer using corporate bonds with a rather short duration of two to four years to invest in the GBP.

“How are Central and Eastern European countries performing? They are luckily not part of the Eurozone’s woes. Poland is a notable success story.”

Dear readers,

The European crisis remains far from over. Spain is now in the spotlight of investor concerns, the elections in France and Greece could change the game for better or for worse, while in the Netherlands, yet another European government has been ousted. All this is unnerving, especially given that elsewhere the economic situation is improving. The US is growing, not in leaps and bounds but at least solidly. Moreover, in our view, China has now landed, and hence is ready for another takeoff in the second half of the year, pulling many exporting nations in its wake.

Europe will take center stage for soccer fans when the European championship kicks off in little more than a month. For the first time since 1976, it will be played in the former Eastern bloc. With Eurozone host countries dominating in the past three decades, this year’s co-hosting by Poland and Ukraine marks a break in the event’s history – much like the Eurozone crisis marks a break in the currency union’s history.

This provides a good backdrop for a closer look at how Central and Eastern European countries are performing. They are – luckily enough, one might add – not part of the Eurozone. Kilian Reber gives an in-depth analysis in the Focus article and this month’s interview partner is Professor Leszek Balcerowicz, former Polish Deputy Prime Minister, Finance Minister and central bank President, who explains Poland’s success story and delivers his thoughts on the euro.

Andreas Höfert
UBS Chief Economist

The next issue of *UBS investor’s guide* appears on 8 June 2012.

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You will find a comprehensive glossary of technical terms on the internet site www.ubs.com/glossary

View of Warsaw / dreamstime

Central and Eastern Europe: *growing without the euro*

Just a few years ago, the conventional wisdom was that many countries in Central and Eastern Europe were striving to gain entry to the Eurozone. Today, in the wake of the sovereign debt crisis, stronger countries like Poland and the Czech Republic are in no hurry to adopt the euro. In fact, it looks as if the only countries willing to join are those that may be deemed too weak to get in.

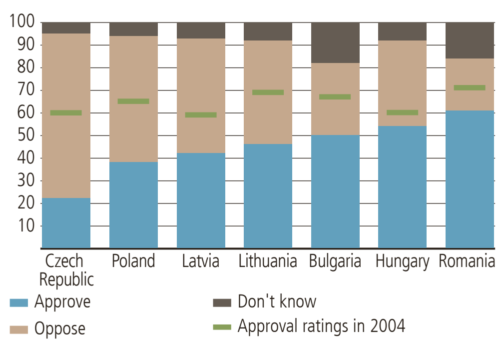
Kilian Reber, Analyst, UBS AG

Once praised as a fast track to economic success and prosperity, today the euro has lost much of its appeal for many of the former Soviet bloc nations. The common currency used to bring quick growth via cheap borrowing, but now it is a currency with an uncertain future. Eurozone countries have to share other countries' fiscal burdens and give up control over monetary, and possibly fiscal, policy. In Poland and the Czech Republic, public support for Europe's single currency has fallen dramatically since their entry into the European Union (EU) in 2004. Polls by the European Commission's Eurobarometer survey show that opposition to the euro has grown among Poles and Czechs from 26% and 32%, respectively, in 2004, to 56% and 73% today (see Fig. 1).

Nevertheless, Poland and the Czech Republic, like many of their Central and Eastern European (CEE) peers, are required by the EU accession treaty to introduce the euro. They committed themselves to doing so when they entered the European Union in 2004 (see Fig. 2). However, there is no fixed date attached to this commitment, and it seems to have moved to the very bottom of both countries' policy agendas. Poland and the Czech Republic seem to be in no rush to join the Eurozone, given the region's current headwinds, and no longer have an official target date for the introduction of the single currency. With 38 million people, Poland is in fact the second-largest EU country that has not yet introduced the euro, after the UK – and it is unlikely to do so in the near future. Looking at Slovakia and Estonia, which needed to chip in to bail out other, wealthier Eurozone economies, it is unsurprising that Poland and the Czech Republic are taking things slowly at this stage.

Fig. 1: Euro approval ratings falling in stronger countries

European citizens' attitudes towards the euro (2004 and 2011, in %)



Source: European Commission Eurobarometer, UBS CIO, 25 April 2012

Buffered by free-floating currencies

Many countries in Central and Eastern Europe (CEE) are very much export-oriented, and a large part of their exports go to the Eurozone. However, having their own currencies instead of the euro buffered many CEE countries from much of the turbulence of the global financial and economic crisis. Currencies in CEE weakened by an average of 20% against the euro at the height of the crisis in 2009, but countries in the region with free-floating currencies also tended to do much better in the crisis than those without. Poland, for example, whose currency lost almost 30% against the euro at its peak, was the only economy in the European Union not to experience a recession in the midst of the crisis in 2009. The fact that Poland received EUR 6bn net of development funds from the EU and engaged in fiscal loosening clearly helped its economy significantly. Nonetheless, we expect the country's economy to hold up relatively well again this year, owing to its strong domestic economy and buffered export sector. We project 3% growth for Poland in 2012, compared to an overall Eurozone contraction of –0.4% as per our 2012 growth forecast. We expect most CEE countries to see positive economic growth this year, while several Eurozone economies are likely to experience yet another recession in 2012.

Fig. 2: The European Union's expansion to the East

UBS CIO as of 25 April 2012

Higher interest rates in their own currencies

The fact that the stronger economies in Central and Eastern Europe, like Poland and the Czech Republic, still have their own currencies means that they offer higher interest rates than investors get even in the core of the Eurozone. Ten-year government bonds in local currency of Poland and the Czech Republic currently pay interest rates of 5.6% and 3.5%, respectively, compared to 1.8% on German Bunds. However, compared to the core economies of the Eurozone these economies hold less debt and should show stronger growth. The rating gap between Poland and the Czech Republic versus their Eurozone peers is therefore narrowing, with the two countries holding an A- and a AA- rating, respectively, from the rating agency Standard & Poor's. Their currencies will obviously remain volatile and affected by the Eurozone crisis, too. Nevertheless, we expect that at current levels, both the Polish zloty and the Czech koruna still offer potential against the euro over a 12-month horizon. The fact that the stronger economies of Poland and the Czech Republic today have little incentive to adopt the euro provides opportunities for investors looking to diversify out of the Eurozone.

Who still wants to adopt the euro

Are any countries in the CEE region still interested in adopting the euro after all of the Eurozone's recent problems? In our view, it will likely be the region's weaker economies that still see more potential benefits than drawbacks in the single currency. Lower euro interest rates that could help them find their way back to growth, as well as access to the European Financial Stability Facility's (EFSF) financial assistance for battered member states, still make the Eurozone an attractive club for weaker economies.

Among the countries that are already members of the European Union, we expect Hungary and Romania to have the strongest desire to attain Eurozone membership. They both exhibit relatively weak growth as well as unfavorable debt and deficit dynamics. It is thus not surprising that public surveys by Eurobarometer show the majority still in favor of introducing the euro, specifically 54% and 61% of respondents in Hungary and Romania, respectively (see Fig. 1). However, the European Union will likely be cautious about letting these weaker economies into the Eurozone, given the challenges currently confronting the currency union due to some of its weaker members. The further expansion of the Eurozone into Central and Eastern Europe thus faces the fundamental issue that the remaining countries most willing to join are those countries least likely to be accepted.

Some are past the point of no return

Nonetheless, the recent admission of Estonia into the Eurozone in 2011 shows that there are still economies willing to join and economies the European Union is willing to let in. We think this group is largely limited to those countries that are past the point of no return, so to speak, with Bulgaria and the Baltic economies of Lithuania and Latvia probably the last remaining candidates on this bench. They already suffer from most of the downsides that a single currency brings without enjoying the benefits. They have pegged their currencies to the euro – see page 10 for the explanation of a "currency peg," our term of the month – which is why the currencies have not weakened in recent years, even in the midst of the global financial crisis in 2009. Without the benefit of a floating currency to act as a buffer during the crisis, these countries had to introduce tough austerity measures, such as cutting public sector wages and pension plans, in order to improve their competitiveness. Having gone through such a tough internal devaluation, we believe it would be difficult for these countries' governments to justify abandoning their plans to join the Eurozone, given the people's approval rates of the euro (see Fig. 1). We thus believe that Bulgaria, Latvia, and Lithuania with their fixed currencies will be the most likely candidates still interested in joining the single currency. The fact that the Baltic economies are relatively small might also make it easier for them to be taken up as new members, as in the case of Estonia (see box).

A slower expansion to the east

Given that the Eurozone has arguably become less attractive in recent years, while its architects have simultaneously become more cautious on new members, we expect the currency union to expand more slowly in the coming years. The smaller Baltic economies will likely be the most willing – and able – to enter the Eurozone, while weaker economies like Hungary and Romania will find it more difficult to gain entry. Stronger economies like Poland and the Czech Republic, on the other hand, will likely remain in wait-and-see mode. The most important question, however, is no longer whether an economy is part of the Eurozone or not. It is whether a country is strong enough to be let in. Ironically, strong countries might not be that interested in joining anymore.

Estonia: the Eurozone's new addition

The Baltic state of Estonia introduced the euro in January 2011, amid the ongoing Eurozone crisis. Estonia had effectively had the euro as its currency since June 2004, however, when it pegged its currency to the euro. With a GDP amounting to roughly 0.15% of the Eurozone's total output, Estonia is an economic flyweight, a fact that undoubtedly helped to secure its entry into the Eurozone during such a turbulent time. Looking forward, the diminutive size of the economies that are past the point of no return – in other words, Bulgaria, Latvia, and Lithuania – might provide a similar boost to their aspirations to join the euro. The combined GDP of these three countries is just 1% of the Eurozone total..w

Agenda

7 May 2012
Swiss unemployment rate
We expect Swiss unemployment to continue to fall and are forecasting a rate of 3.0% for April.

7 May 2012
Swiss inflation
The consumer price index fell 1.0% year-on-year in March. We expect inflation to remain at –1.0% in April.

15 May 2012
Eurozone Q1 GDP
Another 0.3% decline in GDP is likely, confirming a technical recession (two negative quarters in a row).

15 May 2012
US April CPI
As the effect of energy prices weakens, the inflation rate should fall. Given the healthy economy, the focus is likely to be on the core inflation rate.

31 May 2012
Swiss Q1 GDP
Switzerland is likely to continue to stand apart from the Eurozone and avoid a downturn in output in Q1.

South Africa

World Cup affected stock markets

With the European soccer championship set to kick off in Poland and Ukraine next month, trading data from the 2010 World Cup in South Africa suggests markets may be affected by all the excitement as well.

In 2010, the soccer World Cup took place in South Africa. Some 2.2bn viewers tuned in for at least twenty minutes, as data compiled on behalf of FIFA show. These figures posted record levels, and researchers from the European Central Bank also found that the World Cup affected stock trading. The median number of trades on local stock markets fell, for example, by 45% when the national team was playing, while volumes dropped nearly 55%. Furthermore, the study found fewer co-movements between stocks than usual, suggesting that relevant news was not incorporated equally quickly in all stocks as would be so under normal circumstances.

Kilian Reber, Analyst, UBS AG

Term of the month

Currency peg

?

A currency peg fixes one currency's exchange rate by matching it to the value of another currency. Several Eastern European countries pegged their currencies to the euro as they moved toward adoption. The aim was to avoid large exchange rate fluctuations. Today, Lithuania, Latvia, and Bulgaria still have a currency peg in place, and we deem them most likely to progress to the next step of euro adoption, as outlined in the Focus article of this *UBS investor's guide*.

You will find a comprehensive glossary of technical terms on the internet site
www.ubs.com/glossary

1001 Letters

Ilya Stroganov's dispatch

It was 300 years ago that Peter the Great transformed the marshlands on the delta of the Neva River into his new capital. The monarch wanted to modernize Russia as rapidly as possible and so the Russian nobility moved to the Baltic. New ideas were coming from the West, including the concept of paper money. A certain John Law had had the brilliant idea of using banknotes to get France's economy moving, as gold had become scarce following various military campaigns. It worked, and if they wanted, people could exchange their paper money for gold. Admittedly, there was more paper in circulation than gold to back it, but this was no problem, provided everyone didn't want their gold at once. It was only when Law also sought to repay the government debt with the aid of a speculative bubble that he lost his reputation. Ilya Stroganov, the Czar's secret dispatch bearer, had seen it coming. He wrote a report to the Czar about paper money, but advised against backing it with gold. Instead, he argued that paper money should be backed with interest-bearing securities. Unfortunately, his dispatch remained unread for nearly 300 years. Yet sure enough, today money is not simply printed but lent against securities. And the transaction can be reversed when there is "too much" money in circulation. That is far more practical than mining to extract money from the earth – or waiting for a handout from Frankfurt. In any case, Kilian Reber's Focus article on the euro in Central and Eastern Europe would have pleased Stroganov.

Thomas Krümmel, Analyst, UBS AG

UBS equity compass

Natural gas growth gainers

We think natural gas will play a greater role in the global energy mix. It is relatively easily available, cheap and cleaner than other fossil fuels. Demand will grow strongly in the next two decades, offering many investment opportunities along its value chain. Natural gas prices differ markedly across regions, unlike oil prices. North America has seen oversupply and depressed prices, which favor consumers. However, Europe and Asia have fairly concentrated gas markets, which favor producers. Services and supplies to support the natural gas industry offer opportunities across regions, which includes machinery, engineering, energy services or pipeline owners.

Rudolf Leemann, Analyst, UBS AG

UBS equity compass

UBS equity compass is our in-depth analysis of global stock markets, available in German and English. You can obtain this monthly publication from your client advisor, from the "Equities" section of the WMR portal or by subscription.

"Poland should *push for reforms* regardless of the euro"

Compared to regional peers, Poland's economy is in pretty good shape. For Leszek Balcerowicz, the former president of the National Bank of Poland, Deputy Prime Minister and Minister of Finance, Poland still has room for improvement. The architect of the transformation from a planned economy into a market economy thinks Poland should fulfill the criteria to become a member of the Eurozone. Whether or not to adopt the euro is another question.

Interview: Pierre Weill, UBS AG

Prof. Balcerowicz, 23 years ago Poland was the first country in Eastern Europe to start transforming from a planned to a market economy. You were at the forefront, pushing for a clear and fast cut. Looking at the present situation – has Poland achieved what you expected to be possible then?

Leszek Balcerowicz: Poland has achieved a lot compared to other countries in the region. Its GDP has almost doubled since 1991. That is a good measure of success. We introduced many market-oriented reforms, opened the economy through privatization and introduced competition. Our macroeconomic policy has helped to avoid recessions so far. Slowdowns have occurred, but not recessions, which distinguishes Poland from other radical reformers in the region, including the Baltic States. We did not achieve everything we planned. There are still some privatizations that we can realize, even though the Polish economy is mostly private, and we need a fiscal consolidation, which should and can be achieved by limiting current spending.

In 2009, Poland was basically the only European economy to avoid a recession. The economic situation now looks solid. What is the economy's strength?

In 2009, Poland avoided a recession because we had rather conservative monetary policy. This helped us to avoid the credit boom and thus the credit bubble, in contrast to the Baltics and Ukraine, as well as Britain, Spain and Ireland. I was governor of the Bank of Poland and head of the committee for banking supervision between early 2001 and 2007, and I remember it well. We were watching the rate of growth of mortgage credit denominated in foreign currency, and we came to the conclusion that it was growing too fast, so we introduced some regulation to slow it down. We were probably pioneers in macro prudential regulations in the real economy. A second factor was the size of the Polish economy compared to the Baltics, for instance. The trade shock we suffered was much smaller. And third, the Polish economy is more diversified than that of Russia or Ukraine. We do not depend on exports of single commodities like Russia with oil and gas or metallurgic products like Ukraine.

Where would you set the priorities for additional reforms?

You have to look at three factors, which are the proximate reasons for longer-term economic growth. The first is employment, the second is saving and investment, and the third is productivity, which depends mostly on innovation. Regarding employment, we face the aging process, like most other European countries. This means that the government will have to increase the retirement age. We also need to raise employment ratios among both younger and older people. To increase the savings ratio we have to reduce the budget deficit. It has started to decline in the last two years, but this process has to go further and should rely mostly on the reductions in public spending and not on increases in taxes. So proper fiscal consolidation is important in two ways – it reduces the risk of a fiscal crisis, and it strengthens the savings ratio. Finally on productivity, Poland has performed quite well during the last 20 years, but further progress demands reforms which would support increased competition. This is one of the government's priorities.

Will these reforms improve Poland's public finances? Compared to older EU members, Poland has relatively low public debt.

