Investment Strategy Guide

Wealth Management Research

2011 Outlook

On schedule, but over budget

Global recovery on track
Equities set to outperform
Fiscal risks remain at the forefront

UBS

Contents

Video feature: To watch Chief Investment Strategist Mike Ryan give a summary of the 2011 Outlook report, please click here.

Publication details

Publisher
UBS Financial Services Inc.
Wealth Management Research
1285 Avenue of the Americas, 13th Floor
New York, NY 10019

This report has been prepared by UBS Financial Services Inc. ("UBS FS") and UBS AG. Please see important disclaimer and disclosures at the end of the document.

This report was published on 8 December 2010.

Editor in Chief
Stephen Freedman

Editor
Marcy Tolkoff

Authors
Mike Ryan
Stephen Freedman
Katherine Klingensmith
Thomas Berner
Brian Rose
Jeremy Zirin
David Lefkowitz
Joe Sawe
Anne Briglia
Barry McAlinden
Donald McLauchlan
Kathleen McNamara
Michael Tagliaferro
Dominic Schnider

Project Management
Paul Leeming
John Bellomo
Chris Protasewich

Desktop Publishing
George Stilabower
Courtney Leshko

A new look...
We welcome your feedback on the new design of this report. Email us: wmrfeed-back@ubs.com

2011 Outlook

Mike Ryan

Stephen Freedman

Coming in January

The Decade Ahead

UBS will continue the outlook conversation in January with our first ever outlook on the decade ahead. In this new report, the global research team examines potential trends, opportunities and risks that could impact individual investors over the next ten years.

Dear Reader,

As 2010 draws to a close, a new year will soon be upon us, presenting fresh hopes, fears, opportunities and challenges for investors. Will the year ahead mark a continuation of the economic and financial healing process that started in the latter part of 2009 and progressed steadily through 2010? Or will the recovery prove fleeting and give way to renewed weakness and market volatility? Can equity markets continue grinding higher amid relative modest valuations and still solid earnings growth? Or will the absence of top-line growth and renewed concerns over debt problems in the developed world weigh on risk assets once again?

With the Fed having already taken extraordinary measures to reflate the economy and stabilize markets, there is some concern that policymakers are simply running out of options to keep things rolling along. Meanwhile, the change of Congressional leadership in Washington following the midterm elections ushers in a new era on Capitol Hill that could yet devolve into stalemate and dysfunction. Finally, there are prospects for rising tensions across the globe ranging from trade disputes and hostile border clashes to possible proliferation of nuclear weapons.

But despite these challenges, financial markets have endured, companies have adapted and the global economy has demonstrated both its flexibility and resiliency. Markets have normalized amid the aggressive steps taken by policymakers and are poised to generate fair returns over the next 12 months. Corporate America is once again in the business of reinventing itself and has emerged from the financial crisis leaner, more efficient and more profitable. Finally, the emerging markets continue to create opportunities that will yield economic and financial benefits across the globe.

We are entering the new year with a constructive outlook on risk assets — equities in particular. While we want to remain fully informed of the risks, we also want to be properly positioned to take advantage of the opportunities that are certain to present themselves both within and across financial markets in the year ahead.

Have a happy, healthy and prosperous new year.

Mike Ryan, CFA
Chief Investment Strategist
Head, Wealth Management Research – Americas

Stephen Freedman, PhD, CFA
Head, Investment Strategy
Wealth Management Research – Americas

Focus

2011 Outlook: *On schedule, but over budget*

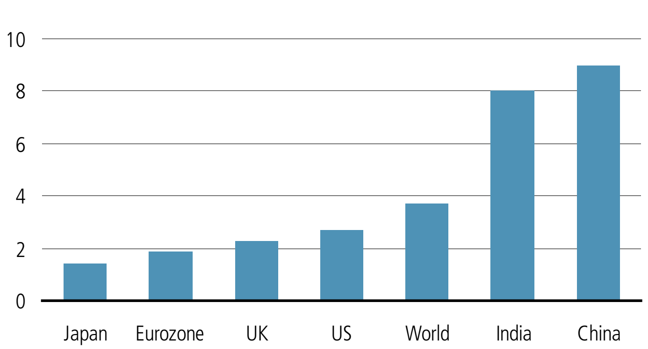
Despite a broad rebound in markets during 2010, we opt to extend our preference for risk assets by shifting back to an overweight in equities and retaining an overweight in credit within fixed income. The recent sharp run-up in equity markets, concerns over European sovereign debt and uncertainties associated with a new Congress could prompt a temporary pullback. However, we would view that as an opportunity to add to positions given our more constructive intermediate-term outlook.

We look for the economic recovery process to remain on schedule in the year ahead, as lingering cyclical challenges continue to give way to a more sustainable expansion. Progress will still be uneven, however, as strong demand drivers translate into above-trend growth within the emerging markets while ongoing balance sheet repair dampens growth prospects in the developed world (see Fig. 1). This slow but steady improvement in the macro backdrop is still likely to be greeted with both relief from elected officials and cautious optimism on the part of investors. Fears of a double-dip recession contributed to periodic setbacks in risk assets during this past year. So as the economy progresses from the initial fragile phase of the rebound to the more stable stage of the expansion, risk assets are likely to outperform.

Still, it's important to keep in mind that this recovery has come with a pretty hefty price tag. Budget deficits across the developed world have surged amid a combination of falling tax receipts, expensive bailouts of the private sector and aggressive stimulus measures. In a number of developed countries, the government debt-to-GDP ratio has risen to levels that pose serious threats to sovereign credit ratings (see Fig. 2). This suggests that fiscal belt-tightening is now in order. But policymakers will need to strike the right balance between the need to reduce deficits and the need to sustain growth. Move too slowly, and some of the difficulties that weighed heavily on the eurozone could become even broader. Move too quickly, though, and the extraordinary measures put in place over the past three years to reflate the economy and stabilize financial markets will all have been for naught.

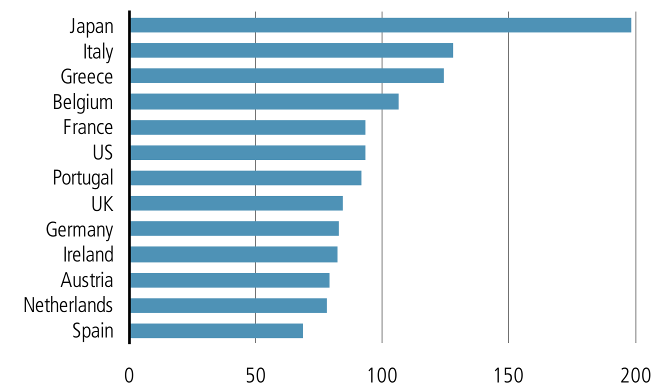
Against this backdrop, we express our preference for risk assets by moving back to an overweight in equities and shifting to an underweight in bonds. While stocks could come under some pressure early in 2011 amid uncertainties on the domestic political front and fears of a broadening of the EU debt crisis, elevated risk premiums, still solid earnings prospects and an accommodative

Fig. 1: Economic growth being driven by emerging markets
UBS GDP growth forecasts for 2011, in %



Source: UBS WMR, as of 6 December 2010

Fig. 2: Public debt serious threat to sovereign credit ratings
Gross public debt in % of GDP 2010



Source: OECD and UBS WMR, as of 6 December 2010 monetary policy stance support higher equity prices over the balance of 2011. Nevertheless, given the challenges on the fiscal side – especially within the eurozone – we continue to overweight emerging markets versus the developed world. Although emerging markets are trading above their historical valuation levels relative to the developed markets (see Fig. 3), we still see room for outperformance. In the fixed income markets, we retain our overweight on credit versus government paper as strong corporate balance sheets and lower default rates support further compression in credit spreads.

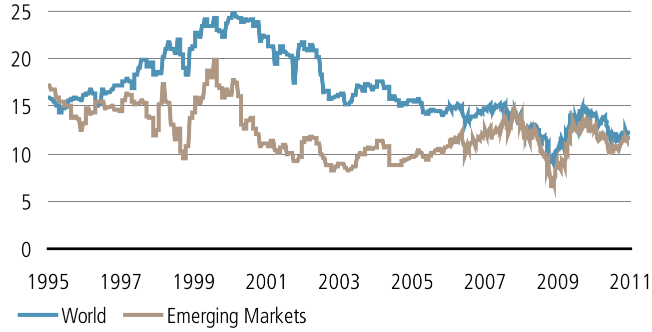
Uneven but durable growth prospects

As we've already noted, the economic growth prospects between the developed and developing world remain uneven in the aftermath of the global financial crisis and associated recession. However, the recovery in the US appears to have progressed into a more durable expansion. The deleveraging in the consumer sector has paused for now with the savings rate leveling out at just below the 6% mark (see Fig. 4). Meanwhile, employment prospects show some signs of improvement as business confidence strengthens amid an easing of credit conditions and some increased visibility on the regulatory and tax fronts. The extraordinary policy measures put in place by the Fed – including an expanded commitment to quantitative easing – will also serve to buttress growth as still low-debt servicing costs and rising disposable income also allow for a higher level of consumer spending.

That's not to suggest however, that the macro outlook is completely devoid of threats or challenges. As we note in the *"15 developments for 2011"* section, we do not see any meaningful recovery in housing this year. In fact, we look for home prices to decline by 5% in light of a heavy backlog of unsold homes, continued incidence of foreclosure activity and negative housing equity conditions (see Fig. 5). While we do not look for significant progress on deficit reduction and expect the Bush tax cuts to be fully extended for the next two years – in line with the agreement recently struck between President Obama and congressional Republicans – there will still be some fiscal drag over a winding down of stimulus spending. And although lending standards are clearly easing, credit conditions have not fully normalized, which suggests that banks will still be selective in extending credit to small businesses and consumers. Overall, our economics team is forecasting a still below trend GDP growth rate of about 2.7% for the US in 2011.

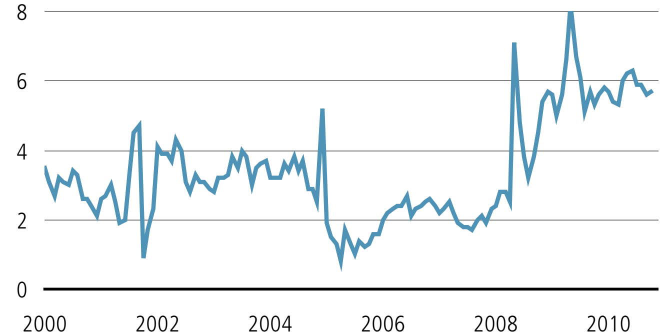
Outside the US, the growth dynamic also remains bifurcated. According to our global economics team, Japan is expected to slow the most among the non-US developed nations, with growth decreasing by more than half, from 3.5% this past year to just 1.4% in 2011. But some softening is also likely in emerging economies, where growth is expected to decelerate from 6.1% in 2010 to 5.6% in 2011, with China once again leading the way with GDP growth of 9%. The lingering effects of the credit crisis

Fig. 3: Still reasonable valuations for Emerging Market Equities
P/E ratio on forward 1-year consensus EPS estimates



Source: Thomson Datastream and UBS WMR, as of 6 December 2010

Fig. 4: Deleveraging of consumer sector has paused for now
US personal saving as a % of disposable personal income



Source: Bloomberg and UBS WMR, as of 6 December 2010

and ongoing balance sheet repair process suggest that the world economy is unlikely to reduce much of the excess capacity built up during the recession (see Fig. 6). As a result, slack in labor and capital should ease only gradually, suggesting that inflation pressures remain exceptionally well-contained across the globe — with the exception of a few regional hot spots within emerging markets.

The wages of fear and greed

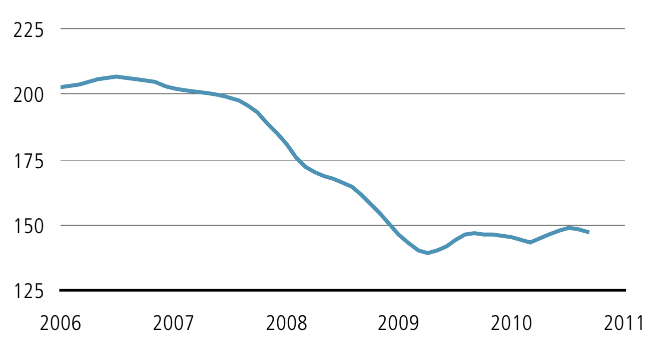
The economic outlook matters, of course, since fears of a double-dip recession certainly contributed to the setbacks in equity markets during 2010. It's often said that financial markets are driven by two things – and two things only – fear and greed. While this is a gross oversimplification of the multitude of variables that investors must both anticipate and react to when evaluating investment choices, it does capture the sometimes bipolar nature of financial markets. Keep in mind that the periodic shifts between the so-called "risk on" and "risk off" trades defined the top and bottom of the trading range in stocks in 2010 (see Fig. 7). If that is the case, then equity and credit risk premiums reflect just how much market participants are being paid to hold risk assets – and what we may expect in returns for the year ahead.

Despite a fairly broad rebound in risk assets during both 2009 and 2010, valuations in both the equity and credit markets remain relatively attractive. US stocks currently trade at a price/earnings multiple of 12.7x – well below the long-term average of 15x seen during the past 20 years (see Fig. 8). While we're not looking for a significant re-rating in stocks, some modest expansion in multiples coupled with still solid earnings growth should yield above-average returns for 2011. Equity market valuation is even more compelling when measured against the relatively meager returns available for bonds and cash. It must be noted that equity risk premiums currently stand at abnormally high levels which suggests equity outperformance in the year ahead (see Fig. 9).

The valuation case on the credit side is a bit less compelling. Credit risk premiums have continued to narrow as default rates have trended lower, fears of a double-dip recession have abated and equity market volatility has lessened. Spreads on investment grade corporate bonds are now closing in on their longer-term historical average, and are only moderately above the levels seen prior to the crisis. Still, strong credit fundamentals and improving business prospects should leave corporate bonds well bid. High-yield valuation is a bit more attractive, with spreads that still stand above the long-term average and pre-crisis levels (see Fig. 10). Strong corporate balance sheets, a continued need for income and a potential backing up of Treasury yields support further spread compression and outperformance in credit.

Fig. 5: Look for home prices to remain under pressure in 2011

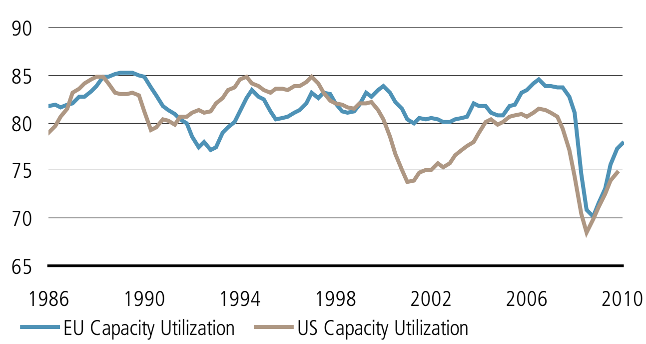
S&P/Case-Shiller Composite 20 Home Price Index



Source: Bloomberg and UBS WMR, as of 6 December 2010

Fig. 6: Plenty of excess capacity in developed economies

Capacity Utilization, in %



Source: Bloomberg, UBS WMR, as of 6 December 2010

More bullish but with a bias

Although we are moving to extend our preference for risk assets by overweighting equities, we recognize that there is room for a pullback early in the year following the sharp run-up in equities since early November. We therefore have introduced a new feature to our tactical asset allocation guidance which we refer to as our "short-term bias indicator." This indicator is intended to offer some shorter-term perspective for those looking to better time market entry and exit points. Not to be confused with the technical trading discipline maintained by our Chief Technical Strategist, Peter Lee, these indicators are meant to simply complement the longer fundamental view embedded within our tactical asset allocation (TAA) recommendations. At present, the short-term indicator is *"mixed"* which suggests there is a risk of a 5-10% pullback in stocks early in 2011 (see Figs. 11 and 12). Those who are more sensitive to price points may, therefore, wish to use this indicator for timing purposes.