I think that fiscal consolidation will continue. However, it should focus more on streamlining expenditures than on increasing taxes. Regarding public debt, Poland's constitution of 1997 has introduced a debt brake: Public debt cannot exceed 60% of GDP. In addition, when I was finance minister, in 1998 we introduced via ordinary legislation the lower thresholds of 50% and 55% of GDP. If you pass a threshold, some corrective actions are mandatory. This helped Poland very much. Without these limits, our public debt would have been higher.

Looking at the difficulties the Eurozone countries now face, is membership in the euro still of high priority to Poland?

This is an academic question right now, because Poland's budget deficit exceeds the Maastricht criteria. We should continue to push for reforms, which are needed regardless of the euro. If we introduce them, euro membership would be a positive option. Poland should aim not only at achieving the criteria to become a euro member, but to become a member of the top bracket with regard to its economic strength. The main conclusion of the performance of the Eurozone so far is that countries which were disciplined and flexible enough were able to achieve net benefits due to their Eurozone membership. I think of Germany, Austria, the Netherlands and Finland.

So the goal to achieve the Maastricht criteria and beyond is an incentive?

To the extent that the euro remains attractive.

Do you still believe in the euro?

I don't think there is a danger of a breakup of the Eurozone. I would not exclude that a single country could choose to drop the euro and revert to its own currency. But this should not be equated with a Eurozone breakup. I think there is too much drama on this question. Ultimately the Eurozone is a special case of a hard peg area, like previously the gold standard or – to some extent – the Bretton Woods system. Arrangements like that can function well if the members have fiscally disciplined economies which display lots of flexibility in the real sectors.

Do you expect any positive impact from the Euro 2012?

No, not at all. I have never considered this to be important for Poland's longer-term economic future. Spending booms can only last for a while, and most of these investments would have to be made anyway. Events like that are not good substitutes for reforms.

Europe's backfire *of the vanities*

Photo: dreamstime

The European crisis started over two years ago, but so far measures to solve or even mitigate it have been ineffectual. Not that European leaders haven't tried hard; recall the numerous "last chance" meetings convened in 2011. However, in my view, solutions so far have not paid sufficient attention to a fundamental economic rule: People react to incentives.

Andreas Höfert, Chief Economist, UBS AG

This is the also the core thesis of one of the best-selling books on economics in the last decade, Levitt's and Dubner's *Freakonomics,* and its follow-up, *SuperFreakonomics*: "Politicians have all sorts of reasons to pass all sorts of laws that, as well-meaning as they may be, fail to account for the way real people respond to real-world incentives."

The European toolbox to solve the crisis illustrates this claim almost perfectly, as can be seen with three prominent measures and ideas: the European Central Bank's (ECB) Long Term Refinancing Operations (LTROs), its Securities Markets Program (SMP), and the austerity packages currently being implemented in several European countries.

The LTROs are loans from the ECB to European banks for three years at a rate of just one percent. The main aim of this lending program of over 1 trillion euros was to stabilize the banking sector. However, there was a second, more implicit idea, which has gained the name of "Sarkozy trade" after the French president suggested last year that European banks could make profits by using the cheap loans to invest in the region's government bonds. At first this indeed seemed to work; it reduced the interest rates of Spanish and Italian bonds. However, these interest rates have risen again by now, and banks which made such trades have suffered losses.

The SMP, the buying of European government bonds by the ECB, also lost much of its power when it became clear in the wake of the Greek default that any bonds purchased by the ECB become senior compared with the other outstanding ones. So for example, if the ECB buys Spanish bonds now, those private investors still holding Spanish bonds are subordinated to the ECB, and hence their bonds lose value.

Finally, the austerity measures lost much credibility because they didn't take into account that fiscal multipliers are larger than one. This means that if you want to cut your deficit-to-GDP ratio by 1 percentage point, you need to save much more than 1% of GDP and in some cases nearly 2%, because people react to the cuts, resulting in a growth drop, lower tax revenues, higher unemployment, etc.

Therefore, measures still in European institutional and national pipelines should be deliberated very carefully. If not, they can easily backfire and ultimately even worsen the crisis.

How big of an issue are the remaining Swiss franc loans in Central and Eastern Europe?

Kilian Reber, Analyst, UBS AG

Swiss franc loans are still a worry for Central and Eastern Europe (CEE), particularly for Hungary. Many borrowers took out long-term mortgages and consumer loans in Swiss francs because of how much lower interest rates are in Switzerland than in local markets. This was especially common in Hungary, where close to HUF 4trn of Swiss franc loans were taken out between 2004 and 2008, bringing the current stock close to HUF 6.7trn at today's exchange rate (CHF 28bn). Today, they still make up 44% of all mortgages and consumer loans in Hungary, equivalent to 25.5% of GDP. In Poland and Croatia they make up around 10% of GDP.

Currencies in the region have fallen between 35% and 55% against the Swiss franc since the bulk of these loans were taken out. Croatia lies at the stronger end of this range and Hungary at the weaker end, while Poland falls in the middle with a currency that has depreciated by 40% versus the franc. The share of non-performing loans (NPL) is thus highest in Hungary at 12.5%, while NPL stand at 1.9% for Poland and 8.5% for Croatia. These Swiss franc loans are only declining slowly, as many borrowers have little interest in repaying their Swiss franc loans at the current unfavorable exchange rates and are thus waiting for better times.

Swiss franc loans present a particular burden for the Hungarian economy as they undermine consumption at a time when exports to Western Europe remain under pressure. Given that Hungarian exports have historically made up almost 70% of GDP, the country is likely to see zero growth for yet another year in 2012. Even though Swiss franc loans have also been prominent in Poland, they are not as pressing for the Polish economy: Lending standards in Poland were relatively prudent, and Swiss franc loans were only given to borrowers able to afford a loan at local rates. Poland also has better economic fundamentals. In Croatia, the impact on the economy has also been limited, as most foreign currency lending was done in euros. In Hungary, however, most borrowers unable to afford a loan at local rates were able to get a Swiss franc loan. We expect these Swiss franc loans to remain an issue for Hungary, and also for the Western European banks that provided the majority of the loans. They may have to make further write-offs on these loans in the coming months.

What's on your mind?

> Ask the expert at: **ask-ig@ubs.com**

Global growth on track despite European concerns

Europe is the epicenter of financial market concerns, and an underweight in European equities and the euro remains prudent. A broadly improving US economy coupled with better Chinese growth prospects leads to a pro-risk stance in our portfolios. We particularly highlight US high yield bonds and US equities, and the British pound is our preferred currency.

Karsten Kure Bagger and Mark Andersen, CIO Investment Office, UBS AG

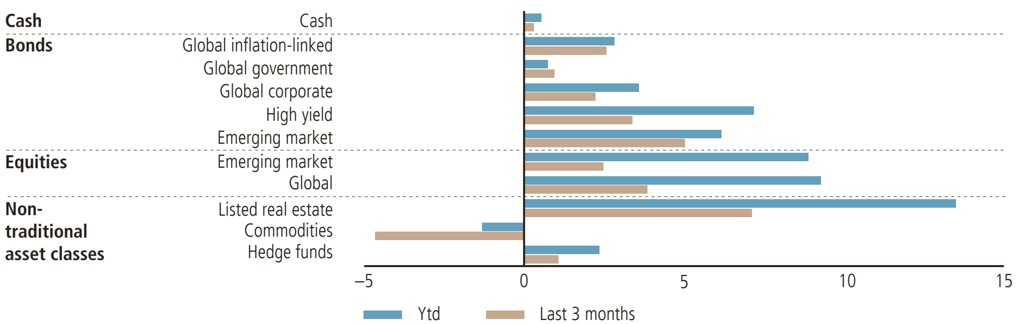
China's growth outlook improving

Concerns of a so-called hard landing are diminishing, as forward-looking indicators have become encouraging. We believe that January and February likely marked the low point for China's growth in this cycle. We have already seen clear signs of an economic improvement in March: The sequential momentum in exports and property sales has stabilized, new orders as noted in purchasing managers indices have edged up, and business sentiment is improving. Crucially, the ramping up of new loans in March and continued declines in private sector interest rates show that China has actively piloted its economy to a soft landing. We now expect the debate over China to shift to when the economy will take off again. We hold an overweight position in emerging market equities.

US labor market recovery genuine

This month's strong US consumer confidence and rising bank credit reaffirm that the US recovery is more robust than in 2011. Also, US house prices seems to have reached a bottom, household balance sheets are still improving and the vast majority of US companies surprised positively in the first quarter of the earnings season. The weaker US labor market report for March must be kept in context, as job growth in the first quarter of the year was stronger than during any quarter since 1Q 2006. While the trend in the underlying economy appears supportive, decisions by policy makers are likely to be important for the US outlook. Overall the US recovery has again confirmed its viability, and we maintain a preference for US assets.

Performance of the main asset classes
In %, local currencies



Source: Bloomberg, Thomson Reuters, UBS CIO

Europe, as ever, more complicated

Growth in the Eurozone remains weak, and the political and debt situations are complex. The specter of the sovereign debt crisis reemerged when Spanish Prime Minister Rajoy announced that Spain would need to revise its 2012 budget deficit target upward, to 5.8%. While we see that Spain's debt dynamics are indeed challenging, we believe they can be overcome. Even if rates remain at the current elevated levels, our baseline scenario is that Spain's debt-to-GDP ratio will peak at roughly 91% in 2014.

The level of complexity increases when we observe a packed political calendar, including French and Greek elections, a referendum in Ireland, and heightened uncertainty in the Netherlands. Consequently, we continue to hold an underweight position in European equities and the euro.

Asset allocation

We believe that US and Chinese growth are on track to trump European concerns, and as such maintain an overweight in risky assets. We thus hold overweight positions in US high yield bonds, emerging market bonds, and investment grade credit. In equities we remain neutral and look for clearer signs of fundamental improvement in the global economy, or a significant improvement in valuations relative to other asset classes, e.g. credit.

Regionally, we still prefer US equities, where the vast majority of companies reporting so far have surprised positively in the first quarter earnings season, and emerging markets, which should be supported by ample global liquidity. We remain underweight Eurozone equities, as the region remains the epicenter of the largest tail risk.

We continue to prefer to take the bulk of our risk in credit. We believe US high yield offers a very attractive risk-reward profile and we therefore maintain it as our biggest overweight position. From here we expect total performance of some 7% for US high yield over the next six months.

Following last month's risk aversion, benchmark bond yields have dropped to record lows. From here we expect yields to move slightly higher. Consequently, we recommend shorter-duration bonds (an underweight in duration in portfolios), to provide more protection against rising yields.

We close our gold overweight, as investor demand is unlikely to compensate for higher production, weaker jewelry demand and its dulling safe-haven appeal. Given our expectation of stronger Chinese growth in 2Q, we close the underweight in base metals, though we highlight that copper is still vulnerable to a short-term setback.

Among currencies, we keep our preference for the US dollar over the euro, given Europe's weaker growth outlook and ongoing event risks. Our most preferred currency is the British pound, which should be supported by the end of quantitative easing, better relative growth, and diversification from other major currencies.

US mid caps: *The sweet spot*

Investment idea **Mid caps are more cyclically exposed and have higher growth potential than large caps and, given the US economic outlook, should see outperformance. Investors should hold a core US equity allocation with a satellite exposure to mid caps.**

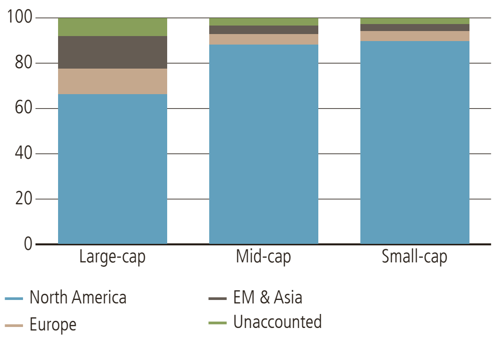
Christopher Wright, CFA, Strategist, UBS AG

Mid caps offer higher growth potential than large caps, as they are still nimble enough to grow and adapt to changing trends within their industries. They are also stabler than small caps and, if required, have better access to capital during difficult periods. This puts them at a sweet spot for investment, a best of both worlds, which has been rightly rewarded through time. Leading economic indicators in the US tell us that the country is in an earnings uptrend, which points to a stage of the economic cycle that poses less risk to company earnings. Furthermore, the GDP growth outlook for the US appears to have little risk of positive or negative surprises over the next six months. This means that we can be surer that the benign economy should pose less risk to the earnings of its companies than could be experienced elsewhere, particularly in Europe.

For this reason it makes sense to increase exposure to US companies that generate more of their revenues domestically, since we can feel safer that they will be less affected by problems elsewhere in world. This is a further reason we prefer mid caps in the US right now, as they generate 90% of their revenues at home, whereas large caps generate just 65% at home.

Finally, US large caps are currently very cash rich, which together with their lower growth outlook means there is ammunition for them to put this cash to work and "buy growth" through acquisitions within the mid cap space.

Greater domestic revenue exposure
Mid caps are a purer way to invest in the currently robust US economy



Source: Citi, UBS CIO

Recent developments and recommendation

We believe investors should hold a core US equity allocation, while adding additional exposure to US mid caps in a diversified way. This allows investors to follow our preference for US equities, while also potentially benefiting from additional outperformance of the mid-cap section of the market.

Investment solutions →

At a glance

- Even though the growth outlook in the US is below its long-term trend, it is likely to be resilient with little risk to the upside or downside over the next six months.
- US mid caps usually have higher expected top-line (sales) and bottom-line (earnings) growth than large caps in such a growth environment.
- This supports the superior relative performance of US mid caps, although it does come with the risk of more cyclical earnings.

UBS (Lux) Equity Fund – Mid Caps USA
USD: Valor 255789

CHF-hedged: Launch planned for 29 May 2012 (subscription period 18 – 29.5.2012)

The fund invests predominantly in companies with a market capitalization of less than USD 10 billion. When selecting stocks, the portfolio management team focuses on companies' flexibility and their ability to innovate. The portfolio is diversified across various sectors.

ETT on S&P 400 Midcap Total Return Index
USD: Valor 18 475 560

The ETT offers a 1:1 participation in the performance of the S&P 400 Midcap Total Return Index. With the ETT the investor gets easy and cost-efficient access to the underlying, which tracks the performance of US mid caps. The ETT comes with no management fees and dividends are reinvested (total return).

Emerging market corporates: *a growing asset class*

Investment idea Emerging market (EM) corporate bonds allow investors to tap into the next stage of EM growth and development.

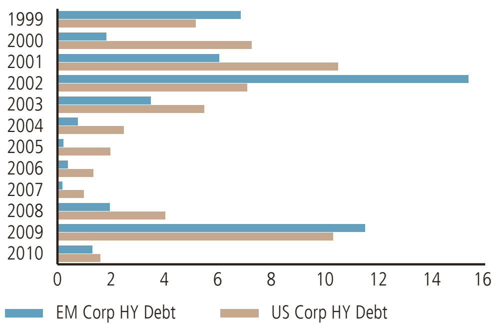
Kilian Reber and Michael Bolliger, Analysts, UBS AG

Our relatively benign global economic outlook, which sees growth improving and US Treasury yields gradually rising in 2012, makes EM corporate bonds an attractive asset class. Given EM corporate bonds' more cyclical nature and longer duration, we expect a base case return of around 7% over the next 12 months in USD. This compares to an expected return for EM sovereign bonds of 4% for the same time frame.

Improving fundamentals

Good economic growth and low interest rates have helped EM corporates grow their profits while keeping their balance sheets healthy. This is reflected in the lower high yield credit default rate of EM corporates compared to US corporates for many years over the last decade (see chart). Given our favorable growth outlook and the fact that 75% of the EM corporate credit space is of a cyclical nature, the asset class should remain supported in coming months.

High yield default rates lower in EM
Default rates of EM and US corporate high yield bonds, in % of total



Source: JP Morgan, UBS CIO, 20 April 2012

A rapidly growing asset class

Since 2003, corporates have overtaken sovereigns as the main issuers of new USD-denominated EM debt. While emerging market corporates issuing too much debt can at some point become a risk rather than an opportunity, we believe the asset class is still in a healthy growth mode. As EM corporates have markedly improved their balance sheets over recent years, they have gained better access to capital markets, and we expect this trend to continue over coming years, thus developing the asset class and improving its liquidity profile.

Recent developments and recommendation

We advise interested investors to build up exposure to EM corporate credit through a bond portfolio that is well diversified across EM regions and sectors. Positions in cash and developed market government bonds should be used as source of funds.