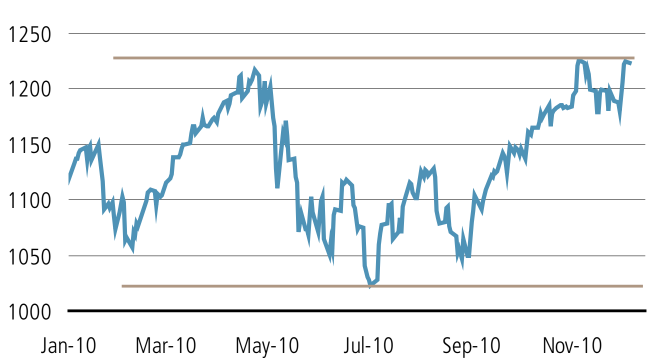
Keep in mind that our TAA views are intended to provide guidance over a horizon that spans a longer (9- to 12-month) time frame. These views are based on our risk and return expectations over this more extended horizon, and should therefore be the primary driver of tactical shifts. It remains our view that investors seek guidance over periods that span longer than just a month. However, we also realize that the commitment of new funds and the need for periodic rebalancing affords the opportunity to time those shifts to benefit most from near-term volatility or strength in markets. Therefore, we will only indicate a short-term bias signal in circumstances when we have a reasonable conviction that a near-term market move is forthcoming that differs from the general direction of our tactical asset allocation recommendations.

Gauging the risks

As we've already noted, neither the economic outlook nor the return prospects within financial markets are without risk. Soft spots in the expansion and pullbacks in equity and credit markets are therefore to be expected along the way. While many factors may have an impact on both growth and market returns, we view the following issues as posing some of the more serious challenges in the year ahead:

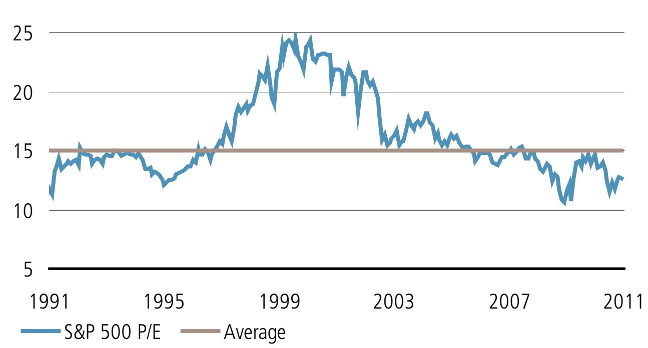
- *Eurozone crisis:* Although the EU/IMF aid package to help recapitalize Irish banks has eased immediate concerns over eurozone debt, the issue will continue to flare up periodically during the year. Sovereign credit spreads remain at elevated levels, suggesting that pressures are mounting for other EU players – especially Portugal. That said, concerns over the need for a bailout of Spain, clearly the most important of the "at risk" countries in the EU, are overblown. The scale of Spain's banking problems is not as severe as Ireland's, and the state of fiscal deficit is nowhere near as acute as Greece's.

Fig. 7: Stocks trading within a range in 2010
S&P 500



Source: Bloomberg and UBS WMR, as of 6 December 2010

Fig. 8: Stocks' P/E moderately cheap
S&P 500 P/E ratio based on 12-month forward consensus earnings



Source: Bloomberg and UBS WMR, as of 6 December 2010

- *Policy tightening within emerging markets:* Continued divergence in growth prospects between the developing and developed nations suggests that monetary policy paths are also likely to differ. There is still some concern that China (among others) may be forced to tighten policy amid increased domestic price pressures and a building asset bubble. Although the scope of emerging markets tightening operations is limited, any ratcheting up of these efforts could threaten risk assets given continued reliance on the emerging markets for growth.

- *Municipal budget woes:* Recent volatile conditions in the municipal market have raised concerns over a broader set of problems at the state and local levels. As we point out in the *"15 developments for 2011"* section, although the general obligation debt of states such as California or cities like New York is secure, it is possible that a high profile municipality could be forced to defer payments on its general obligation bonds. This would likely send a chill through financial markets and prompt some "de-risking" as participants weighed the prospects for broader defaults.

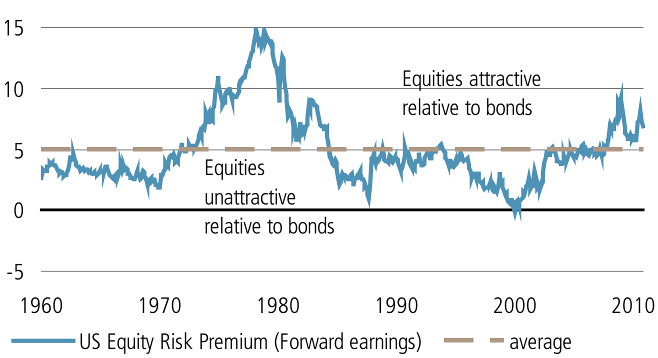
- *Political missteps:* The 112th Congress will be radically different from the 111th Congress – both compositionally and ideologically. This suggests that bipartisan compromise will be harder to come by and positioning for political advantage could dominate the agenda. Should the atmosphere on Capitol Hill turn especially toxic, this could seriously jeopardize efforts to reduce the budget deficit, streamline regulation and promote an expansion in free trade. None of these would be well received by financial markets.

Refilling the punchbowl

Former Federal Reserve Chairman William McChesney Martin, Jr. once famously quipped that the role of the Fed was akin to "removing the punch bowl" just when the party really got going. It would appear, however, that the current Fed Chair, Ben Bernanke, is charting a radically different course. Confronted with sluggish growth, excess productive capacity and heavy debt balances, Bernanke has had to resort to extraordinary measures in order to reflate the economy. In addition to effectively maintaining a zero-interest rate policy, the Fed has also initiated a second phase of quantitative easing (commonly referred to as QE2) assets. This entails the Fed purchasing an additional USD 600 billion in Treasury debt in an effort to keep rates low and jump-start growth. In short, Bernanke keeps refilling the punchbowl in an effort to turn wallflowers into party animals.

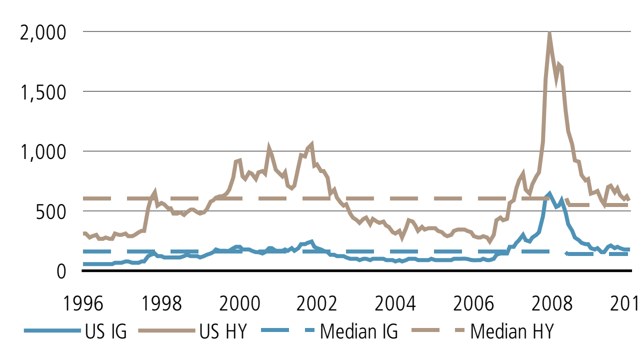
It's difficult to gauge whether or not these most recent efforts by the Fed will bear fruit. Although bond yields and the US dollar are likely lower than they would otherwise have been if the Fed had not engaged in QE2, it's too early to tell if this will have a meaningful impact in

Fig. 9: Equities more attractively valued than bonds
Equity risk premium (earnings yield minus real bond yield)



Source: DataStream, Shiller and UBS WMR, as of 6 December 2010

Fig. 10: Corporate spreads still higher than usual
Credit spreads on IG and HY US Corporates, in basis points



Source: BoAML, UBS WMR, as of 6 December 2010 reinvigorating housing activity, encouraging bank lending, bolstering equity prices and stimulating exports. On the other hand, there is concern over the backlash that QE2 has triggered both at home and abroad. Elected officials are alarmed at the perceived overreach by the Fed, and the new Congress could mount a more serious challenge to the Fed's independence. Perhaps more concerning is the prospect that dollar weakness prompted by QE2 could ultimately trigger a wave of competitive currency devaluations that threaten global growth prospects. It may just turn out that Chairman Bernanke is unable to keep refilling the punch – even if the party does show some signs of winding down.

Conclusion

As we ponder what's to come during the next 12 months, we recognize that new and unforeseen threats will likely emerge – but so too will opportunities. We therefore opt to position ourselves to best take advantage of the trend we see playing out through the balance of the year by overweighting risk assets and continuing to focus on those regions, sectors and asset classes within which the growth and return prospects are the strongest. But we also stand ready to make tactical adjustments to our forecasts, projections or asset class weightings as they become necessary due to changing fundamentals, shifts in policy stance or significant repricing within markets. Because while both the economy and financial markets appear to be on smooth roads, some potholes and even an occasional detour are certain to lie ahead.

Mike Ryan, CFA, Chief Investment Strategist

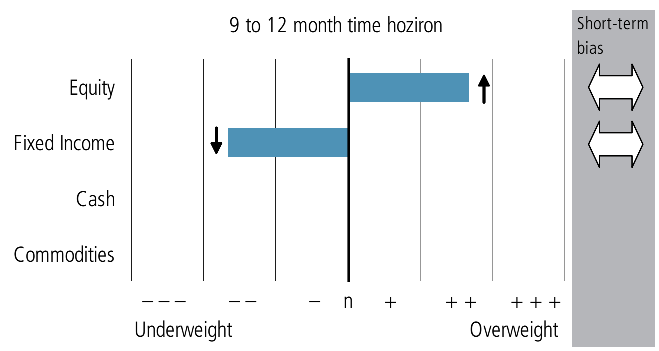
Fig. 11: Explanation of short-term tactical bias

Short-term bias	Symbol	Definition
Positive	↗	We expect a short-term upward movement in the context of a broader range-bound market or downward trend
Sideways	↔	We expect a short-term phase of consolidation or sideways movement in the context of a broader intra-year upward or downward trend
Negative	↘	We expect a short-term downward movement in the context of a broader range-bound market or upward trend

Source: UBS WMR

Fig. 12: Asset class preference

Tactical deviations from benchmark



Note: Black arrows indicate changes as of this report. Thick white arrows indicate a short-term bias. Source: UBS WMR, as 8 December 2010

Fig. 13: Growth and inflation

	'10F	'11F	'12F	'10F	'11F	'12F
World	4.1	3.7	3.8	2.9	3.0	3.5
US	2.8	2.7	2.8	1.6	1.6	2.1
Canada	2.9	2.3	2.7	1.8	2.6	2.4
Japan	3.5	1.4	2.0	–0.7	–0.3	0.4
Eurozone	1.8	1.9	1.9	1.5	1.9	2.4
UK	1.8	2.3	2.2	3.2	2.8	1.9
China	10.0	9.0	9.0	3.3	4.3	4.0
India	9.0	8.0	8.6	9.2	6.0	6.8
Russia	4.1	4.8	4.5	6.9	8.5	7.7
Brazil	7.9	5.4	5.1	5.8	5.4	4.8
Asia ex-Jp/Chi/Ind	5.3	4.3	4.3	2.7	3.2	3.2

In developing the forecasts set forth above, WMR economists worked in collaboration with economists employed by UBS Investment Research (INV). INV is published by UBS Investment Bank. Forecasts and estimates are current only as of the date of this publication and may change without notice.

F: forecast, Source: UBS WMR, as of 7 December 2010

Will...May...Won't?

15 developments for 2011

In last year's *Outlook* report, we offered up our inaugural list of the five developments that will, may and won't happen over the following year. While our crystal ball was a bit off the mark on certain subjects, the overall record was fairly solid. So at the risk of tempting the forecasting gods once again, we reprise our list of developments this year. We have tried to update the list to focus on those developments that will likely have the greatest impact on the economy, financial markets and policy choices in the year ahead. The list is far from comprehensive, but it does focus on the major issues that will shape the world — at least our corner of it — over the next 12 months.

*Five things that **will** happen:*

1. Equity markets will provide normalized returns:
Following a year of solid if unspectacular performance, we look for stocks to provide somewhat above average returns. Still solid earnings growth, undemanding valuation levels and a supportive monetary policy backdrop all suggest further solid gains in the year ahead. Some fear that the negative impact from the end of the stimulus spending could prompt a contraction in growth, which would in turn weigh on equity prices. However, the re-engagement of the consumer, easing of credit conditions and an acceleration in business investment spending will largely offset the drag from the winding down of federal spending. However, with earnings unlikely to accelerate sharply following last year's impressive rebound, significantly above-normal returns would require a sharp increase in P/E multiples. But as we note later on, the prospects for a material re-rating of stocks in the aftermath of a financial crisis are limited.

2. The sovereign debt crisis will grow more acute:
Those who viewed the EU/IMF bailout of Greece as a sort of "firewall" in the eurozone sovereign debt crisis must have been bitterly disappointed by the recent EUR 85 billion lifeline thrown to Ireland. The need for further massive capital injections within the banking industry finally forced Ireland to submit to an EU/IMF-led bailout package. Yet, even more disappointment lies ahead. Despite an emergency liquidity facility that was intended to deter any further run on eurozone debt, credit default swaps surged to new post-crisis highs for several of the more vulnerable players in the EU even after the Irish package was announced. While this may bring some relief, the respite is likely to prove only temporary. Attention is already shifting to the other weak links in the EU – Spain and Portugal. Given Spain's relative importance in the eurozone and Germany's reluctance to underwrite any additional rescue packages, the crisis will shift from concerns over liquidity to fears of solvency.

3. Corporate cash hoarding will end:
Confronted with limited investment opportunities and a still uncertain economic backdrop, corporate treasurers became more cautious custodians of balance sheets over the past several years. As a result, the ratio of cash as a percentage of total assets surged to multi-decade highs. While this may have served companies well during the most acute phase of the financial crisis, these large cash reserves have become less optimal as business conditions rebound and liquidity improves. With the focus now less on survival and more on enhancing shareholder value, we look for corporations to begin deploying these cash balances more aggressively. While a fair portion will certainly be targeted to business investment spending and strategic acquisitions, we also look for an expansion in share buybacks and increases in dividend payouts.

4. Geopolitical threats will intensify:
In last year's *Outlook*, we noted that geopolitical risks would emerge from a host of potential hot spots. We focused on tensions on the Korean peninsula, increased belligerence on the part of Iran, Venezuela and the ongoing conflict in Afghanistan and Iraq. This year we expect those threats to intensify and potentially even broaden. Iran is edging closer to producing enough "fissible" material to make a nuclear warhead – and procuring a delivery vehicle capable of hitting Western Europe. Meanwhile, North Korea has engaged in open hostilities against South Korea in an effort to distract attention away from a leadership transition and a moribund economy. But perhaps most troubling of all has been the disclosure of thwarted terror attacks on cargo aircraft bound for the US and other Western destinations. With 2011 marking the tenth anniversary of the WTC and

Pentagon 9/11 attacks, the threat of further strikes will remain elevated. The risk that has recently had the biggest effect on markets – and one that will likely persist – is fear over the political cohesion of Europe.

5. Congress will deteriorate into gridlock:
The midterm elections ushered in an entirely new political dynamic on Capitol Hill, as significant gains by Republicans yielded a split in control of Congress. Not only does the GOP now control the House, but the Democratic majority in the Senate has been narrowed considerably. While both sides have claimed to want to work together to find common ground, the prospects for meaningful progress on a host of issues, ranging from climate change legislation to immigration reform, are slim. Meanwhile, notwithstanding the recent agreement on continuing the Bush-era tax cuts, the two parties are likely to clash frequently and fiercely over spending and tax issues. While both have pledged to reduce the deficit, each has embraced a fundamentally different approach. Given the disastrous government shutdown in the wake of the 1994 midterm elections, Republican congressional leaders will be reluctant to overplay their hand in a similar manner this time around, but they will struggle with an enthusiastic freshman class eager to eschew deficit spending. Efforts to stymie funding in order to starve healthcare reform run the risk of a similar backlash if the effort is seen as overly heavy-handed. One of the few areas in which the two parties may find common ground is trade policy. The impact on the economy could be damaging if Congress were to pass protectionist legislation that threatened global growth.

*Five things that **may** happen:*

1. A high profile municipality may default:
Credit conditions within the municipal market remain challenging as the consequences of the financial crisis and associated recession have continued to weigh on state and local finances. A combination of declining tax revenues, overextension of public services and underfunded pension plans has left a number of municipalities vulnerable to significant ratings downgrades and debt service interruptions. While the risk of default will remain concentrated in the housing, healthcare and special assessment sectors, it is possible that a general-purpose government with a higher public profile may default. Several cities that have been hit particularly hard both by the national recession and regional structural decline are most vulnerable. Although the general obligation debt of states such as California and Illinois or cities such as New York and Chicago is secure, municipalities like Detroit and Harrisburg could be forced to defer payments on their general obligation bonds.