The relatively large number of EM corporate issuers within each region allows for better diversification than just by using EM sovereign debt. Investors need to be aware, however, that EM corporate credit is of a more cyclical nature than EM sovereign debt. Therefore, investors need to be able to tolerate this increased volatility.

At a glance

- Improving global growth and gradually rising US Treasury yields in 2012 make emerging market (EM) corporate bonds an attractive asset class.
- We forecast a base case return of 7% for EM corporate credit over the next 12 months in USD, but temporary setbacks cannot be ruled out.
- We recommend building up exposure to EM corporate bonds in a well-diversified way and advise using cash positions and exposure to developed market government bonds as the main funding source.

Investment solutions →

BlueBay Emerging Markets Corporate Bond in USD
Valor 3 989 168

BlueBay Emerging Markets Corporate Bond Fund invests predominantly in fixed income securities issued by corporates and financial institutions based in emerging markets. The selection process is qualitative and quantitative, driven by proprietary research involving a detailed analysis of screened credits and incorporating the firm's macroview. BlueBay has one of the most experienced emerging market debt teams in the industry, managing over USD 4.7bn in assets in emerging market debt.

PIMCO Emerging Markets Corporate Bond in USD
Valor 1 8012 261

CHF-hedged: Launch planned for May 2012

PIMCO Emerging Markets Corporate Bond Fundis a diversified, high quality-biased portfolio of emerging market corporate bonds with a strong focus on top-down decisions. It offers investors access to the performance of mainly USD-denominated emerging market corporate bonds. PIMCO has been monitoring the development of emerging economies since 1980.

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Instruments classified by asset class		Valor	NAV[1]	Performance (%)[2]			Volat. (%)[3]
				1 year	3 years	5 years	3 years
GBP – the best of the majors							
UBS-ETF FTSE 100 A	GBP	1 272 999	56.11	0.89	61.68	7.54	15.20
JOHCM UK Equity Income GBP Acc	GBP	2 010 408	1.82	3.31	94.36	18.96	19.08
MFS Meridian Funds UK Equity Fund A1 GBP Inc	GBP	2 196 351	6.29	2.45	81.38	23.48	14.88
Emerging market corporate bonds							
BlueBay Emerg. Market Corp. Bond Fund DIST-R – USD (Div)	USD	3 989 168	119.29	5.00	n.a.	n.a.	n.a.
PIMCO Emerging Markets Corporate Bond E USD Acc	USD	18 012 261	10.16	n.a.	n.a.	n.a.	n.a.
Macro-dynamics supportive of Asian currencies							
UBS (Lux) Bond SICAV – Asian Local Currency Bond (CHF hedged) P-acc	CHF	12 192 345	99.30	–2.92	n.a.	n.a.	n.a.
UBS (Lux) Bond SICAV – Asian Local Currency Bond (USD) P-acc	USD	12 192 307	100.28	–2.06	n.a.	n.a.	n.a.
Templeton Asian Bond Fund Class A Acc CHF-H1	CHF	11 418 870	10.66	–2.20	n.a.	n.a.	n.a.
Templeton Asian Bond A Acc $	USD	2 277 380	17.47	1.40	46.10	41.71	10.75
US high-yield corporate bonds							
UBS (Lux) Bond SICAV – Short Duration High Yield (CHF hedged) P-acc	CHF	12 247 403	104.23	3.16	n.a.	n.a.	n.a.
UBS (Lux) Bond SICAV – Short Duration High Yield (USD) P-acc	USD	12 247 401	104.80	3.67	n.a.	n.a.	n.a.
UBS (Lux) Bond SICAV – USD High Yield (CHF hedged) P-acc	CHF	12 088 400	106.08	2.04	n.a.	n.a.	n.a.
UBS (Lux) Bond Fund SICAV – USD High Yield P-acc	USD	512 729	212.77	3.14	70.65	26.49	10.74
Fidelity Funds – US High Yield Fund A USD	USD	1 294 016	12.16	3.82	77.88	38.21	10.12
Solid scandies							
Nordea-1 Norwegian Kroner Reserve Fund BP	NOK	678 719	181.33	3.07	10.64	20.83	0.44
Nordea-1 Swedish Kroner Reserve Fund BP	SEK	343 884	182.97	2.75	5.70	13.29	0.34
Be more selective in corporate bonds							
PIMCO Unconstrained Bond E CHF (Hedged)	CHF	12 847 926	10.05	n.a.	n.a.	n.a.	n.a.
US mid caps							
UBS (Lux) Equity Fund – Mid Caps USA (USD) P-acc	USD	255 789	967.51	–4.98	86.65	12.71	21.65
High dividend yield							
UBS (Lux) Eq. SICAV – Global High Div. (CHF hed.) P-dist	CHF	12 976 602	97.14	n.a.	n.a.	n.a.	n.a.
UBS (Lux) Eq. SICAV – Europ. High Dividend (CHF) P-acc	CHF	12 168 937	88.77	–12.80	n.a.	n.a.	n.a.
UBS (Lux) Eq. SICAV – European High Dividend (EUR) P-acc	EUR	12 078 682	94.54	–5.95	n.a.	n.a.	n.a.
UBS (CH) Equity Fund – Swiss High Dividend (P-dist)	CHF	12 727 638	93.07	n.a.	n.a.	n.a.	n.a.
UBS (Lux) Equity SICAV – Emerging Markets High Dividend (CHF hedged) P-dist	CHF	13 642 905	106.12	n.a.	n.a.	n.a.	n.a.
Emerging market equities							
UBS (Lux) Equity Fund – Emerging Markets (CHF hed.) P-acc	CHF	18 162 702	98.23	n.a.	n.a.	n.a.	n.a.
UBS (Lux) Equity Fund – Greater China (CHF hedged) P-acc	CHF	18 163 029	100.79	n.a.	n.a.	n.a.	n.a.
JPMorgan Funds – JPM Emerg. Markets Eq. A (dist) – USD	USD	358 448	30.42	–7.59	87.78	16.35	24.82
UBS (Lux) Eq. Fund – Asian Consumption (CHF hed.) P-acc	CHF	18 161 120	100.73	n.a.	n.a.	n.a.	n.a.
PERLES on Emerging Markets Growth Winners Basket II	CHF	13 031 012	985.50	n.a.	n.a.	n.a.	n.a.
Hedge Funds: Find opportunities and manage risk							
UBS (CH) Global Alpha Strategies (CHF hedged) A	CHF	1 878 471	1184.89	–3.00	n.a.	n.a.	n.a.
UBS (Lux) Key Selection SICAV – Global Alpha Opportunities (CHF hedged) P-acc	CHF	11 202 132	99.40	–1.39	n.a.	n.a.	n.a.

Source: UBS
[1] as of 27.04.2012 (or latest available) [2] as of 30.03.2012 [3] as of 30.03.2012, annualized

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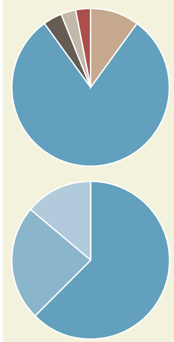
Recommended asset allocation: CHF

Conservative without equities

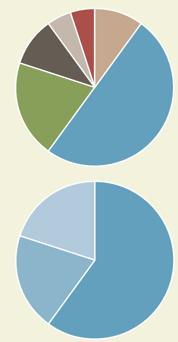
- Objective: Real capital protection
- Regular interest income
- Minimal price fluctuations
- No equities



Money market	10%
Bonds (no equities)	80%
Hedge funds	4%
Real estate	3%
Commodities	3%
Bonds	
CHF	50%
EUR	19%
USD	11%

Conservative

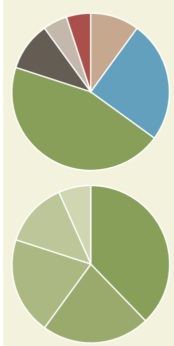
- Objective: Long-term, real asset protection
- Regular interest income, supplemented by dividends and capital gains
- Minor price fluctuations
- Small equity share (0–35%)



Money market	10%
Bonds	50%
Equities	20%
– Switzerland	7%
– Global	7%
– US	6%
Hedge funds	10%
Real estate	5%
Commodities	5%
Bonds	
CHF	30%
EUR	10%
USD	10%

Moderate

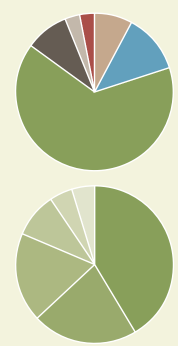
- Objective: Long-term real asset growth
- Steady interest, dividend yields and capital gains
- Moderate price fluctuations
- Balanced allocation between equities and bonds (equity share 30–65%)



Money market	10%
Bonds	25%
– USD	12%
– CHF	7%
– EUR	6%
Equities	45%
Hedge funds	10%
Real estate	5%
Commodities	5%
Equities	
Switzerland	17%
US	10%
Global	9%
Emerging markets	6%
Pacific	3%

Aggressive

- Objective: Long-term, large real asset growth
- Capital gains, interest and dividend yields
- Strong price fluctuations
- Investment with a focus on equities (45–90%)



Money market	8%
Bonds	12%
– USD	9%
– EUR	3%
Equities	65%
Hedge funds	9%
Real estate	3%
Commodities	3%
Equities	
Switzerland	27%
US	14%
Global	12%
Emerging markets	6%
United Kingdom	3%
Pacific	3%

The charts show the highlights of UBS's investment policy at a glance. These standard profiles are not the result of independent financial analysis, as they come from units outside UBS CIO WM Research. Specific allocations within a portfolio, however, should be based on the individual's investment profile, the particular needs of the investor and other aspects such as market liquidity.

In general, asset classes and markets that are considered attractive are weighted higher than the normal long-term portfolio weight (benchmark); those considered unattractive are weighted lower. The standard portfolios are only applicable at the time of publication and may change over time. Please contact your client advisor to obtain the latest standard portfolios.

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Selected UBS investment solutions		Valor	NAV[1]	Performance (%)[2] 1 year	3 years	5 years	Volat. (%)[3] 3 years
Multi Assets							
UBS (Lux) Strategy Xtra SICAV – Fixed Inc. (CHF) P-acc	CHF	3 637 327	10.43	1.47	8.48	n.a.	1.80
UBS (Lux) Strategy Xtra SICAV – Yield (CHF) P-acc	CHF	1 796 535	10.49	–0.76	17.49	–5.42	4.64
UBS (Lux) Strategy Xtra SICAV – Yield (EUR) P-acc	EUR	1 796 499	11.68	1.21	23.70	4.47	4.66
UBS (Lux) Strategy Xtra SICAV – Yield (USD) P-dist	USD	2 320 197	10.97	0.86	24.68	8.88	5.64
UBS (Lux) Strategy Xtra SICAV – Balanced (CHF) P-acc	CHF	1 796 537	10.16	–1.73	22.89	–15.07	7.37
UBS (Lux) Strategy Xtra SICAV – Balanced (EUR) P-acc	EUR	1 796 517	11.29	–0.70	31.56	–6.26	8.07
UBS (Lux) Strategy Xtra SICAV – Balanced (USD) P-acc	USD	1 939 581	11.84	0.08	35.66	0.85	9.32
UBS (Lux) Strategy Xtra SICAV – Growth (EUR) P-acc	EUR	1 796 526	10.82	–3.01	36.66	–17.47	11.06
UBS (Lux) Key Sel. Sicav – Global Alloc. (CHF) P-acc	CHF	1 910 945	9.96	–2.24	46.36	–16.75	13.08
UBS (Lux) Key Sel. Sicav – Global Alloc. (EUR) P-acc	EUR	1 910 942	10.72	–1.64	48.76	–13.18	13.24
UBS (Lux) Key Sel. Sicav – Global Alloc. (USD) P-acc	USD	1 910 935	12.15	–2.32	59.61	–5.93	15.62
UBS (Lux) Key Sel. Sic. – Global Alloc. Focus Europe (CHF hedged) P-acc	CHF	2 622 499	9.06	–2.76	47.90	–10.71	21.99
UBS (Lux) Key Sel. Sic. – Global Alloc. Focus Europe (EUR) P-acc	EUR	2 622 496	9.43	–2.05	50.00	–7.74	13.47
UBS (Lux) Key Sel. Sic. – Global Alloc. Focus Europe (USD hedged) P-acc	USD	2 622 500	9.54	–1.93	51.81	–5.49	13.52
UBS (Lux) Key Selection SICAV – Multi Asset Income (CHF hedged) P-dist	CHF	12 976 941	100.76	n.a.	n.a.	n.a.	n.a.
UBS (Lux) Key Selection SICAV – Multi Asset Income (EUR hedged) P-dist	EUR	12 976 942	101.55	n.a.	n.a.	n.a.	n.a.
UBS (Lux) Key Selection SICAV – Multi Asset Income (USD) P-dist	USD	12 976 943	101.49	n.a.	n.a.	n.a.	n.a.
UBS (Lux) SICAV 1 – All-Rounder (CHF hedged) P-acc	CHF	4 732 062	115.43	0.46	n.a.	n.a.	n.a.
UBS (Lux) SICAV 1 – All-Rounder (EUR hedged) P-acc	EUR	4 732 088	117.60	1.67	n.a.	n.a.	n.a.
UBS (Lux) SICAV 1 – All-Rounder (USD) P-acc	USD	4 732 036	136.42	1.80	37.07	n.a.	7.43
UBS (CH) Suisse – 25 P-dist	CHF	10 973 898	102.59	1.21	n.a.	n.a.	n.a.
UBS (CH) Suisse – 45 P-dist	CHF	10 973 899	101.84	–0.45	n.a.	n.a.	n.a.
UBS (CH) Suisse – 65 P-dist	CHF	10 973 900	95.85	–2.01	n.a.	n.a.	n.a.

Source: UBS
[1] as of 27.04.2012 (or latest available) [2] as of 30.03.2012 [3] as of 30.03.2012, annualized

Past performance is not a reliable indicator of future results. The performance shown does not take account of any commissions and costs charged when subscribing to and redeeming units. Commissions and costs have a negative impact on performance. If the currency of a financial product or financial service is different from your reference currency, the return can increase or decrease as a result of currency fluctuations.

Please refer to UBS Quotes or ask your client advisor for further information or a complete documentation of these products.

Market update

Global

Divided outlook

Hard data seems to confirm the picture from the divergent regional purchasing managers' indices. Despite renewed Eurozone woes, the rest of the global economy largely shows a relatively decoupled outlook. The US economy was on solid footing in 1Q, as the recent strong earnings season indicated. Also, the conviction is gaining ground that housing prices should bottom in 2013 if not earlier, supporting the notion of a sustainable recovery. The main concerns in the US remain the fiscal cliff after the elections, and reaching the debt limit probably by year-end. Recent data suggests that global growth motor China will most likely land softly, as desired. Policy seems to have become more supportive over time. For example, mortgage rates are expected to recede, and recently new loan and money supply (M2) are up. Volatility in Italian and Spanish bond yields has reminded investors that the Eurozone debt crisis is not over. In fact, the flood of liquidity temporarily masked pressure on Spain after its budget-target miss. Delivery on fiscal targets will be key for the further economic outlook. Austerity targets set in 2012 will block the Eurozone from growing out of its problems. Rather, further policy action will be required.

Ricardo Garcia, Economist, UBS AG

Emerging markets

The growth story roars on

Reportedly, Albert Einstein described compound interest as the most powerful force in the universe. This is because you get interest on interest. In the 10-year period following the start of the financial crisis in 2007, the developed economies are expected to be almost one-fifth larger in 2017, using the International Monetary Fund's (IMF) latest forecasts. The emerging economies, in contrast, will have nearly doubled in size in that time. In terms of money, this means that the emerging markets (EM) will be USD 24 trillion larger in 2017 than in 2007 – an increase equivalent to 10 UK-sized economies, seven Germanys or one US with five Californias added on.

So the EM engine goes roaring on ahead. The IMF sees EM growing by around 6% on average in 2012–13. This is, on average, four percentage points per year more than the developed economies.

This high growth also explains the less generous EM monetary policy. Central bank governors there must stay ready to push up interest rates because the threat of inflation rising is simply too high. After all, that extra USD 24 trillion could fuel a huge shopping spree. The inflation outlook is thus an important factor because it could spoil the EM growth story. The IMF predicts average EM inflation of 6% a year in 2012–13. A high number, it will ensure that interest rates can't go too low in the faster growing part of the globe.

Costa Vayenas, Analyst, UBS AG

Switzerland

The sustained rise in leading indicators suggests the Swiss economy has bounced off its low point and has been on the mend for a few months now. The UBS consumption indicator, for instance, bottomed at the end of last year and moved up sharply in March. There is also good news on the labor market: adjusting for seasonal effects, the unemployment rate has been steady at around 3% since last summer, once again doing much better than expected.