2. The economy and corporate profits may surprise to the upside:
Economists continue to look for sluggish growth in 2011, with consensus forecasting 2.5% real US GDP growth. The continued overhang from consumer deleveraging, financial sector recapitalization and withdrawal of fiscal stimulus will certainly restrain growth prospects. However, recent evidence of an improvement in business confidence, more robust job creation despite a lackluster November labor market report and re-engagement of the consumer suggests the risks are now to the upside. Meanwhile, companies have continued to reduce costs as evidenced by the surprisingly strong Q3 productivity figures. This combination of better top-line growth and impressive productivity gains suggest that the string of stronger-than-expected earnings reports could last for several more quarters as analysts have been slow to raise profit projections.

3. Emerging markets may stumble:
Most strategists, including us, continue to look for strong growth and solid investment returns from the emerging markets (EM) this year. We have opted to retain our overweight as emerging market nations continue to benefit from improving global growth prospects, but face few of the structural headwinds confronting the developed world. However, there are apt to be a few stumbles and setbacks along the way as developing nations continue to grapple with issues ranging from the inflationary impact of increased capital inflows and a rising tide of protectionism to the uneven transition from a purely export/infrastructure spending-led growth model. A number of central banks, including China's, have been engaged in policy tightening in an effort to limit inflation pressures and prevent asset bubbles from building. At the same

time, there are increased tensions on the trade front as developed nations pressure large EM countries to adopt a more balanced growth approach that includes encouraging domestic demand. Keep in mind that EM are no longer trading at a deep discount to the developed world. So if risk factors emerge or if investors simply opt to take some profits, EM could face temporary lapses of underperformance.

4. Rising protectionism may trigger a trade war:
Last year, we noted that a trade war would not break out, simply because it was in no one's best interest to see global commerce contract. However, as steady economic growth resumes and unemployment remains elevated, elected officials are focusing once again on issues ranging from protracted global trade imbalances and distortive government subsidies to manipulative foreign exchange practices and the failure to honor property rights and legal contracts. These issues broadly fall under the banner of "fair trade" rather than "free trade," and have created a backlash in many nations struggling with sluggish growth prospects and stubbornly high trade deficits. While China's reluctance to meaningfully revalue the remnimbi has been the most visible point of contention with US officials, the Fed's own program to stimulate the economy by flooding the system with liquidity through "quantitative easing" has drawn broad criticism as well. As a result, fears that a round of competitive currency devaluations could trigger a broader trade war can no longer be so easily dismissed.

5. Bond market volatility may increase:
Policymakers have made it clear that the federal funds rate will be kept low "for an extended period" — which we take to mean through the first quarter of 2012. Meanwhile, the USD 600 billion program for purchasing Treasury debt, which targets Treasury debt in the 5- to 10-year maturity range, will run until June — and could be extended even longer if the Fed deems it necessary. This would seem to support the notion that any rate increases for the coming year will be moderate in scale as the Fed continues to play an outsized role in the bond market. But it is precisely the Fed's intervention that could lead to more volatile conditions in the bond market. Rates rose sharply following the Fed's initial purchases of Treasury debt, as inflation expectations surged higher. Further increases in inflation fears – or greater reluctance on the part of foreigners to underwrite US debt – could prompt additional bouts of volatility, especially on the very long end of the yield curve which is not the primary focus of the Fed's purchases.

*Five things that **will not** happen:*

1. P/E multiples will not exceed long-term averages:
While equity markets continued to grind higher during 2010, the move was driven by a strong surge in corporate profits, with S&P 500 earnings rebounding around 35% to USD 84 per share. Valuation multiples actually contracted, with the price/earnings ratio falling from 14.2 to 12.7 times forward 12-month consensus earnings estimates. There are those who now see equity prices rising sharply higher as multiples expand above their historical averages (roughly 15x) amid low inflation, accommodative policy and somewhat improved growth prospects. We rather expect multiples to remain somewhat below-average in the aftermath of the financial crisis and the uncertainty surrounding the unwinding of extraordinarily easy monetary and fiscal policies.

2. The housing market will not sustain a recovery:
Those waiting for a recovery in the housing market will have to wait a bit longer. According to our real estate analyst, Jon Woloshin, the backlog of unsold homes, continued high level of foreclosure activity and prevalence of negative housing equity will serve to limit recovery prospects. Our economics team expects the national Case-Schiller Home Price Index to decline by 5% in 2011. Keep in mind, however, that since housing activity is already at an extremely depressed level and price declines are likely to be manageable, continued weakness in residential real estate won't trigger another recession. Instead, we look for the economy to continue to expand at a sluggish but relatively steady pace this year, despite the overhang from housing.

3. There will not be meaningful progress in deficit reduction:
Despite encouraging efforts by the president's bipartisan commission on fiscal reform and sincere campaign

pledges by Tea Party candidates, little meaningful progress will be made this year on reducing the size of the budget deficit. Both parties expressed support for the commission's efforts, with each side embracing certain aspects of the preliminary proposal to reduce the deficit. However, the report did not gain enough support within the commission to be put to a vote. Neither party has yet put forth a credible plan for reducing the level of government outlays, reforming entitlement spending or increasing tax receipts – all required for any meaningful progress on closing the fiscal shortfall. Senate Republican leaders have pledged to eliminate the practice of congressional earmarks which tend to inflate spending. The White House has proposed freezing the pay of federal employees for two years. The effect of both measures would be minimal. So while both parties have expressed willingness to leverage the commission's work in the wake of the eurozone debt crisis, the prospects for substantive progress in 2011 are limited, in light of the deep ideological divide in Congress.

2011: Five things we believe...

...will happen	...may happen	... won't happen
Equity markets will provide normalized returns	A high profile municipality may default	P/E multiples will not exceed long-term averages
The sovereign debt crisis will grow more acute	The economy and corporate profits may surprise to the upside	The housing market will not sustain a recovery
Corporate cash hoarding will end	Emerging markets may stumble	There will not be meaningful progress in deficit reduction
Geopolitical threats will intensify	Rising protectionism may trigger a trade war	Commodity prices will not collapse
Congress will deteriorate into gridlock	Bond market volatility may increase	Inflation will not be a problem

4. Commodity prices will not collapse:
In the wake of the housing-inspired global financial crisis, there are those obsessed with identifying the next asset bubble poised to burst. Given the sharp run-up in prices over the past two years, commodities have been cited by many (along with Treasury debt, emerging markets and sports memorabilia) as the next most likely asset vulnerable to a collapse. While certain types of industrial metals and agricultural goods have gotten a bit pricey in the near term, we do not foresee a broad-based pullback in commodity prices. In fact, our commodity strategist, Dominic Schnider, just recently raised his target price on oil for 2011 from an average of USD 85 per barrel to an average of USD 95 per barrel, with spikes above the USD 100 mark likely in the coming year.

5. Inflation will not be a problem:
This is another repeat performer from last year, but needs updating because of the continued massive pump-priming exercises undertaken by the Fed. With rates already effectively at 0%, policymakers were forced to employ more exotic measures to help reflate assets, stabilize financial markets and stimulate growth. This has rekindled fears that inflation pressures may accelerate as reflected in the sudden jump in bond yields following the initial stage of QE2. But while inflation expectations did indeed rise, they still remain low by almost any objective benchmark. What's more, with the economy still growing at a sluggish pace and the unemployment rate unlikely to fall very sharply in the near term, price pressures are apt to remain muted. But there's a caveat: while price pressures will remain subdued domestically, other parts of the world — including China — will be grappling with inflation trouble spots.

Michael P. Ryan, CFA, Chief Investment Strategist

Our Best Ideas at a Glance

The following list represents investment strategy recommendations that WMR believes will provide attractive opportunities over the next 9-12 months.

Asset Classes
Preference for Equities over Bonds

Currencies
Preference for minor currencies, in particular EM, commodity producers (CAD, AUD) and Euro proxies (CHF, SEK, NOK).