Eurozone

Economic data looked good overall last month – until the Eurozone purchasing managers' index dropped sharply. This suggests that the expectation of a 2Q contraction should materialize. The policy response will likely focus on the final form of the growth compact, as European Central Bank head Mario Draghi recently labeled it. This confirms the fundamental, positive change in policy by the European authorities in handling the crisis, supporting our forecast for a mild recession in the Eurozone until at least summer 2012.

US

Some US growth indicators have disappointed recently, including March payrolls, initial jobless claims and a few regional manufacturing climate indexes. We estimate, however, that the weakness mainly reflects payback after the boost from unusually mild weather. We still expect moderate but sustainable growth. Moreover, easing lending standards and accelerating bank credit lending growth suggest lower risk of severe growth fallout. Thus we uphold our view that the Fed will not enact more quantitative easing.

UK

Economic data in the UK painted a largely neutral picture this month, despite the slightly negative 1Q GDP growth of –0.2% q/q. The Monetary Policy Committee voted en masse for no further quantitative easing in its April meeting; only David Miles pushed for an increase in the asset purchase program. Inflation came in 0.1% higher in March at 3.5% y/y, due to upward pressure from food and clothing prices, while the UK jobs market strengthened slightly, with unemployment falling to 8.3% in the three months to February.

Brazil

Ongoing interventions and an easing of monetary policy conditions have still been weighing on the Brazilian real in recent weeks. Year-to-date, the BRL trended roughly sideways against the USD, while many other emerging market currencies gained against the USD. Ahead we see moderate room for a stronger BRL, as authorities will likely intervene less at current levels and the monetary policy easing cycle has probably concluded. However, the BRL remains a rather unattractive currency, in our view, as risks for negative surprises remain high.

Russia

Russia's macroeconomic performance remained solid in March, driven by retail sales growth of 7.3%. This was largely due to falling inflation, which supported real disposable income, but also salary increases for military and police personnel earlier in the year. Looking ahead, salary and pension increases are unlikely to be repeated after the election, while higher trending inflation should limit disposable income growth. The role of consumption as a key driver of the Russian economy is thus likely to shrink. We expect the Russian economy to grow by 3.5% in 2012.

India

Standard & Poor's cut India's long-term debt outlook to negative due to ailing growth, higher inflation, hefty fiscal and current account (CA) deficits and political paralysis; a credit downgrade is possible. India must curb its dual deficits by pushing through tough reforms and better policy direction. A sharp slowdown in growth worsens both the fiscal and CA deficits. Still, it is most unlikely that the Reserve Bank of India will cut rates further soon – having cut rates by 50bps on 17 April – to support growth, as inflation is poised to rise in months ahead.

China

The People's Bank of China widened the USDCNY daily trading band from +/–0.5% to +/–1%. This is a logical step for a more flexible and market-oriented exchange rate regime, given China's need to remain independent on monetary policy and, more importantly, its aim to attain basic convertibility of its capital account by 2015. While long-term CNY appreciation potential, or at least expectation, has diminished, we believe the offshore CNY market will grow strongly in depth and breadth in the coming years as the flows of CNY step up globally.

UBS macroeconomic forecasts
in %

	Real GDP growth in %			Inflation in %		
	2011	2012F[1]	2013F[1]	2011	2012F[1]	2013F[1]
US	1.7	2.3	2.6	3.1	2.1	1.6
Canada	2.5	2.1	2.4	2.9	2.1	2.3
Japan	–0.7	2.5	2.0	–0.3	–0.1	0.3
UK	0.8	0.6	1.4	4.5	2.3	1.8
Eurozone	1.5	–0.4	1.1	2.7	2.2	2.0
Germany	3.1	1.0	1.9	2.5	1.7	1.5
France	1.7	0.0	0.9	2.1	2.5	2.1
Italy	0.5	–1.0	0.9	2.9	3.3	4.2
Spain	0.7	–2.0	–0.2	3.1	1.3	1.8
Switzerland	1.9	0.9	1.9	0.2	–0.5	1.2
Sweden	4.0	0.7	2.2	3.0	1.3	2.3
Australia	2.0	3.0	3.7	3.4	1.6	2.5
China	9.2	8.5	8.5	5.4	3.5	4.0
India	6.6	6.8	7.5	8.3	6.9	7.0
Brazil	2.7	2.9	4.8	6.5	5.4	6.4
Russia	4.3	3.5	4.0	8.5	4.9	6.9

Exchange rates

	02.05.12	3 M[1]	6 M[1]	12 M[1]	PPP[2]
EURUSD	1.3134	1.28	1.34	1.45	1.31
GBPUSD	1.6169	1.65	1.70	1.75	1.70
USDJPY	80.13	86	88	90	80
USDCHF	0.9146	0.96	0.92	0.85	1.02
EURCHF	1.2015	1.23	1.23	1.23	1.33
GBPCHF	1.4787	1.59	1.56	1.48	1.73

Commodities[3]

	Units	02.05.12	YTD in %	3-m view	12-m view	12m Forecast
Crude Oil (WTI)	USD/bbl	106.2	7.4	→	→	115
Crude Oil (Brent)	USD/bbl	119.2	10.8	→	→	120
Gold	USD/oz	1656	5.0	→	↗	1820
Silver	USD/oz	30.9	9.6	↘	→	37

[1] UBS forecasts
[2] Purchasing power parity
[3] Total returns in USD

Interest rates

		2011	02.05.12	6 M[1]	12 M[1]
United States	3m	0.6	0.5	0.5	0.5
	10y	1.9	1.9	2.3	2.7
Japan	3m	0.2	0.2	0.2	0.2
	10y	1.0	0.9	1.2	1.3
Eurozone	3m	1.3	0.6	0.7	0.7
	10y	1.8	1.6	2.0	2.3
UK	3m	1.1	1.0	0.6	0.6
	10y	2.0	2.0	2.3	2.6
Switzerland	3m	0.1	0.1	0.1	0.1
	10y	0.7	0.7	0.9	1.1

Agenda

Date	Country	Indicator
Mon 7 May	Spain	Industrial Production
	Germany	Factory Orders
	Switzerland	Unemployment Rate
	Switzerland	Consumer Price Index
Tue 8 May	Germany	Industrial Production
	Canada	Housing Starts
Wed 9 May	Poland	Central Bank Rate Decision
	Germany	Trade Balance
Thu 10 May	France	Industrial Production
	Sweden	Industrial Production
	Sweden	Consumer Price Index
	Italy	Industrial Production
	Norway	Central Bank Rate Decision
	United Kingdom	Industrial Production
	United Kingdom	BoE Rate Decision
	United States	Trade Balance
	United States	Initial Jobless Claims
	Japan	Current Account Total
	China	Trade Balance
	Indonesia	BI Rate Decision
Fri 11 May	Germany	Consumer Price Index
	Spain	Consumer Price Index
	United Kingdom	PPI Output
	United States	Producer Price Index
	United States	U of Michigan Confidence
	Canada	Unemployment Rate
	China	Consumer Price Index
	China	Industrial Production
	Hong Kong	Gross Domestic Product

Source: Bloomberg

In developing the UBS CIO WM Research economic forecasts, UBS CIO WM Research economists worked in collaboration with economists employed by UBS Investment Research. Forecasts and estimates are current only as of the date of this publication and may change without notice.
Sources: Reuters EcoWin, Thomson Financial, IMF, UBS

Improving loan growth encouraging for global banks

Almost a century ago, economist Joseph Schumpeter stressed the role of the banking sector as a financier of productive investments and thus as an accelerator of economic growth. As such, financial intermediaries play an important role in an economy. A modern financial system contributes to economic development and the improvement in living standards by providing various products and services.

Ever since Italian bank Monte dei Paschi di Siena, the world's oldest bank still in existence, started its operations in 1472, financial institutions have faced a number of risks such as credit or market risks. Managing these risks is a key driver of banks' productivity. Time and time again in recent centuries, failures in risk management have resulted in financial crises that caused tighter banking regulation with higher capital requirements and, in the end, lower revenues and earnings.

In the aftermath of the late-2000s global financial crisis, regulators and politicians are setting new standards for the banking industry. In conjunction with a challenging macro environment and the European sovereign debt crisis, this has led to reduced lending activities, earnings pressure and low visibility for banks. However, the magnitude of the individual challenge is widespread, depending on the main business area of the institution – retail, corporate, private or investment banking – and the main region of its activities.

Lending activity is generally considered to be an indicator of whether banks' balance sheets are growing or shrinking, and if banks are willing to increase or reduce (credit) risks. Commercial loan growth is thus a positive sign – though not the only one – of economic growth and often a leading indicator of labor market conditions.

These days, credit conditions very much differ across regions. While commercial and industrial loan growth was negative in the US in 2009 and 2010, in the second part of last year growth started to recover and gained speed in the first quarter of 2012, where loans grew by roughly 2.5%, supporting the view that the US economy recovery is on solid footing. Chinese credit data has also improved further in the last month, with loan growth +4.8% year to date, +1.7% of which just in March. On the other hand, lending activity in Europe remains subdued, with loan growth floating around zero since the beginning of the year. The European Central Bank intervention that provided massive liquidity to the banking system with two Long Term Refinancing Operations avoided a more marked credit crunch.

With the recovery of financial lending activities in various regions, we think that business and earnings visibility for global banks has overall improved. Moreover, we recognize that earnings revisions for the banking sector have recently become positive for the first time in over a year. This alone is no guarantee of a lasting recovery for banks, but it is an indication that the industry is probably leaving the worst of the financial crisis behind, at least in some markets. However, with Spain now at the center of the European crisis, the situation for European banks remains challenging. Here, the interdependence of muted loan growth and subdued economic prospects still suggests a negative spiral.

Carsten Schlufter and Fabio Trussardi, Analysts, UBS AG

Sector view

Cyclicals had been outperforming defensives for much of this year. In recent weeks, however, defensives have pulled ahead again due to renewed stress in peripheral bonds, weaker purchasing managers index data and concerns about Chinese growth. In terms of sector preferences, we like **defensive sectors like Consumer Staples and Healthcare** for the stability they can add to an equity portfolio. **We continue to like IT as we believe growth expectations should remain strong**, helped by higher corporate spending and solid growth in Asia. We also like Energy given the attractive valuations, the sector's link to the high oil price, and its defensive qualities. We are neutral on Financials.

Equities

Equity markets & sectors

Data as of 2 May 2012

	Strategy (underw. / neutral / overw.)	Equity Performance (%)[1] 2011	3 M	Ytd	5 Y[2]	EPS growth 2012E	P/E 2012E	P/E 2013E	Div. yield 2011
US		2.0	6.7	12.8	1.3	10.1	13.3	11.8	2.1
EMU		–14.1	–3.1	4.5	–6.7	4.6	9.8	8.7	4.7
UK		–1.8	1.7	5.7	1.6	1.3	10.2	9.3	3.7
Japan		–18.6	5.7	9.7	–10.0	76.5	12.5	10.5	2.4
Emerging Markets		–12.5	1.9	10.1	4.6	14.0	10.3	9.3	2.9
Switzerland		–5.7	3.8	6.4	–5.1	11.6	12.9	11.6	3.6
Hedged									
Energy		1.5	0.2	2.6	3.0	2.6	10.2	9.2	2.8
Materials		–19.1	–2.9	7.8	–0.8	5.5	11.5	9.8	2.4
Industrials		–8.1	2.0	10.1	–2.4	11.0	12.7	11.2	2.6
Consumer Discretionary		–4.9	8.7	17.3	–0.5	35.4	14.1	12.0	1.9
Consumer Staples		9.6	7.3	6.6	6.7	7.3	15.6	14.2	3.0
Healthcare		10.6	4.9	7.7	1.9	2.8	12.4	11.5	2.8
Financials		–18.0	4.5	14.6	–9.9	16.1	10.6	9.5	3.5
Information Technology		–2.5	8.9	17.5	2.7	14.4	13.6	11.8	1.2
Telecom Services		2.2	2.8	0.5	0.2	1.2	11.7	10.8	6.1
Utilities		–2.4	1.8	0.7	–3.8	15.0	15.2	12.9	4.9
World		–5.0	4.3	10.0	–2.1	11.1	12.3	10.9	2.8

Sources: Thomson Reuters, UBS

[1] Performance of equity markets and equity sectors in local currency excluding currency effects (hedged)

[2] Annualized average performance

Switzerland
Take a selective look at cyclicals

The liquidity that central banks have injected into the economy is starting to have an impact in Europe and has stabilized economic indicators. In the medium term that is good news for equities overall, and especially for cyclical industries. The problem of too much debt in Europe, Japan and the US will continue to preoccupy investors, however. The debt problem will limit the economic growth potential in these regions for the time being, as paying down debt means consuming less.

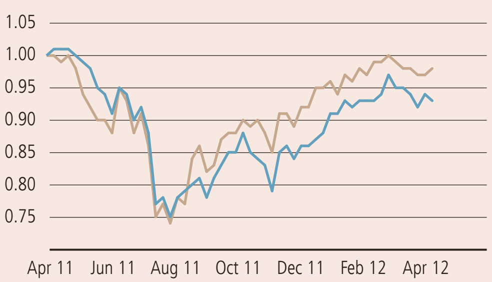
Swiss companies have a small domestic market, and so are very dependent on economies outside Switzerland. We recommend reviewing Swiss equity portfolios and if necessary reducing positions in companies focused on the Eurozone. Our advice is to invest instead in companies that benefit significantly from faster-growing economies such as the Asian, Latin American and African emerging markets.

The Swiss Performance Index has a price-to-earnings ratio of just under 13 for 2012, below the historic average of 15.5. We therefore remain optimistic about Swiss stocks in the longer term. At present, though, we prefer other equity markets.

In cyclical areas we like Healthcare, Consumer Staples, and defensive growth – i.e., companies with robust cash flow and a degree of cyclicality. Among the cyclicals we prefer selected undervalued companies. The emphasis is on companies with diversified and above-average exposure to emerging markets. Periods of consolidation on the market should be used to build up positions in such stocks.

Stefan R. Meyer, Analyst, UBS AG

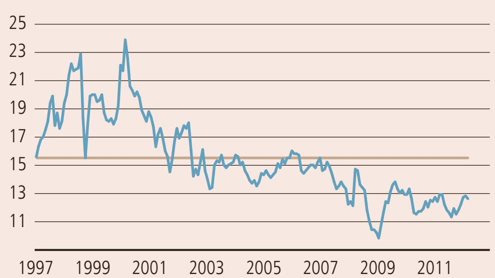
MSCI Switzerland vs. MSCI World
12-month performance, rebased



— MSCI Switzerland in CHF
— MSCI World in CHF

Source: MSCI via ThomsonReuters, UBS CIO

Appealing valuation
12-month forward P/E consensus of the SPI



— SPI
— Average

Source: FactSet, UBS CIO

Switzerland

Most Preferred

Company	Sector	ISIN	Valor	Price 30.04.12	P/E 12E	P/E 13E	Div. Yield 2012E	Perf. YTD
ABB Ltd	Industrials	CH0012221716	1 222 171	16.54	12.22	10.79	4.0%	–6.4%
Actelion (new)	Healthcare	CH0010532478	1 053 247	38.40	15.27	12.58	1.9%	19.1%
Aryzta AG	Consumer Staples	CH0043238366	4 323 836	45.70	11.72	10.34	1.4%	0.7%
Ascom	Inform. Technology	CH0011339204	1 133 920	8.55	8.87	7.43	2.4%	1.8%
Bâloise	Financials	CH0012410517	1 241 051	70.25	7.36	6.82	6.5%	9.1%
Clariant	Materials	CH0012142631	1 214 263	11.54	10.19	8.11	2.5%	24.5%
Flughafen Zürich	Industrials	CH0010567961	1 056 796	338.00	12.21	11.14	2.8%	3.7%
gategroup Holding AG	Industrials	CH0100185955	10 018 595	30.80	10.36	8.60	2.6%	35.4%
Implenia AG	Industrials	CH0023868554	2 386 855	30.25	8.71	8.13	3.8%	27.9%
Kuoni	Cons. Discretionary	CH0003504856	350 485	327.50	10.80	9.23	2.3%	45.6%
Nestlé	Consumer Staples	CH0038863350	3 886 335	55.60	16.70	15.37	3.8%	3.0%
Novartis	Healthcare	CH0012005267	1 200 526	50.05	10.33	9.67	4.4%	–6.8%
Pargesa Holding	Financials	CH0021783391	2 178 339	60.75	11.90	10.27	4.5%	–1.2%
Roche	Healthcare	CH0012032048	1 203 204	165.80	12.30	11.28	4.5%	4.1%
Swiss Re	Financials	CH0126881561	12 688 156	56.90	9.48	8.96	5.5%	25.4%
Transocean Ltd.	Energy	CH0048265513	4 826 551	45.74	17.02	10.12	0.9%	27.4%
Valora	Cons. Discretionary	CH0002088976	208 897	190.00	8.74	8.19	6.1%	–3.3%
Zurich Financial	Financials	CH0011075394	1 107 539	222.00	8.75	8.26	7.3%	12.3%
Removed: –								

Least Preferred

Company	Sector	ISIN	Valor	Price 30.04.12	P/E 12E	P/E 13E	Div. Yield 2012E	Perf. YTD
Adecco	Industrials	CH0012138605	1 213 860	44.20	13.08	11.14	3.9%	12.3%
Bachem	Healthcare	CH0012530207	1 253 020	36.30	28.73	23.39	3.8%	11.7%
Burckhardt	Industrials	CH0025536027	2 553 602	250.75	17.82	15.64	2.1%	6.7%
CS Group	Financials	CH0012138530	1 213 853	21.71	9.67	6.56	3.5%	–1.6%
Emmi AG	Consumer Staples	CH0012829898	1 282 989	193.90	9.38	8.99	1.9%	–0.6%
Ems Chemie	Materials	CH0016440353	1 644 035	178.70	17.48	16.32	4.1%	12.3%
Holcim	Materials	CH0012214059	1 221 405	56.50	16.59	13.32	2.2%	12.4%
Huber+Suhner	Inform. Technology	CH0030380734	3 038 073	39.50	23.70	18.20	1.8%	0.0%
Intershop	Financials	CH0017313948	1 731 394	326.00	16.24	15.93	6.0%	1.9%
LEM Holding	Industrials	CH0022427626	2 242 762	485.00	18.42	15.71	3.8%	26.0%
Metall Zug	Industrials	CH0039821084	3 982 108	3800.00	19.44	18.03	1.6%	2.9%
Nobel Biocare (new)	Healthcare	CH0037851646	3 785 164	11.16	22.18	18.07	2.0%	2.2%
Panalpina	Industrials	CH0002168083	216 808	88.50	16.74	13.67	2.2%	–8.0%
Straumann	Healthcare	CH0012280076	1 228 007	150.60	21.61	18.35	2.3%	–7.1%
Swiss Prime Site	Financials	CH0008038389	803 838	75.75	19.18	19.63	4.8%	7.4%
Tamedia	Cons. Discretionary	CH0011178255	1 117 825	116.70	8.12	8.06	4.7%	0.2%
VP Bank (new)	Financials	LI0010737216	1 073 721	77.40	20.76	12.69	3.9%	–6.7%
Removed: Barry Callebaut, SGS								

Sources: FactSet Consensus and UBS, as of 30 April 2012

This alphabetical list contains a selection of the most preferred and least preferred stocks in each region as ranked by UBS CIO WM Research. If a stock is added to the list, UBS CIO WM Research assumes that it will outperform or underperform other securities in the region. Please see the first page of the appendix of this publication for more details on the UBS CIO WM Research stock selection methodology.

Eurozone

Debt crisis weighing on the equity market

The equity market in the Eurozone is one of the weakest internationally. There are currently two trends: Regionally, the financially weaker countries in southern Europe (including France) have been the losers while northern countries have shown relative strength. In sectoral terms, Financials, Energy and the supposedly defensive Telecoms and Utilities have been weak since the start of the year; these make up 40% of the market. So share prices are indicating that the debt crisis is still causing uncertainty, while companies in the defensive sectors mentioned are having to deal with industry-specific problems.

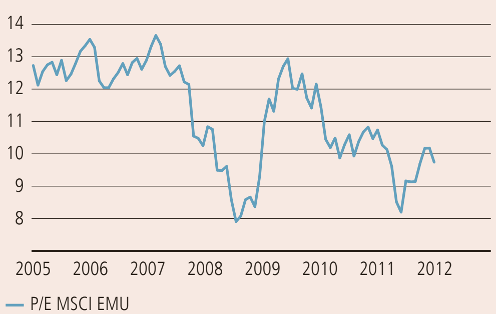
The debt crisis will be with us for some years. But what about the Eurozone economy as it deals with the decline in demand in peripheral countries? The overall purchasing manager index, which is a good leading indication of movements in gross domestic product, suggests that the economy is contracting. The index was surprisingly weak in April, at its lowest level since June 2009. This is in line with our forecast of a lethargic, stumbling recovery in the Eurozone in 2012. Company profit forecasts also show a more cautious picture, falling slightly for 2012 and 2013. The current reporting season might provide some good news on the corporate side. Our expectations are modest, though, and we therefore remain cautious on European equities.

André Schütz, Analyst, UBS Deutschland AG

MSCI EMU vs. MSCI World
12-month price performance, local currencies

Source: Bloomberg, as of 30 April 2012

Price-earnings (P/E) ratio
12-month forward P/E 2005–2012



Source: FactSet consensus, as of 27 April 2012

Eurozone

Most Preferred

Company	Sector	Country	ISIN	Valor	Price 30.04.12	P/E 12E	P/E 13E	Div. Yield 2012E	Perf. YTD
Ahold	Cons. Staples	Netherlands	NL0006033250	3 333 424	9.58	9.73	9.30	4.6%	–7.9%
Allianz	Financials	Germany	DE0008404005	322 646	84.18	7.59	7.07	5.5%	13.9%
Anheuser-Busch InBev	Cons. Staples	Belgium	BE0003793107	1 147 290	54.45	16.14	14.84	2.7%	15.1%
E.ON	Utilities	Germany	DE000ENAG999	4 334 819	17.12	12.06	9.48	6.4%	2.7%
Faurecia	Cons. Discret.	France	FR0000121147	487 591	16.24	5.44	4.46	2.5%	10.9%
Gerresheimer	Healthcare	Germany	DE000A0LD6E6	3 138 496	34.88	13.94	11.79	2.0%	8.3%
Gildemeister	Industrials	Germany	DE0005878003	117 202	15.47	11.63	10.55	2.2%	58.7%
Inditex SA	Cons. Discret.	Spain	ES0148396015	1 231 840	67.95	19.71	17.48	3.0%	7.4%
Klöckner & Co	Industrials	Germany	DE000KC01000	2 597 667	10.25	16.07	8.47	1.7%	3.3%
L'Oréal	Cons. Staples	France	FR0000120321	502 805	90.89	19.34	17.90	2.4%	12.6%
LVMH Moet Hennessy Louis Vuitton SA	Cons. Discret.	France	FR0000121014	507 170	125.15	17.37	15.57	2.4%	14.4%
Reed Elsevier NV	Cons. Discret.	Netherlands	NL0006144495	3 637 167	8.91	9.75	8.71	5.2%	–1.1%
Safran SA	Industrials	France	FR0000073272	829 036	28.00	13.72	11.67	2.8%	20.7%
Saint Gobain	Industrials	France	FR0000125007	490 580	31.65	9.48	8.35	4.3%	6.7%
Sanofi	Healthcare	France	FR0000120578	699 381	57.66	9.84	9.32	4.8%	1.6%
SAP AG	Inform. Techn.	Germany	DE0007164600	345 952	50.09	16.48	14.53	1.7%	22.6%
TOTAL	Energy	France	FR0000120271	524 773	36.07	6.67	6.37	6.5%	–8.7%
Vinci	Industrials	France	FR0000125486	508 670	35.00	9.86	9.45	5.2%	3.7%
Volkswagen Preference	Cons. Discret.	Germany	DE0007664039	352 781	143.10	6.87	6.26	2.7%	23.6%
Removed: –									

Least Preferred

Company	Sector	Country	ISIN	Valor	Price 30.04.12	P/E 12E	P/E 13E	Div. Yield 2012E	Perf. YTD
Carrefour	Cons. Staples	France	FR0000120172	488167	15.18	10.72	9.42	4.4%	–13.9%
Elisa Corporation	Telecomm.	Finland	FI0009007884	813397	17.04	12.92	12.50	7.8%	5.6%
Iliad	Inform. Techn.	France	FR0004035913	1082578	97.25	36.53	27.46	0.4%	2.0%
ThyssenKrupp	Materials	Germany	DE0007500001	412006	17.90	27.14	8.10	2.6%	1.0%
Removed: –									

Sources: FactSet Consensus and UBS, as of 30 April 2012

Equities

This alphabetical list contains a selection of the most preferred and least preferred stocks in each region as ranked by UBS CIO WM Research. If a stock is added to the list, UBS CIO WM Research assumes that it will outperform or underperform other securities in the region. Please see the first page of the appendix of this publication for more details on the UBS CIO WM Research stock selection methodology.

US
Performance beating consensus

The US equity market is in the midst of the earnings season. So far, firms have shown strong results, with most beating market expectations. We believe the remainder of results will also go along these lines. The current environment is, however, again being driven by political events, such as the French and Greek elections, and less so by fundamentals. We will probably continue to see the "risk-on" and "risk-off" mode on an intraday basis that markets are showing at present.

The market has underestimated US economic strength somewhat. Thus, the very cyclical and economically sensitive sectors have surprised on the upside. Materials and Industrials reported positive surprises, especially with regards to margins. Already at peak levels, the expectation had been that the scope for further expansion was limited.

In the US, we clearly prefer Energy, Consumer Staples and IT. We advise a decrease in defensive Telecom exposure, and adjustment of underweight positions in Financials to neutral. The latter advice follows from having seen loan growth and better earnings visibility within banks. To gain exposure we recommend adding positions in JP Morgan or Citigroup.

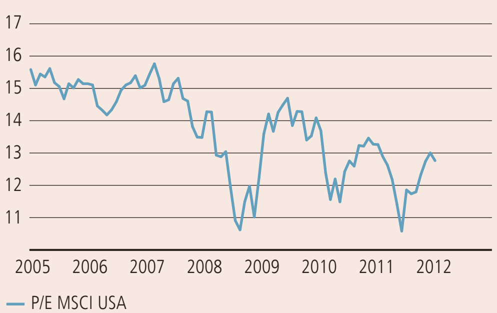
We also like US mid caps. They offer higher growth potential than large caps, as they are still nimble enough to grow and adapt to changing trends within their industries. They are also stabler than small caps and, if required, have better access to capital during difficult periods. This currently puts them in a sweet spot for investment.

Stefanie Scholtysik, Analyst, UBS AG

MSCI EMU vs. MSCI World
12-month price performance, local currencies

Source: Bloomberg, as of 30 April 2012

Price-earnings (P/E) ratio
12-month forward P/E 2005–2012



Source: FactSet consensus, as of 27 April 2012

US

Most Preferred

Company	Sector	ISIN	Valor	Price 30.04.12	P/E 12E	P/E 13E	Div. Yield 2012E	Perf. YTD
American Tower Corp	Telecommunication	US03027X1000	14 546 493	65.58	39.54	33.26	1.0%	9.3%
Anadarko Petroleum Corp.	Energy	US0325111070	907 704	73.21	18.21	14.13	0.5%	–4.1%
Apache Corporation	Energy	US0374111054	908 137	95.94	7.60	6.88	0.7%	5.9%
Axis Capital Holdings Ltd.	Financials	BMG0692U1099	1 627 649	34.02	8.90	8.78	2.5%	6.4%
CBS Corp	Cons. Discretionary	US1248572026	2 300 758	33.38	14.07	12.19	1.3%	23.0%
Citigroup	Financials	US1729674242	12 915 350	33.05	8.05	7.05	0.3%	25.6%
Coca-Cola Co.	Consumer Staples	US1912161007	919 390	76.32	18.64	17.02	2.7%	9.1%
Colgate-Palmolive	Consumer Staples	US1941621039	919 477	98.94	18.31	16.70	2.5%	7.1%
Deere & Co	Industrials	US2441991054	924 235	82.36	10.25	9.60	2.0%	6.5%
Foster Wheeler	Industrials	CH0018666781	1 866 678	23.00	12.47	10.28	0.0%	20.2%
Freeport-McMoRan	Materials	US35671D8570	391 280	38.30	9.45	7.38	3.2%	4.1%
Gilead Sciences	Healthcare	US3755581036	935 700	52.02	13.65	11.86	0.0%	27.1%
Google Inc.	Inform. Technology	US38259P5089	1 916 494	604.85	13.96	11.93	0.0%	–6.4%
Hess Corp.	Energy	US42809H1077	2 552 729	52.14	8.05	6.59	0.8%	–8.2%
Honeywell Int.	Industrials	US4385161066	952 258	60.66	13.47	12.06	2.4%	11.6%
Intel Corp.	Inform. Technology	US4581401001	941 595	28.40	11.33	10.50	3.0%	17.1%
JC Penney (new)	Cons. Discretionary	US7081601061	961 140	36.06	20.64	12.07	2.3%	2.6%
Johnson & Johnson	Healthcare	US4781601046	943 981	65.10	12.72	11.97	3.7%	–0.7%
JP Morgan Chase & Co	Financials	US46625H1005	1 161 460	42.98	8.70	7.77	2.8%	29.3%
Merck & Co.	Healthcare	US58933Y1055	10 683 053	39.24	10.30	10.57	4.3%	4.1%
MetLife	Financials	US59156R1086	1 025 316	36.03	6.87	6.39	2.9%	15.6%
Navistar International	Industrials	US63934E1082	95 676	33.95	7.83	5.50	0.0%	–10.4%
Omnicom	Cons. Discretionary	US6819191064	959 048	51.31	13.76	12.53	2.3%	15.1%
Rockwell Collins Inc.	Industrials	US7743411016	1 248 934	55.89	12.58	11.26	1.9%	0.9%
Schlumberger Ltd.	Energy	AN8068571086	555 100	74.14	17.02	13.86	1.5%	8.5%
Staples, Inc.	Cons. Discretionary	US8550301027	972 817	15.40	10.30	9.46	2.7%	10.9%
Stryker	Healthcare	US8636671013	974 330	54.57	13.26	12.13	1.4%	9.8%
Verizon Communications	Telecommunication	US92343V1044	1 095 642	40.38	16.19	14.49	5.0%	0.6%
Yum! Brands Inc.	Cons. Discretionary	US9884981013	1 413 362	72.73	21.92	19.10	1.6%	23.3%
Removed: –								

Least Preferred

Company	Sector	ISIN	Valor	Price 30.04.12	P/E 12E	P/E 13E	Div. Yield 2012E	Perf. YTD
Caterpillar Inc.	Industrials	US1491231015	916 546	102.77	10.60	8.96	1.8%	13.4%
ConocoPhillips	Energy	US20825C1045	1 330 331	71.63	8.44	8.09	3.8%	–1.7%
Heartland Express Inc.	Industrials	US4223471040	938 261	13.83	17.69	15.82	0.6%	–3.2%
Scripps Networks	Cons. Discretionary	US8110651010	4 237 571	50.22	15.93	13.99	0.9%	18.4%
Removed: –								

Sources: FactSet Consensus and UBS, as of 30 April 2012

This alphabetical list contains a selection of the most preferred and least preferred stocks in each region as ranked by UBS CIO WM Research. If a stock is added to the list, UBS CIO WM Research assumes that it will outperform or underperform other securities in the region. Please see the first page of the appendix of this publication for more details on the UBS CIO WM Research stock selection methodology.

Emerging markets
Expecting better news from China

Emerging market (EM) equities started strongly in 2012, delivering total returns for the year of +11.1% in US dollar terms as of 24 April, compared to +8.5% for developed market (DM) equities, or an outperformance of +2.6 percentage points. This was achieved despite concerns about high oil prices and mixed signals about China's economic outlook.

We expect EM central banks to disregard oil price spikes if these are considered temporary. We believe that EM GDP growth numbers, including those of China, will look stronger in 2H 2012.

We upgraded Mexico to our current list of Most Preferred emerging equity markets, which already includes Brazil and China, believing the country stands to benefit from the gradual economic improvement in the US. We upgraded Poland to Neutral and downgraded Hungary to Least Preferred. Indonesia and Turkey remain Least Preferred.