Equities

Current allocation: 49.0%

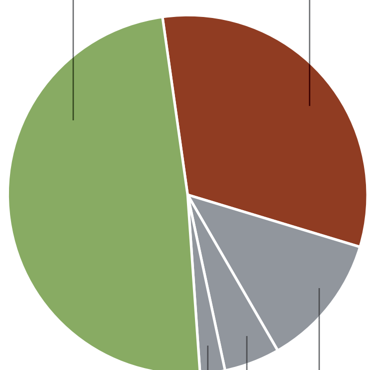
International markets

- Emerging Market equities
- Especially Brazil, China, Russia and Taiwan
- UK equities

Within US equities

- Information Technology: In particular Hardware Technology and Equipment
- Consumer Staples: especially Emerging Market geared companies within Household and Personal Products as well as Food, Beverage and Tobacco.
- Within Industrials: Airfreight and logistics companies
- Within Financials: Money center banks, Brokers and Life Insurers
- Within Consumer Discretionary: Auto-related companies
- Within Telecom: Wireless towers and data-centers
- Within Energy: Oilfield services companies
- Preference for Growth over Value stocks

Pages 28, 32, 34



Overweight
Neutral
Underweight

Fixed Income

Current allocation: 32.0%

Within US dollar Fixed Income

- High Yield Corporate bonds
- Investment Grade BBB-rated Corporates
- Emerging Market USD sovereigns and quasi-sovereigns, with a preference for Mexico and Brazil
- Emerging Market USD Corporates, in particular commodity producers
- Trust Preferred Securities

Pages 30, 37

Alternative Investments

Current allocation: 12.0%

- Included in portfolio for diversification purposes.

Page 43

Commodities

Current allocation: 5.0%

- We see upside potential for crude oil, gold and selected agricultural commodities.

Page 42

Cash

Current allocation: 2.0%

- Yield may be pinned near zero for another 12 months.

For an explanation of current allocation, please see the note on the following page.

Asset Allocation Overview

Asset Allocation Overview	WMR Tactical View	Model Portfolio Moderate Risk Profile (in %)			
		Benchmark Allocation	Tactical Deviation	Change	Current Allocation
Equities Reasonable valuations make equities more attractive than the low yields offered by bonds. We prefer emerging over developed markets.	Overweight	44.0	+5.0	▲	49.0
US Equities We expect solid earnings growth, but 2011 consensus estimates appear too high, leaving room for disappointments.	Neutral	32.0	**+0.0**		32.0
US Large Cap Value Large-cap value appears less attractive than growth.	Moderate Underweight	11.0	-1.5	▼	9.5
US Large Cap Growth Valuations and our sector tilts suggest a preference for Growth over Value.	Moderate Overweight	11.0	+3.0	▲	14.0
US Mid Cap Expensive versus large caps. Greater M&A activity could be a positive in 2011.	Neutral	5.0	**+0.0**		5.0
US Small Cap Expensive versus large caps but financing conditions improving. Greater M&A activity could be a positive in 2011.	Neutral	3.0	**+0.0**	▲	3.0
US Real Estate Investment Trusts (REITs) Remains expensive despite underperformance in recent weeks. Fundamentals still challenging.	Moderate Underweight	2.0	-1.5	▼	0.5
Non-US Developed Equities We see potential in UK stocks. Eurozone valuations are attractive but sovereign debt situation creates risk. Japan not as expensive as it used to be but fundamentals are weak.	Neutral	10.0	**+0.0**	▲	10.0
Emerging Market (EM) Equities EM equities are more attractively valued than developed markets and more immune to fiscal risk.	Overweight	2.0	+5.0	▲	7.0
Fixed Income Low yields unattractive relative to equities. Fed may remain on hold throughout 2011, which should help to limit the rise in long rates.	Underweight	37.0	-5.0	▼	32.0
US Fixed Income Currency considerations suggest a neutral stance versus non-US fixed income.	Moderate Underweight	29.0	-2.5	▼	26.5
Non-US Fixed Income The dollar should remain weak but already appears undervalued against many currencies. Japan's economic woes and extremely low rates make yen debt unattractive.	Moderate Underweight	8.0	-2.5	▼	5.5
Cash (USD) Low yields make the opportunity cost of holding cash high.	Neutral	2.0	**+0.0**		2.0
Commodities Demand from emerging markets should support prices, but negative roll yields likely to trim total returns.	Neutral	5.0	**+0.0**		5.0
Alternative Investments No tactical view. Included into portfolio for diversification purposes.	Neutral	12.0	**+0.0**		12.0

"WMR tactical deviation" legend: Overweight Underweight Neutral

Source: UBS WMR and Investment Solutions, as of 8 December 2010.

"Change" legend: ▲ Upgrade ▼ Downgrade

For end notes, please see appendix.

The benchmark allocations are provided for illustrative purposes only by UBS for a hypothetical US investor with a moderate investor risk profile and total return objective. See "Sources of benchmark allocations and investor risk profiles" in the Appendix for a detailed explanation regarding the source of benchmark allocations and their suitability and the source of investor risk profiles. The current allocation is the sum of the benchmark allocation and the tactical deviation. See "Deviations from benchmark allocation" in the Appendix regarding the interpretation of the suggested tactical deviations from benchmark.

Washington Watch

The fight for fiscal leadership

The 112th session of Congress promises to be very busy, but not so very productive. We expect that with power balanced more evenly between the two parties there will be a rancorous tug-of-war. Congress will accomplish little – only what it must – in 2011. Contrary to the conventional wisdom that a divided government is good for markets, squabbling in Washington may actually be negative.

Deficits, spending and jobs

We expect that the next Congress will focus on deficits, spending and jobs, with their eyes already on the 2012 presidential election. Both Democrats and Republicans are claiming leadership on fiscal reform, but display distinct ideological approaches, with Democrats focused on receipts (tax increases) and Republicans on expenditures (spending cuts). Even as the Senate does not have to pass major tax legislation in 2011, we expect fiscal sustainability to dominate Washington. Interestingly, the bipartisan Deficit Commission's aggressive proposals to cut entitlements, the size of government, defense and other politically sensitive programs, along with a restructuring of the tax code, met with some support from both parties (see Fig. 1). However, when it comes to taking political risks and compromising, we expect that both parties' desire to have a "pristine" voting record to dangle in front of voters come 2012 will block progress.

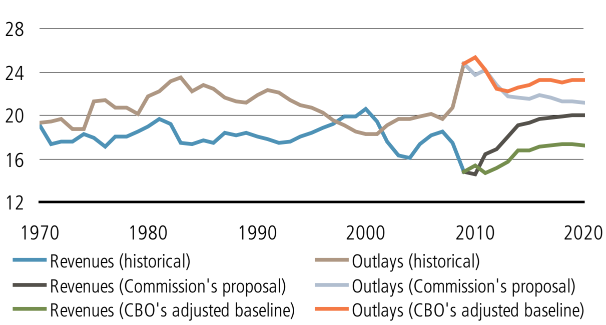
Leadership sets the tone

The selection of leadership in the House for both parties promises to keep tensions high. The reelection of Nancy Pelosi as the minority leader in the House was a close vote, and speaks to the decimation of the "Blue Dog" moderate cohort. At the helm of House Republicans is John Boehner, who represents a continuation of previous positions but will have to reckon with a large freshman class. As many of these newcomers have support from the Tea Party movement, Boehner will have much to contend with even passing "routine" legislation to keep the government going.

Unlike most sessions, the new 112th Congress will have significant routine business to clean up after the previous session. The 111th Congress is poised to leave quite a few unfinished affairs, potentially including only a short-term extension of the budget bill, as well as the "extenders" bill, which includes many popular provisions. But as the new Representatives will come with little experience and lots of passion to limit excess, Research and Development and charitable contributions tax credits as well as Build America Bonds could at least temporarily expire. Additionally, increasing the debt ceiling could be a major hurdle. The US government is expected to hit its self-imposed debt limit of just over USD 14 trillion by May of 2011, and as the government is running large deficits without the ability to take on new debt, it would close. We expect the ceiling will eventually be increased, but

Fig. 1: Deficit Commission's proposal improves the deficit

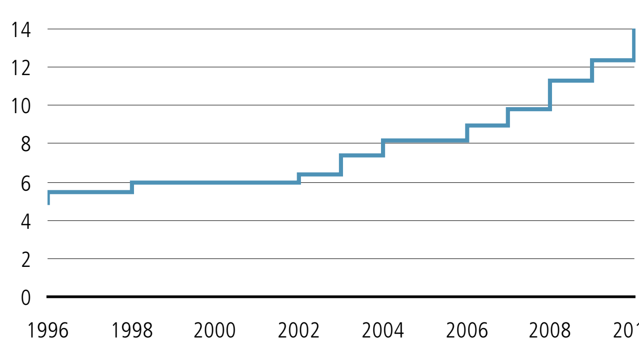
Outlays to exceed expenditures for the next decade, in % of GDP



Note: CBO's adjusted baseline is the CBO baseline projections adjusted for the Bush tax cut extention and AMT indexation. Source: CBO, National Commission on Fiscal Responsibility and Reform, UBS WMR, as of 3 December 2010

Fig. 2: US debt issuance near its limit

The debt ceiling, in USD trillion



Source: Bloomberg, UBS WMR, as of 23 November 2010 the fight could be brutal and the government could come close to or actually temporarily close. History speaks to the political and economic cost of such a strategy, but new members will come in ready to fight and not to abide by conventional wisdom. At a minimum, Republicans may be able to demand concessions from the White House for approving a higher ceiling (see Fig. 2).