Valuations remain supportive
P/E (12-month forward consensus earnings) of the MSCI Emerging Markets index

Source: UBS CIO, Thomson Reuters, as of end-March 2012

Valuations are supportive

The chart shows the price-to-earnings ratio of the MSCI Emerging Markets Index. The earnings numbers in the ratio are the market's consensus view of the expected earnings for the upcoming 12 months. So EM are currently trading at 10x expected earnings – below the long-term average of 13.1x, and below the current ratio of 11.8x for developed equity markets. Of course, the market could be wrong – earnings could turn out to be better or worse. This chart tells us that if earnings disappoint, EM equities are not expensive relative to their history, or to developed equity markets. If earnings surprise positively, however, or if the global outlook becomes less gloomy, then this chart suggests that there would be ample room for valuations to rise.

Costa Vayenas, Analyst, UBS AG

Global Emerging Markets

Most Preferred

Company	Sector	ISIN	Valor	Curr.	Price 30.04.12	P/E 12E	P/E 13E	Div. Yield 12E	Perf. YTD
America Movil	Telecomm.	MXP001691213	1 189 555	USD	1.34	12.84	11.56	2.2%	17.8%
China Mengniu Dairy	Cons. Staples	KYG210961051	1 873 858	HKD	24.00	19.76	15.56	1.2%	32.2%
China Shenhua Energy	Energy	CNE1000002R0	2 176 548	HKD	34.45	11.13	10.03	3.2%	2.2%
Evraz	Materials	GB00B71N6K86	14 122 030	GBP	3.69	10.35	7.95	3.3%	–1.4%
Gazprom	Energy	US3682872078	1 002 318	RUB	338.90	3.40	3.51	4.7%	–1.0%
ICICI Bank	Financials	INE090A01013	910 656	INR	881.45	13.61	11.54	2.1%	28.8%
Indofood S.M.	Cons. Staples	ID1000057003	1 119 308	IDR	4850.00	12.31	11.15	2.8%	5.4%
Itau Unibanco	Financials	US4655621062	10 030 118	USD	15.69	8.46	7.13	3.8%	–15.5%
MTN Group	Telecomm.	ZAE000042164	1 480 505	ZAR	135.89	10.96	9.94	6.5%	–5.5%
Naspers	Telecomm.	ZAE000015889	104 977	ZAR	468.45	22.05	16.63	0.8%	32.6%
Novatek GDR	Energy	US6698881090	2 218 743	USD	127.10	16.13	12.27	2.0%	1.5%
Petrobras Pref ADR	Energy	US71654V1017	549 202	USD	22.16	7.09	6.71	4.5%	–5.7%
Sberbank	Financials	RU0009029540	541 354	RUB	93.95	5.49	5.84	2.7%	19.1%
Removed: Vale ADR (ON)									

Sources: FactSet Consensus and UBS, as of 30 April 2012

Equities

This alphabetical list contains a selection of the most preferred and least preferred stocks in each region as ranked by UBS CIO WM Research. If a stock is added to the list, UBS CIO WM Research assumes that it will outperform or underperform other securities in the region. Please see the first page of the appendix of this publication for more details on the UBS CIO WM Research stock selection methodology.

This page contains investment recommendations issued by units outside UBS CIO WM Research. These units are not subject to all the legal provisions governing the independence of financial analysis.

Selected UBS investment solutions

Equity Funds		Valor	NAV[1]	Performance (%)[2] 1 year	3 years	5 years	Volat. (%)[3] 3 years
Switzerland							
UBS 100 Index-Fund Switzerland	CHF	278 880	4199.53	–1.68	35.57	–22.73	12.59
UBS-ETF SMI®	CHF	1 714 271	61.82	1.28	37.53	–20.18	12.52
UBS (CH) Equity Fund – Small Caps Switzerland (CHF) P	CHF	431 133	360.33	–17.24	69.22	–16.45	21.48
UBS (Lux) Equity SICAV – Swiss Opportunity (CHF) P-acc	CHF	11 800 137	93.57	–7.72	n.a.	n.a.	n.a.
EMU & Europe							
UBS (CH) Equity Fund – European Opportunity P	EUR	279 170	412.30	–3.58	60.37	–20.55	15.08
UBS-ETF EURO STOXX 50 A	EUR	1 272 980	23.35	–11.41	33.36	–29.84	20.35
UBS (Lux) Key Selection SICAV – European Core Equities (EUR) P-acc	EUR	1 489 070	13.11	–5.25	49.77	–27.66	17.87
UBS (CH) Equity Fund – Small Caps Europe P	EUR	96 703	209.74	–0.79	113.87	–20.81	21.78
US							
UBS (Lux) Key Sel. SICAV – US Equities (USD) P-acc	USD	1 489 085	15.23	4.02	76.16	–9.71	19.50
UBS-ETF MSCI USA A	USD	1 272 983	134.34	7.58	83.31	n.a.	16.30
UBS (Lux) Equity SICAV – USA Growth (USD) P-acc	USD	1 930 124	17.80	12.01	96.89	36.52	17.90
UBS (Lux) Equity Fund – Mid Caps USA (USD) P-acc	USD	255 789	967.51	–4.98	86.65	12.71	21.65
United Kingdom							
UBS (Lux) Equity Fund – Great Britain (GBP) P-acc	GBP	828 778	107.32	–3.63	51.83	1.05	16.53
UBS-ETF FTSE 100 A	GBP	1 272 999	56.11	0.89	61.68	7.54	15.20
Asia/Japan							
UBS (Lux) Key Sel. SICAV – Asian Equities (USD) P-acc	USD	2340620	134.36	–4.72	92.65	20.27	25.15
UBS-ETF MSCI Japan A	JPY	1272995	2489.00	–0.98	14.98	n.a.	18.43
UBS (Lux) Equity Fund – Greater China (USD) P-acc	USD	547581	184.79	–17.23	52.24	19.21	26.33
UBS (CH) Equity Fund – Emerging Asia P	USD	96699	74.41	–4.01	92.56	25.83	23.98
Emerging Markets							
UBS (CH) Equity Fund – Emerging Markets P	USD	107 194	2613.46	–9.63	92.14	15.51	26.78
UBS (Lux) Equity SICAV – Russia (USD) P-acc	USD	2 468 721	115.54	–27.00	117.93	–13.64	37.79
UBS (Lux) Equity SICAV – Brazil (USD) P-acc	USD	2 909 491	96.63	–12.24	95.51	n.a.	32.68
UBS (Lux) Equity Fund – Greater China (USD) P-acc	USD	547 581	184.79	–17.23	52.24	19.21	26.33
UBS (CH) Equity Fund – Eastern Europe P	EUR	689 384	832.28	–19.43	101.36	–26.68	30.07

Source: UBS
[1] as of 27.04.2012 (or latest available)
[2] as of 30.03.2012
[3] as of 30.03.2012, annualized

Past performance is not a reliable indicator of future results. The performance shown does not take account of any commissions and costs charged when subscribing to and redeeming units. Commissions and costs have a negative impact on performance. If the currency of a financial product or financial service is different from your reference currency, the return can increase or decrease as a result of currency fluctuations.

Please refer to UBS Quotes or ask your client advisor for further information or a complete documentation of these products.

Spain and Italy tip the scales

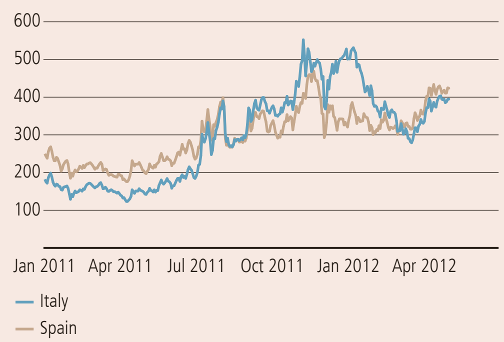
Each time the yields on long-term Bunds and US Treasuries hit a new low, people ask if they can fall further. If we look at Germany and the US as borrowers, yields should actually be much higher. Moreover, it is hardly attractive for investors to have to accept a loss in purchasing power almost immediately because real yields are negative. This is only one side of the coin, though. There is also a link between the rise in yields for countries hurt by the European debt crisis and the fall in the yields on German and US government bonds. Investors worried about the solvency of Spain and Italy are seeking the highest possible degree of safety and liquidity. Not even Bunds and Treasuries are entirely safe these days, but they are still the safest and most liquid investments in euros and dollars.

We expect yields in Spain and Italy to go even higher over the next few months, driven by rising doubts about the success of fiscal consolidation and weak growth in both countries. Neither the flood of money the European Central Bank (ECB) has provided for banks nor the improvements to the euro rescue scheme have been able to prevent yield spreads from widening again, and in our view the ECB and the euro countries will only take further action if Italian and Spanish yields rise massively. Until that happens, risk-averse investors will continue to seek safety in Bunds, keeping yields low. Should pressure on the crisis countries ease, yields can be expected to rise, though. Growth prospects for the Eurozone are poor compared to the US, so yields on Bunds will likely go up less than Treasuries. In the worst case scenario, if Germany were to provide a broader guarantee to other Eurozone countries, long-term yields could explode upwards.

With this in mind, we continue to recommend avoiding government bonds in favor of selected covered bonds as well as bonds from development banks with a government guarantee and sound multinationals, which offer a significant yield premium over Bunds and Treasuries despite their good quality. This should prevent any loss of purchasing power, and capital losses if yields rise will be cushioned by the reduction in the spread we are expecting.

Thomas Wacker, Analyst, UBS AG

Risk premium over 10-year Bunds
Basis points



Source: UBS CIO, Bloomberg, as of 03 May 2012

Bonds

Corporate bonds attractive despite low risk premium

The capital markets enjoyed a remarkable recovery in the first few months of the year. The liquidity provided by the European Central Bank put a temporary cap on uncertainty, and investors increasingly looked to take on more risk. Investment-grade corporate bonds from non-financial companies showed a total return of 4% last quarter, a level seldom seen in the last decade. This was largely due to a fall in the risk premium on bonds issued by companies with lower ratings that operate in cyclical markets and on highly subordinated bonds.

Nevertheless, given the solid state of company balance sheets and cautious approach to takeovers and buybacks, the lower risk premium on corporate bonds does not look overdone. We still see attractive investment opportunities at the lower end of the investment-grade universe, even though risk premiums have fallen. Risks remain, however: The continuing sovereign debt crisis, subdued economic prospects and a higher oil price all lead us to recommend a slightly cautious investment strategy. We therefore recommend companies at the lower end of investment grade, with limited exposure to countries affected by the debt crisis and sufficient regional diversification or non-cyclical demand to be able to resist the gloomy outlook in some European countries. Our preferred companies and bonds can be found in "Corporate bonds: A bird in the hand is worth two in the bush," and our daily Bond Top List, available from your client advisor.

Bonds issued by financial companies have a somewhat higher risk premium, but if the sovereign debt crisis expands they are likely to come under more pressure than those of non-financial companies. Hence our preference for selected senior bonds from financials and insurers with a more conservative business profile and limited exposure to the countries affected by the debt crisis.

Fabrice Schwarzmann, Analyst, UBS AG

Bond selection Data as of 2 May 2012, 9:30 (Zurich)

Valor	Title	Coupon (%)	Maturity	Moody's Rating	S&P Rating	Price 02.05.12	Yield (%)	Duration	Min. Piece*
CHF Bonds									
10 915 600	GENERAL ELEC CAP CORP	2.000	18.02.14	A1		101.4	1.2	1.8	5+5
12 632 550	LLOYDS TSB BANK PLC	2.500	15.04.14	A1	A	101.8	1.6	1.9	5+5
11 149 097	GENERAL ELEC CAP CORP	2.000	15.01.15	A1	AA+	101.8	1.3	2.6	5+5
11 676 745	LLOYDS TSB BANK PLC	2.500	23.03.15	A1	A	101.6	1.9	2.8	5+5
12 275 861	DNB BANK ASA	1.875	02.02.16	Aa3	A+	101.9	1.3	3.6	5+5
13 876 104	SCHINDLER HOLDING SA	1.250	21.11.16	n.a.	n.a.	101.3	1.0	4.4	5+5
13 659 436	PHILIP MORRIS INTL INC	1.000	06.12.16	A2	A	100.3	0.9	4.5	5+5
18 314 179	DNB BANK ASA	1.750	18.04.18	Aa3	A+	100.5	1.7	5.7	5+5
18 007 146	COMMONWEALTH BANK AUST	1.500	13.09.19	Aaa		102.2	1.2	7.0	5+5
EUR Bonds									
11 929 371	ABN AMRO BANK NV	2.750	29.10.13	Aa3	A+	101.8	1.5	1.5	50+1
14 676 642	BMW FINANCE NV	2.125	13.01.15	A2	A	102.2	1.3	2.6	1+1
18 037 668	GE CAPITAL EURO FUNDING	2.000	27.02.15	A1	AA+	101.0	1.6	2.8	1+1
11 072 414	ING BANK NV	3.375	03.03.15	Aa3	A+	104.2	1.8	2.7	50+1
14 997 635	BP CAPITAL MARKETS PLC	2.177	16.02.16	A2	A	101.9	1.6	3.7	100+1
14 740 557	CREDIT SUISSE GUERNSEY	2.125	18.01.17	Aaa		101.8	1.7	4.5	100+1
18 083 470	DAIMLER AG	2.000	05.05.17	A3	A–	100.9	1.8	4.8	1+1
14 071 268	RABOBANK NEDERLAND	3.500	17.10.18	Aaa	AA	104.5	2.7	5.8	1+1
18 171 652	HEINEKEN NV	2.500	19.03.19	Baa1	BBB+	101.3	2.3	6.4	1+1
USD Bonds									
12 759 274	VOLKSWAGEN INTL FIN NV	1.875	01.04.14	A3		101.5	1.1	1.9	100+1
11 743 595	RABOBANK NEDERLAND	1.875	15.12.14	Aaa	AA	100.7	1.6	2.6	1+1
14 678 238	GENERAL ELEC CAP CORP	2.150	09.01.15	A1	AA+	102.0	1.4	2.6	1+1
18 344 542	DAIMLER FINANCE NA LLC	1.650	10.04.15	A3	A–	100.4	1.5	2.9	150+1
11 657 620	ING BANK NV	3.000	01.09.15	Aa3	A+	100.5	2.8	3.2	100+1
13 107 501	OEKB OEST. KONTROLLBANK	2.000	03.06.16	Aaa	AA+	101.9	1.5	3.9	1+1
18 005 018	TOTAL CAPITAL INTL SA	1.500	17.02.17	Aa1	AA–	100.3	1.4	4.6	2+1
18 094 937	DEUTSCHE TELEKOM INT FIN	2.250	06.03.17		BBB+	100.0	2.3	4.6	150+1
18 477 190	GENERAL ELEC CAP CORP	2.300	27.04.17	A1e	AA+	100.3	2.2	4.7	1+1

Source: UBS

These bonds are a selection from the UBS CIO WM Research Bond Top List which is available from your client advisor with daily updated pricing data.

*Minimum face value plus increment, e.g. 50 +1 means min. 50 000, but 51 000 possible.

e: The letter 'e' after the rating means, that the rating is expected, but the rating agency has not yet confirmed it for this bond.

This selection of recommended bonds from our daily updated Bond Top List is based on the relative attractiveness of a bond compared to others with similar characteristics. Besides the bond's credit risk and its remaining life, the selection also takes into account sufficient secondary market liquidity, a price near 100% or less and low accrued interest. Investors should always obtain current price indications before submitting an order to buy a bond.

Shifting focus to corporates from sovereigns

Emerging market (EM) bonds started the year strong, but spreads have widened in recent weeks on renewed concerns of Eurozone debt crisis escalation, the French elections, and much weaker growth in China. In our view, the current spread level of EM bonds above that implied by fundamentals offers potential for lower spreads in the months ahead. This is opportune, as we expect US Treasury yields to trend higher over the next 6–12 months.

The return outlook of EM bonds thus remains intact. Over a 12-month horizon, we expect total returns of some 4% for EM sovereign bonds and 7% for EM corporate bonds in USD. The latter are more attractive, since they pay higher yields than similarly rated sovereigns. In turn, there is greater potential for lower spreads in a gradually improving global environment. Moreover, EM corporate bonds have a shorter average duration than EM sovereign bonds. We advise investors to maintain broadly diversified exposure to EM sovereigns, but to focus new money allocation on EM corporate bonds.