Legislation as political statement

The House is likely to pass and repeal many pieces of legislation, with little expectation that such laws will make it through the Senate, let alone the White House. For example, we expect that the House will repeal the healthcare bill (but this will be ignored by the Senate) and substantially modify the financial sector reform bill. House Republicans could, however, successfully delay or alter elements of these bills.

Tempers may flare during discussions about taxes and spending, but that doesn't translate into policy. Some House Republicans have come out in favor of limiting spending to 2008 levels. Unemployment benefits could be limited going forward and earmarked "pork" funding could also be curtailed, but these changes involve relatively small price tags. Sacred areas, like defense, may actually be discussed, while entitlements — which make up the bulk of the expenditures — are unlikely to be curtailed even if there is consensus that this eventually must happen. So-called compromises may involve both sides getting what they want, with an increase in spending and a hike in taxes, but this just exacerbates the situation. The uncertainty about the government's long-term fiscal sustainability threatens Treasuries and the US dollar, but is unlikely to result in a crisis in the near term.

Political divide leaves some policies untouched

There are some areas where the party split will preclude aggressive legislation, leaving the status quo intact. For example, we expect that the government-sponsored enterprises will be debated but not privatized in the next Congress. In addition, the role and independence of the Federal Reserve could be a hotly debated subject, especially with the controversial increase in quantitative easing, but we doubt legislation will be passed. Republicans have called for reform of the Federal Reserve Act (removing the mandate for the Fed to seek full employment) — and while they are unlikely to succeed, Fed officials will likely face hostility when on The Hill. Additionally, we doubt a carbon tax or other energy legislation will make any major headway.

Protectionism could rise, but chances for legislation have diminished. Until recently, the Obama White House lacked a push for free trade. However, in an effort to become more business-friendly, the Administration shifted. It inherited three Free Trade Agreements, and as of the end of 2010 it pushed the FTA with South Korea; agreements with Colombia and Panama are pending. While Republicans are traditionally moderately more pro-free trade than Democrats, given the influence of the Tea Party movement, we are unlikely to see a concerted effort in this direction. There is still the chance that protectionism will increase, especially disputes with China, if unemployment stays high.

Sometimes a strong government helps

Overall, we expect a divided and divisive Congress. We are in an environment where strong government can be a good thing for markets given the need for achieving long-term fiscal sustainability, eliminating uncertainty regarding the long-term tax code and healthcare expenses and even for keeping the government open. However, we think that Congress will struggle to pass even routine legislation, let alone implement some of the fundamental reforms now being discussed. Such a situation suggests continuity for some areas, but promises conflict around government funding. Policy issues are critical to markets, but we are unlikely to see much of a boost from DC.

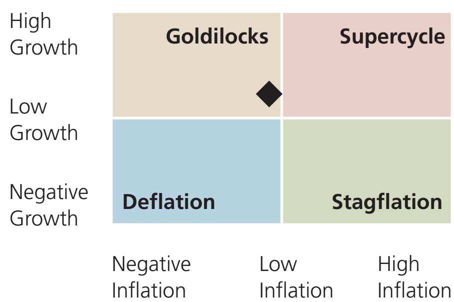
Katherine Klingensmith, Strategist

Market Scenarios

In the tables below, we discuss four potential market scenarios for 2011 and assign a probability to each. While a continued moderate recovery remains our base-case scenario, we see some risk of a renewed slowdown. There is also a possibility that a strong recovery will take hold. A "worst of both worlds" stagflation scenario that combines high inflation with weak economic growth remains unlikely in our view.

Moderate Recovery

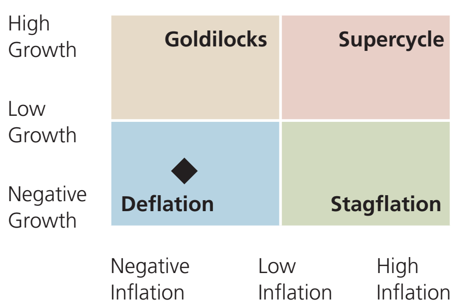
70%



- The global economy continues to be on an expansion course, but the recovery is more subdued than in prior cycles because of deleveraging.
- The impact of the eurozone debt crisis remains geographically contained. Private demand is strong enough to overcome tighter fiscal policy in the developed economies.
- The abundant slack in the economy and modest growth rate keeps inflationary pressures from building up.

Renewed Downturn

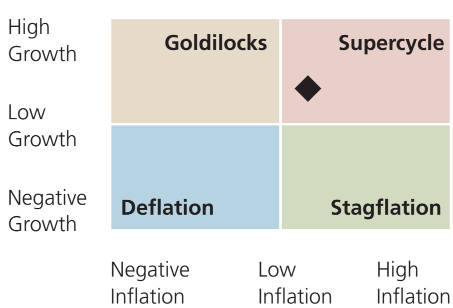
15%



- The fragile recovery in the developed economies stalls as fiscal consolidation creates additional headwinds.
- Most countries suffer at least one quarter of negative growth. Consumers cut back on spending while companies hold on to their cash.
- Falling commodity prices and a rise in excess capacities sends the US inflation rate toward zero.

Strong recovery

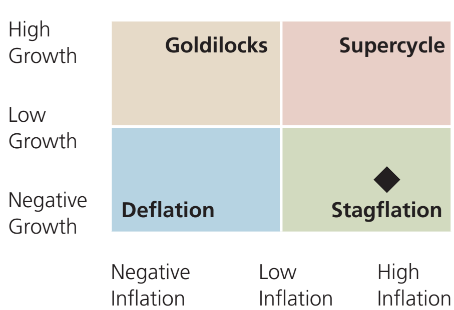
10%



- High profit margins and low interest rates encourage a surge in investment spending. Improvements in the labor market allow a more dynamic consumer recovery.
- US GDP growth rate accelerates to 4% and global growth reaches 5% in 2011.
- Inflation rises along with commodity prices, especially in the emerging markets, but overheating is avoided.

Stagflation

5%



- Rising commodity prices set an inflationary process in motion and contribute to choking the emerging recovery.
- Policy is tightened sharply in China and other emerging markets in an attempt to keep inflation under control.
- The combination of rising price levels and weak growth prospects poses significant challenges to most financial assets, but gold soars to record highs.

Source: UBS WMR

US Economic Outlook

US consumer comeback as growth engine

With the boost to production from inventory rebuilding and fiscal policy now in the past, the key challenge in 2011 for the US economy will be to grow final private demand without crutches. Labor income has already reacted visibly to final demand and related job growth and the Fed will remain supportive. We are therefore confident that the US economy can withstand a possible fiscal drag on growth.

Show me the purchasing power

We estimate that the fiscal package boosted real GDP growth by about 1 percentage point (pp) and inventories added another 1.6pps in 2010. Government spending grew by "only" about 1.1%, as rising federal spending was offset by the spending slump at local governments. Taking into account the government's roughly 20% share in GDP and allowing for income multipliers, we think the total impact was about 1%. We expect an only slightly lower government spending growth rate next year, as some moderation in federal spending will meet less weakness from local governments. We expect the Bush tax cuts to be extended in 2011; however, one of the key risks to our outlook for the year is a bigger fiscal drag on growth. So the key question remains: Will consumer purchasing power be potent enough to keep the train rolling?