Michael Bolliger, Analyst, UBS AG

Emerging market bond recommendations

ISIN	Issuer	Curr.	Coupon (in %)	Maturity	Moody's Rating	S&P Rating	Price[2]	Yield[2] (in %)	Duration (in yrs)	Min. piece/ increment[3]
Sovereign Bonds[1]										
CH0148606145	Rural Electrification	CHF	3.50	07.03.17	Baa3	n/a	102.56	2.92	4.52	5 / 5
XS0290581569	Gazprom	EUR	5.44	02.11.17	Baa1	BBB	107.61	3.87	4.81	50 / 1
XS0210314299	Republic of Poland	EUR	4.20	15.04.20	A2	A–	102.86	3.78	6.92	1 / 1
XS0213101073	Pemex	EUR	5.50	24.02.25	Baa1	BBB	104.15	5.05	9.50	10 / 1
XS0457764339	Republic of Lithuania	USD	6.75	15.01.15	Baa1	BBB	108.69	3.35	2.48	100 / 1
XS0499245180	Russian Railway	USD	5.74	03.04.17	Baa1	BBB	107.04	4.14	4.36	100 / 1
XS0767469827	Russian Federation	USD	3.25	04.04.17	Baa1	BBB	101.45	2.93	4.58	200 / 200
USN54360AC13	PLN	USD	7.25	28.06.17	Baa3	BB	114.76	4.04	4.36	100 / 1
XS0381439305	Transneft	USD	8.70	07.08.18	Baa1	BBB	123.52	4.36	5.02	100 / 1
Corporate Bonds[1]										
CH0148606160	Sberbank	CHF	3.10	14.09.15	A3	n/a	101.31	2.69	3.23	5 / 5
XS0304273948	Lukoil	USD	6.36	07.06.17	Baa2	BBB–	109.38	4.29	4.36	100 / 1
USG2440JAE58	Gerdau	USD	7.25	20.10.17	n/a	BBB–	114.85	4.18	4.66	100 / 1
XS0592794597	VTB	USD	6.32	22.02.18	Baa1	BBB	102.07	5.89	4.90	200 / 1
US91911TAL70	Vale	USD	4.63	15.09.20	Baa2	A–	105.34	3.87	7.03	2 / 1
USP47773AL38	Globo	USD	4.88	11.04.22	Baa2	BBB	100.90	4.76	7.98	200 / 1

Source: Bloomberg, UBS
[1] In alphabetical order
[2] Data as of 30 April 2012
[3] Minimal investment amount plus increment, in bond denomination currency (thousands).

This page contains investment recommendations issued by units outside UBS CIO WM Research. These units are not subject to all the legal provisions governing the independence of financial analysis.

Selected UBS investment solutions

Bond Funds		Valor	NAV[1]	Performance (%)[2] 1 year	5 years	YTM (%)[3]	Duration
Classic Bond Funds							
UBS (CH) Bond Fund – CHF P	CHF	278 856	111.55	3.56	15.96	0.95	3.93
UBS (CH) Bond Fund – EUR P	EUR	278 859	117.48	5.87	23.25	1.92	5.40
UBS (CH) Bond Fund – USD P	USD	278 853	147.66	2.28	25.53	1.42	3.62
Inflation-linked Bond Funds							
UBS (Lux) Bond SICAV – Inflation-linked EUR P-acc	EUR	4 731 894	110.81	6.75	n.a.	0.60	4.13
UBS (Lux) Bond SICAV – Infl.-linked EUR (CHF hed.) P-acc	CHF	4 731 914	108.63	5.66	n.a.	0.60	4.13
UBS (Lux) Bond SICAV – Infl.-linked Global (USD) P-acc	USD	10 531 938	112.05	5.80	n.a.	1.00	3.90
UBS (Lux) Bond SICAV – Infl.-linked Global (CHF hed.) P-acc	CHF	10 531 964	110.54	5.08	n.a.	1.00	3.90
UBS (Lux) Bond SICAV – Infl.-linked Global (EUR hed.) P-acc	EUR	10 531 990	112.28	6.18	n.a.	1.00	3.90
Emerging Markets Bond Funds							
UBS (Lux) Emerg. Econ. Fund – Global Bonds (USD) P-acc	USD	849 534	1758.32	5.43	38.74	4.08	5.95
UBS (Lux) Emerg. Econ. Fund – Lat. Am. Bonds (USD) P-acc	USD	345 232	6360.26	12.80	41.59	4.80	6.49
UBS (Lux) Bond Fund – Full Cycle Asian Bond (USD) P-acc	USD	10 532 248	113.41	–0.20	n.a.	3.32	5.11
UBS (Lux) Emerg. Econ. Fund – Global Bonds (CHF) P-dist	CHF	11 238 697	107.29	3.79	n.a.	4.08	5.95
UBS (Lux) Emerg. Econ. Fund – Global Short T. (CHF) P-dist	CHF	11 280 882	106.38	–5.83	n.a.	3.57	0.65
UBS (Lux) Bond SICAV – European Convergence P-acc	EUR	2 097 243	142.97	0.76	29.75	6.32	4.51
Corporate Bond Funds							
UBS (Lux) Bond SICAV – EUR Corporates P-acc	EUR	1 575 795	12.61	4.95	12.17	2.75	3.83
UBS (Lux) Bond SICAV – USD Corporates P-acc	USD	1 640 534	15.23	8.74	32.22	2.53	6.40
UBS (Lux) Bond SICAV – Short Term EUR Corporates P-acc	EUR	1 457 360	117.34	3.87	n.a.	1.37	1.76
UBS (Lux) Bond SICAV – Short Term USD Corporates P-acc	USD	1 455 256	128.72	2.09	n.a.	1.05	1.85
High Yield Funds							
UBS (Lux) Bond SICAV – USD High Yield P-acc	USD	512 729	212.77	3.14	26.49	5.55	4.51
UBS (Lux) Bond Fund – Euro High Yield P-acc	EUR	883 660	136.41	1.29	38.59	8.35	3.04
Convertible Funds							
UBS (Lux) Bond Fund – Convert Europe P-acc	EUR	1 062 349	123.21	–9.68	2.54	n.a.	1.45
UBS (Lux) Bond SICAV – Convert Global (CHF hedged) P-acc	CHF	11 162 023	101.41	–5.92	n.a.	n.a.	1.13
UBS (CH) Bond Fund – Convert Asia P	USD	279 158	199.97	–0.49	33.70	n.a.	1.54

Source: UBS
[1] as of 27.04.2012 (or latest available)
[2] as of 30.03.2012
[3] Theoretical yield to maturity (net) as of 30.03.2012

Past performance is not a reliable indicator of future results. The performance shown does not take account of any commissions and costs charged when subscribing to and redeeming units. Commissions and costs have a negative impact on performance. If the currency of a financial product or financial service is different from your reference currency, the return can increase or decrease as a result of currency fluctuations.
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China's new policy still prompts investors to diversify from USD to CNY

Beijing's widening of the daily trading band for the USDCNY exchange rate cast doubt on the historical trend of predictable CNY gains against the US dollar. While past bias was toward a steady decline in USDCNY, markets now expect wider two-way movement between the two currencies. This has implications for the global currency market, but for long-term investors, it does not alter the case for buying the yuan with their US dollars.

Zhou Xiaochuan, Chairman of the People's Bank of China (PBoC), hinted at this policy change in March when he said "the present yuan exchange rate is now close to its balanced level" and that its future movement will be more "market-determined." Thus, it was not surprising when the PBoC widened the daily USDCNY trading band from +/–0.5% to +/–1% in mid-April. In future, the PBoC may guide the yuan against a basket of currencies instead of solely the US dollar. Thus, when the dollar is broadly stronger against these currencies, it is likely to be led higher against the yuan, and vice versa.

CNY upward potential still intact

Nonetheless, a 2.5% rise of the yuan against the US dollar is still realistic for the next 12 months. First, the wider trading band implies less foreign-exchange intervention by the PBoC, in turn meaning less support for the US dollar. Second, China still runs a trade surplus with the US, which exerts pressure on the USDCNY exchange rate. Currently, China's trade surplus with the US amounts to about USD 16 billion a month. Third, ahead of the US presidential elections in November, the PBoC may guide USDCNY marginally lower, as the exchange rate issue is a sensitive one in the US political agenda.

Diversification from USD to CNY remains valid

For long-term investors, the US dollar's decline against the yuan may be frustratingly slow, but diversifying away from the dollar in favor of the yuan is still sensible for structural reasons. The outlook for a continued trade imbalance between the US and China is one reason, but the growing profile of the yuan in global trade settlement is another.

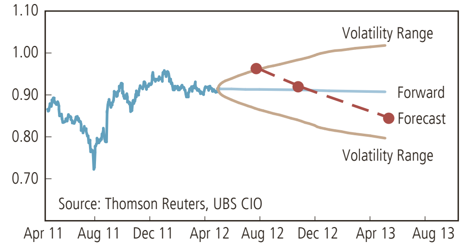
We see the use of the yuan as a transactional currency increasing in the coming years. The USD's dominance in global transactions is already eroding slowly. Indeed, China has promoted the use of the CNY in trade settlements with notable success. Last year, more than 9% of China's total trade was settled in CNY, up from a mere 0.7% in 2010. This is likely to continue as China gets support from its trading partners. In a summit last December, Japan and China agreed to increase their use of the yuan and the Japanese yen in bilateral trade.

Lastly, longer-term, more global central banks could start holding the CNY in their foreign exchange reserves. While this is likely to occur at a glacial pace due to the CNY's lack of free convertibility, small steps can already be observed. For example, Japan announced last December that it would buy CNY 65bn (or USD 10.3bn) of Chinese government debt as a tentative step toward reserve diversification.

Teck Leng Tan, Analyst, UBS AG

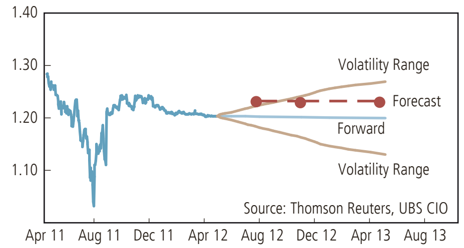
USDCHF

USDCHF is tightly bound to the development of EURUSD, as EURCHF remains very close to the floor of 1.20. We expect the CHF to rise slightly against the USD in the coming weeks as the French and Greek elections could weaken the EUR temporarily.



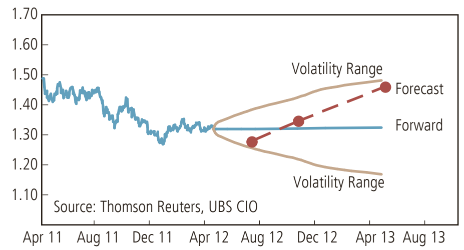
EURCHF

EURCHF is very close to the Swiss National Bank floor at 1.20. Potential rallies are likely to meet strong selling pressure of the EUR against the CHF. Only a statement by the European Central Bank that it is considering normalizing monetary policy by hiking interest rates would change the situation. However, this is unlikely in our view.



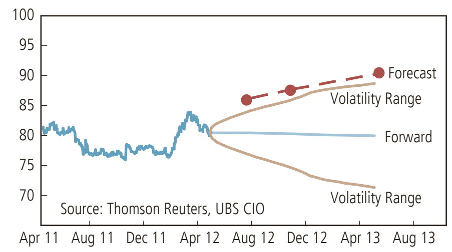
EURUSD

We still see risks of EURUSD dropping below 1.30 due to the French and Greek elections. The political changes in Europe imply that some new power will try to renegotiate existing contracts. The US economy is recovering slowly, but the Fed is maintaining ultra-low interest rates, and this limits the upside for the greenback.



USDJPY

USDJPY fell below 80 briefly in late April even though the Bank of Japan conducted further monetary easing, partly due to month-end JPY buying. Nonetheless, we believe a structurally weaker Japanese current account balance will support an uptrend in USDJPY.



Currencies

Base metal prices to trough in 2Q12

Solid performance of base metals in January this year was largely lost in the latter part of 1Q and in April. The price correction has room to run further in May and June, but we expect prices to bottom out in this quarter. This would offer investors the chance to lay in long exposure on a broad basis, with an expected return outlook of 15% or more in the next 6–12 months.

Potential price softness during the rest of 2Q12 relates to China and Europe. In recent months we saw decent restocking activity in metals like copper and tin. Reported copper stocks in China's Shanghai Futures Exchange surpassed 200,000 tons for the first time and bonded warehouses seem to have reached 600,000 tons. With such an inventory backdrop (10.3% yearly consumption), and economic activity in China not yet ready to take off in the current quarter, Chinese copper imports are likely to drop in 2Q12 versus 1Q12. Although market participants already foresee softer Chinese import demand, we expect some of them to be disappointed when the actual figures come out. The other factor relates to Europe. Lower industrial production should curb base metal demand during 2Q12. Poor European purchasing managers' index readings for April, firmly below 50, support this view. Combined, the two effects should allow base metal inventories to trend higher at the London Metal Exchange, letting prices slide by 5% to 10%.

A reversal in base metal prices, notably aluminum and nickel, which trade deep into the production cost curve with 30% and 15% of respective capacity being uneconomical, should induce a nice one-off recovery in prices. The basis for this relates to a pickup in Chinese economic activity, bringing sequential GDP growth above 9% in 4Q12 from levels below 7% in 1Q12. Lower reserve requirements for banks and acceleration in credit activity are preconditions for such a move. Also, we expect Europe's drag on demand to turn mildly supportive, along with US base metal use. For copper, this should bring prices from trough levels at USD 7,100/mt towards USD 9,000/mt. Copper demand in China rising beyond 7% y/y and supply battling to reach 4% y/y this year should result in an undersupplied market at year's end.

Dominic Schnider and Giovanni Staunovo, Analysts, UBS AG

Accelerating credit activity in China – a good backdrop for higher industrial metal prices
Year-on-year, in %

— CRB industrial spot index (lhs)
— Chinese loan growth by financial institutions (rhs)

Source: Bloomberg, UBS CIO

Gold

Investment demand in gold is unlikely to fill the gap of 335 tons that other supply and demand elements should create this year. Since speculative accounts still hold sizable net long positions in gold futures, a technical break of the 2008 price uptrend could put 225 tons at risk, bringing the gold price near USD 1,520/oz over the next one to three months. Therefore, we recommend that short-term-oriented investors sell their gold holdings and long-term-oriented investors hedge their positions over the next three months.

02.05.2012	Forecast	Forecast
USD 1656/oz	**3 months** →	**9–12 months** ↗

Palladium

The metal's market balance should tighten in 2012 after a huge surplus in 2011. Stronger auto production growth in the US, Japan and China bodes well for auto catalytic demand. Fewer Russian stock sales and mining-related issues in South Africa, though, could lead to a 4% mine supply drop and an undersupplied market in 2012. Net exchange-traded fund inflows of 308,000 oz, an 18% increase, reflects better fundamentals this year. Price dips towards USD 600/oz should be used to build up long positions with a target of USD 850/oz.

02.05.2012	Forecast	Forecast
USD 676/oz	**3 months** →	**9–12 months** ↗

US natural gas

The US natural gas market remains substantially oversupplied, as shale natural gas production goes on growing strongly. We believe that the large inventory surplus due to the milder winter should hold back any significant improvement in prices. Natural gas prices must also remain under pressure to demotivate natural gas producers and incentivize high coal-to-gas substitution in the power sector. We expect natural gas prices to trade in the USD 1.80–2.50/mmbtu range in the next three months.

02.05.2012	Forecast	Forecast
USD 2.29/mmbtu	**3 months** →	**9–12 months** ↗

Corn

US corn acreage is estimated at 95.86m acres, 4.3% higher than last year. The expansion is likely to come from non-conventional corn-growing regions, so we keep our US corn yield estimates at 160 bu/acre, below the USDA estimate of 164 bu/acre. On yield and higher acreage, we expect the US corn stock-to-use ratio to normalize towards 11% in 2012/13 from 6% last year. This strong recovery could push prices downward towards USD 5.20/bu over 12 months. We do not recommend an outright long position.

02.05.2012	Forecast	Forecast
USD 6.55/bu	**3 months** →	**9–12 months** ↘

Commodities

The German housing bubble can still expand

After the mid-1990s, German property suffered from excess capacity created following reunification. House prices stagnated for a decade, but now have begun to rise again. Thus, seeing lofty consumer price inflation as quite unlikely, it is more interesting to examine asset price inflation. Very low mortgage rates, shrinking household sizes and rising demand for living space are now fueling expectations for growing house prices in Germany.

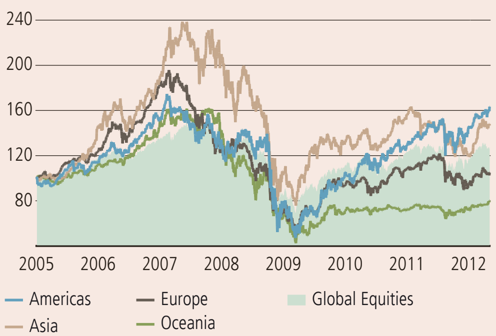
Housing price inflation has now emerged due to price variance, with pockets of the much decentralized market nearing bubble territory. The swelling German housing bubble should scare no one though, as price stagnation or decline elsewhere seem to offset bubbles in prime locations, where initial yields have fallen far.

Further price increases will stem from a combination of rising demand and private investors wanting an inflation hedge who are attracted by available cheap funding. In addition, German savings surpluses are – given the sovereign debt crisis – more likely to be invested by Germans at home rather than abroad. We also think that in a mixed portfolio, investors will focus on real assets, as they fear wealth erosion through inflation and currency devaluation. Moreover, cheap funding is likely to remain, as German banks are expected to enjoy increasing deposit inflows, while European peripheral banks suffer outflows. In conclusion, we have little reason to believe that the bubble pockets will burst. Instead, we see prices rising for longer.

Thomas Veraguth, Economist, UBS AG

Americas gradually approaching last peak values

Total return in % (local currencies; indexed 1.1.2005 = 100)



Source: Bloomberg, GPR, UBS CIO, as of 26 April 2012

Listed real estate: local returns* and risks

	1 month	YTD	1 year	Volat. 260D
Global	2.7	14.5	5.9	18.3
Americas	3.9	12.7	12.9	27.1
US	4.1	12.9	12.3	29.4
Asia	1.8	23.9	0.1	18.2
China	–0.3	7.6	–20.8	23.5
Hong Kong	6.5	23.5	–5.5	25.2
Japan	–0.5	24.6	3.2	20.2
Singapore	1.7	22.9	–0.9	17.2
Europe	–1.1	8.6	–8.9	23.9
UK	0.0	11.5	–6.7	26.5
France	–3.9	7.2	–6.4	29.2
Switzerland	4.8	9.2	11.0	12.9
Oceania	4.3	12.6	5.9	19.8
Australia	4.3	12.6	5.9	19.8
Global Government Bonds (JP Morgan)	0.6	0.7	7.2	2.7
Global Equities (MSCI)	–1.6	9.3	–0.5	19.1

* Total returns (dividend/coupon reinvested)
Source: Bloomberg, GPR, JP Morgan, MSCI, UBS, as of 26.04.2012

Switzerland

Falling trading volumes of Swiss real estate investments show that the higher central bank liquidity is not finding its way to Swiss listed real estate. This likely reflects the poorer environment in 2012. Multi-family dwellings, by contrast, are in high demand. So, due to the low initial returns, we will see few portfolio top-up purchases by real estate companies, at least in the market for multi-family dwellings. While interest rates stay low, valuations are likely to stay high. Swiss real estate investment performance thus still depends heavily on the Eurozone situation.

Europe

Overall, Europe still lags peers and shows the lowest return year-to-date. We see investors avoiding this market, as the risks are still considered quite high, given that growth prospects may fall further, which is unfavorable for future rental revenues. A dividend yield of 5.7% is attractive by comparison, as is the price-to-earnings ratio of around 15x. However, we think that continental Europe could stay attractively priced as long as the uncertainties surrounding the sovereign debt crisis remain; investors could stay on the sideline longer. Refinancing risks are still there.

US

Real estate stocks remain a quality play. Investors willingly pay a premium of about 10% over current net asset values (NAV) to buy their slice of expected future earnings and capital value growth. One consequence is an unimpressive dividend yield of some 3.4%, low compared to the 4.1% that investors earn on a global average. The recent rise in bond yields reminds us that US REITs currently distribute historically low dividends; this is the new normal since the financial crisis. The US dividend yield is now near its historical low of 3.3% of May 2011. The historical average is 6%.

Asia

In Asia, overall falling inflation still gives hope for monetary expansion. Chinese developers could yet be too optimistic and financial risks are rising. We expect that more unlisted developers will be forced to exit the market or go bankrupt, though both foster consolidation. Nevertheless, Chinese prices kept going down in March, posting the most cities with price drops since September 2011. Developers launched projects with discount campaigns, boosting a rebound in transactions while prices declined. Overall, we still advise selectivity in the very divergent Asian markets.

Hedge funds

Event driven and relative value look promising

Risky assets got a boost earlier this year, but our enthusiasm is tempered by bad memories from May 2010 and September 2011. High unemployment, austerity and bank deleveraging have hurt growth expectations in Europe. Equity long short managers that exploited declining correlations are now vulnerable as markets backslide, hence our underweight. Devoting part of the portfolio to trading still makes sense for diversification, but the crowding in this category and lack of trends keep us neutral. Hostile takeovers and spin-offs should blossom as CEOs look to increase shareholder value, and distressed-debt opportunities should arise now as banks deleverage and a wall of principal payments come due. We are thus positive on event driven managers. Relative value managers should benefit from tactical directional exposure around interest curves and tightening US high yield spreads.

Cesare Valeggia, Analyst, UBS AG

Private equity

Venture capital turning more to governments

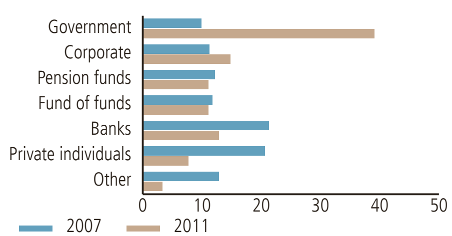
Venture capital (VC) in Europe has it tough. Fundraising is hard, returns have disappointed, and the ongoing European debt crisis makes exit markets volatile.

Politicians still like getting involved with young companies backed by venture capitalists, though, especially when growth is rare and innovation is needed. Between 2007 and 2011, the importance of the state as an investor in European VC has increased fourfold while private investors seem to be seeking opportunities elsewhere.

With less capital available, start-up companies are also turning more to private angel investors to bridge the seed and early stages. The few remaining VC investors in Europe will have the power to negotiate with entrepreneurs on their side, though cash-rich corporate buyers will remain a crucial competitor for the best start-ups.

Stefan Braegger, Analyst, UBS AG

Contribution of investors to European VC funds
% of total



Source: European Venture Capital Association

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Selected UBS investment solutions

Nontraditional asset classes		Valor	NAV[1]	Performance (%)[2] 1 year	3 years	5 years	Volat. (%)[3] 3 years
Hedge Funds							
UBS (CH) Global Alpha Strategies (CHF hedged) A	CHF	1 878 471	1184.89	–3.00	n.a.	n.a.	n.a.
UBS (Lux) Key Selection SICAV – Global Alpha Opportunities (CHF hedged) P-acc	CHF	11 202 132	99.40	–1.39	n.a.	n.a.	n.a.
Structured products							
UBS A&Q Alt. Solution Index Cert. – B	CHF	3 947 994	1051.04	–2.13	n.a.	n.a.	n.a.
UBS A&Q Alt. Solution Index Cert. – B	USD	3 947 948	1173.87	–0.72	n.a.	n.a.	n.a.
UBS A&Q Alt. Solution Index Cert. – B	EUR	3 947 714	1115.38	–0.81	n.a.	n.a.	n.a.
Real Estate							
UBS (CH) Prop. Fund – Léman Residential «Foncipars»	CHF	1 442 085	78.15	8.02	27.58	27.56	5.90
UBS (CH) Prop. Fund – Swiss Commercial «Swissreal»	CHF	1 442 088	69.60	5.98	48.97	33.90	9.35
UBS (CH) Property Fund – Swiss Mixed «Sima»	CHF	1 442 087	98.65	4.13	34.49	29.32	6.46
UBS (CH) Property Fund – Swiss Residential «Anfos»	CHF	1 442 082	63.35	7.10	31.52	38.11	7.76
UBS (CH) Property Fund – Direct Residential	CHF	2 646 536	15.00	3.99	41.50	56.68	20.67
Commodities – diversified							
UBS (CH) Commodity Fund – CHF P	CHF	2 104 688	80.98	–18.85	19.80	–24.56	28.59
UBS (CH) Commodity Fund – EUR P	EUR	2 104 689	79.91	–18.21	21.33	–22.14	28.51
UBS (CH) Commodity Fund – USD P	USD	2 104 691	86.82	–17.62	24.82	–17.13	18.02
UBS (Lux) Str. Sicav – «Rogers Int. Comm. Index®» (CHF) P-acc	CHF	2 384 321	88.22	–13.57	38.69	–8.04	30.21
UBS (Lux) Str. Sicav – «Rogers Int. Comm. Index®» (EUR) P-acc	EUR	2 384 323	92.76	–13.39	39.71	–5.14	30.68
UBS (Lux) Str. Sicav – «Rogers Int. Comm. Index®» (USD) P-acc	USD	2 384 315	97.23	–12.92	42.87	–2.90	19.87
Commodities – focussed							
«UBS-IS» – CMCI Oil ETF (CHF) SF-A	CHF	11 601 535	59.73	–6.46	n.a.	n.a.	n.a.
«UBS-IS» – CMCI Oil ETF (EUR) SF-A	EUR	10 996 790	62.08	–6.68	n.a.	n.a.	n.a.
«UBS-IS» – CMCI Oil ETF (USD) SF-A	USD	10 996 785	58.90	–5.63	n.a.	n.a.	n.a.
«UBS-IS» – Gold (CHF) hedged ETF A	CHF	10 602 712	166.66	12.97	n.a.	n.a.	n.a.
«UBS-IS» – Gold (EUR) hedged ETF A	EUR	10 602 714	115.28	14.57	n.a.	n.a.	n.a.
«UBS-IS» – Gold ETF (USD) A	USD	10 602 718	165.02	15.13	n.a.	n.a.	n.a.
«UBS-IS» – Platinum ETF A	CHF	11 601 493	156.01	–7.96	n.a.	n.a.	n.a.

Source: UBS
[1] as of 27.04.2012 (or latest available) [2] as of 30.03.2012 [3] as of 30.03.2012, annualized

Past performance is not a reliable indicator of future results. The performance shown does not take account of any commissions and costs charged when subscribing to and redeeming units. Commissions and costs have a negative impact on performance. If the currency of a financial product or financial service is different from your reference currency, the return can increase or decrease as a result of currency fluctuations.

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MSCI World

Correction may not be over

The MSCI World Index (1,299 on 27 April) began correcting as we foresaw last month. Its most recent high at 1,331.6 on 27 March bested our target of 1,315 by 1.3%. The ensuing decline has so far set a low at 1,257 on 11 April – a drop from intraday high to intraday low of less than 6% in just 11 trading days. We can view this slide relative to the latest advance from the 25 November low, i.e. four months. Unlikely is that the drop would already be over given its short duration. This should be true for most other global equity indices as well, though some began correcting much earlier. The MSCI Asia ex Japan and the MSCI Emerging Markets indices already posted highs on 29 February, about a month sooner than the MSCI World. Also in terms of price, less than 6% from top to bottom is much less than the often quoted 38.2% Fibonacci retracement of the latest advance, which increases the risk that the recent recovery from the 11 April low may be a set-up for a next leg down, though a potential new correction would not undercut the previous low by much, in our view. Later in 2012 we could see the recent 27 March high exceeded, before more serious weakness sets in. Range-bound trading is perhaps not over yet.

Hans Sanders, Analyst, UBS AG

Euro Stoxx 50

Recovery and then more weakness

The Euro Stoxx 50 Index (2,344 on 27 April) already began correcting on 16 March at an intraday high of 2,611; its recent low at 2,238 on 23 April marks a 14% drop from high to low, more than twice that of the MSCI World. The index's structure is very different, i.e. worse, than the MSCI World, as the whole recovery from the 23 September 2011 low seems "corrective." This means that rebound may only interpose the bear market that lasted from the February 2011 high (3,077) to the 23 September low (1,936), a 37% drop. The latest drop to the 23 April low fell 1.6% below our target of last month of 2,274. The current recovery has a weekly bullish candlestick reversal pattern called a "morning star," or at least resembles it. We think this recovery could carry the index to between 2,381 and 2,425 based on Fibonacci retracements of the March–April sell-off, whereon renewed weakness would likely start again. The longer-term monthly chart shows the opposite of a bullish "morning star," this being a bearish "evening star" pattern that follows the recovery from September 2011 low. This also confirms that the current recovery is likely to go on before more weakness recurs. This may appear as a trading range, but with a more negative bias.

Hans Sanders, Analyst, UBS AG

Equity selection system

Analysts provide two equity selections (Most Preferred and Least Preferred).

Most Preferred
Taking into consideration the stock's rating as well as other factors relevant for portfolio management (e.g. risk, diversification), analysts expect the stock to outperform versus the thematic benchmark, i.e. to contribute positively to the overall performance of the relevant Equity Preference List (EPL) in the next 12 months.

Least Preferred
Taking into consideration the stock's rating as well as other factors relevant for portfolio management (e.g. risk, diversification), analysts expect the stock to underperform versus the thematic benchmark, which results in a positive contribution to the EPL in the next 12 months.

Suspended
Issuing an analyst's research on a company can be restricted due to legal, regulatory, contractual or best business practice obligations, which are normally caused by UBS Investment Bank's participation in an investment banking transaction involving the company concerned.

Equity selection: An assessment relative to a benchmark
Equity selections are a relative assessment versus a thematic benchmark. Analysts select a benchmark for every thematic investment context they define, be it a regional, sector or other investment context. These benchmarks are often defined as MSCI Level 1, 2 or 3. In cases where such benchmarks do not appropriately reflect the investment context, we may deem a different benchmark more appropriate. The assigned benchmark is also used to measure the performance of the individual analyst.

Stocks can be selected for several Equity Preference Lists (EPLs). In order to keep the various preference lists consistent, a stock can only be selected as a part of either Most Preferred lists or Least Preferred lists. As benchmarks among lists differ, stocks must not necessarily be included on every list they could theoretically be added to.

UBS's selection methodology shows private clients how to best invest if they would like to profit from a specific investment theme.

If a stock is added to the list or removed from it, this does not necessarily mean the rating has changed. Please be aware that this is a selection of the EPL which could already be outdated. For actual ratings please refer to the respecitve EPL available on UBS Quotes/UBS CIO WM Research portal or to your client advisor. The equity preference lists are not intended to be used for portoflio construction purposes.

Current UBS CIO WM Research Global Selection Distribution (as of last month-end)

Most Preferred	81%	(52%)*
Least Preferred	19%	(45%)*

* Percentage of companies within this rating for which investment banking services were provided by UBS AG or UBS Securities LLC or its affiliates within the past 12 months.

Source: UBS CIO WM Research, as of 1 May 2012

Definitions of Moody's/S&P credit ratings

Moody's	S&P	Definition
Aaa	**AAA**	Issuer / Bonds have exceptionally strong credit quality. AAA is the best credit quality.
Aa1 / Aa2 / Aa3	**AA+ / AA / AA–**	Issuer / Bonds have very strong credit quality.
A1 / A2 / A3	**A+ / A / A–**	Issuer / Bonds have high credit quality.
Baa1 / Baa2 / Baa3	**BBB+ / BBB / BBB–**	Issuer / Bonds have adequate credit quality. This is the lowest Investment Grade category.

Enterprises

ABB Ltd 1, 2, 3, 4, 5. Accor SA 2, 3, 5. Actelion Ltd 1, 2, 3, 4, 6. Adaro Energy Tbk PT 7. Alcatel-Lucent/France 2, 3, 5, 8, 9, 10, 11, 12, 13. Allianz SE 2, 5. America Movil SAB de CV 5, 8. American Tower Corp 5. Anadarko Petroleum Corp 2, 3, 5, 8, 9, 11, 12, 13, 14. Anheuser-Busch InBev NV 5. Apache Corp 2, 3, 5, 8, 9, 11, 12, 13. Aryzta AG 2, 3, 4. Ascom Holding AG 2, 3. AstraZeneca PLC 3, 5, 8, 12, 13. Asustek Computer Inc 2. AXA SA 2, 3, 5, 8, 12, 13, 14. Axis Capital Holdings Ltd 5. BAE Systems PLC 2, 3, 5, 14, 15. Baloise Holding AG 1, 2, 3, 4, 5. Bank Mandiri Persero Tbk PT 2, 5. Bank Nederlandse Gemeenten 3, 4. Bank Negara Indonesia Persero Tbk PT 2, 3. Bank of China Ltd 5, 14, 16. Barclays PLC 2, 3, 4, 5, 12, 13, 14. Bayerische Motoren Werke AG 2, 3, 5, 12, 13. BHP Billiton PLC 2, 3, 4, 5, 8, 17. BOC Hong Kong Holdings Ltd 3, 5, 14, 16. BP PLC 2, 3, 4, 5, 8, 15. Bridgestone Corp 5. British American Tobacco PLC 3, 5, 10, 14, 15, 18. Bumi Resources Tbk PT 2, 5. 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