Trends signal sustainable consumption growth

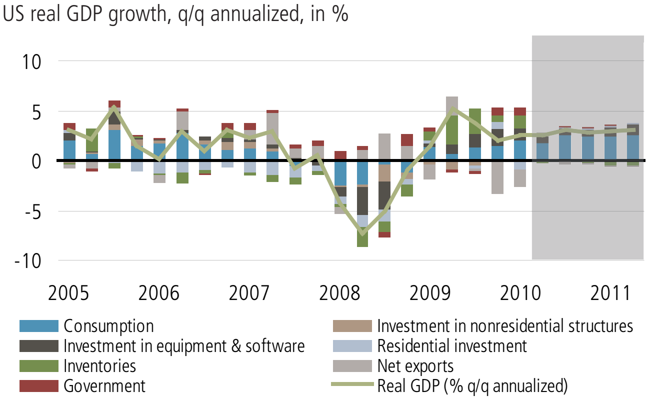
First, labor income gauges have already visibly reacted to the growth recovery and to positive job formation. As stable labor income growth fuels consumption, the positive feedback loop between consumption, job formation and labor income is already firmly in place. Second, the workweek has risen generously since 2009 and now stands at about two-thirds of the way between the recession trough and the pre-recession level. We believe businesses will likely employ workers more vigorously once the workweek has reached its pre-recession level. Finally, the household savings rate has been hovering above 5% since late 2008. This is strong evidence that the savings rate adjustment is over, barring any significant negative net wealth shock. Given these developments, we expect consumption to grow at a healthy clip of around 3% in 2011.

Inflation and the Fed

The Fed has made it clear that it doesn't plan to spoil the party. We think that it will follow through with buying the full USD 600 billion in Treasuries by end of 2Q11 and, after allowing for some passive balance sheet tightening, it will only proactively raise rates in early 2012. This kind of monetary support will be necessary to avoid the inflation rate from slipping even further. While we expect inflation to rise moderately in 2011, we think the risk is for a fairly flat inflation rate throughout the year.

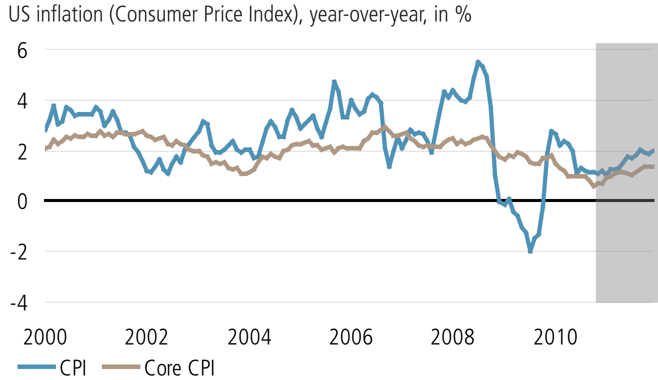
Thomas Berner, CFA, Analyst

Fig. 1: After inventory boost final demand to drive growth
US real GDP growth, q/q annualized, in %



Source: Thomson Datastream, UBS WMR, as of 2 December 2010

Fig. 2: CPI inflation poised to rise in 2011
US inflation (Consumer Price Index), year-over-year, in %



Note: Shaded region represents UBS WMR forecasts. Source: Thomson Datastream, UBS WMR, as of 3 December 2010

The big divide

The recovery in Europe stands on more solid ground, but it is still worryingly uneven between the core and peripheral countries. Chinese growth will continue to lead the rest of Asia as well as commodity-supplying countries – but with inflation rising, tougher choices lie ahead. In Japan, 2010 is ending with a whimper but the recovery should continue.

Europe: strong at the core, soft on the outside

As the European debt crisis is not over yet, financial markets are increasingly dividing the region's debt into "safe" and "unsafe." In Germany and other successful European nations, export-fueled growth has now spilled over to domestic demand, leading to virtuous growth cycles. These economies could use higher interest rate levels from the European Central Bank (ECB) to cool growth – in stark contrast to a still depressed Southern Europe, where even a 1% ECB policy rate is too high. The ECB will have to manage this situation cautiously, as every rate hike could trigger further tensions in the eurozone. Switzerland remains a safe haven investment, and interest rates are likely to increase there, as well as in Sweden and Norway.

The impossible trinity in emerging markets

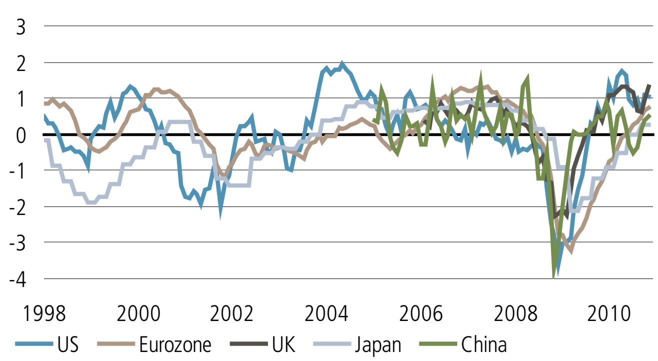
China continues to pull ahead after successfully cooling down its economy in spring 2010, and growth in Asia is likely to be solid as we go forward. However, inflation pressures could continue to mount, even though the People's Bank of China has been tightening policy. At some stage, Chinese monetary policy will be confronted with the impossibility of having capital mobility, a fixed exchange rate and an independent (and hence inflation-fighting) central bank all at the same time. Which of the three objectives will have to be abandoned will be one of the most important questions for 2011. Brazil has already introduced capital controls, and some Asian countries are starting to implement similar measures. In our view, given the objective of the 12th Five-Year Plan to reorient the Chinese economy from export-led growth to spur domestic demand, the ongoing real appreciation pressures on the Chinese yuan will be met partly by higher inflation and partly by letting the currency appreciate.

Japan: modest recovery should resume

Japanese exports slowed in the second half of 2010 as the stronger yen made it difficult for Japanese factories to compete. In addition, domestic auto sales dropped sharply after the end of a government incentive scheme. However, these negatives should prove temporary. We expect the recovery to resume in 2011, especially if the yen weakens in line with our forecasts.

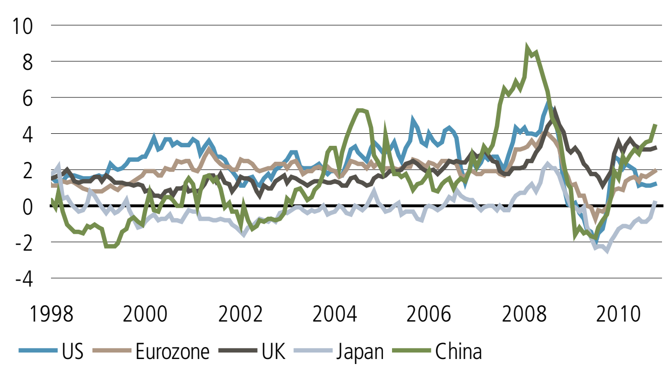
Thomas Berner, CFA, Analyst

Fig. 3: Healthy, sustainable level of manufacturing activity
Global real activity, standardized (mean=0, standard deviation=1)



Source: Bloomberg, UBS WMR, as of 3 December 2010

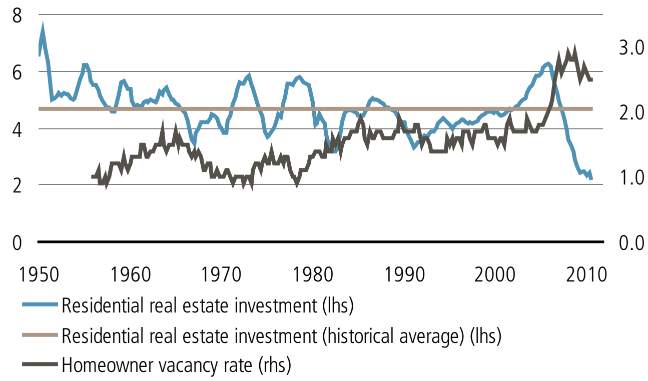
Fig. 4: Inflation resurgence a key risk in some countries
Global CPI inflation rates, year-over-year, in %



Source: Thomson Datastream, UBS WMR, as of 2 December 2010

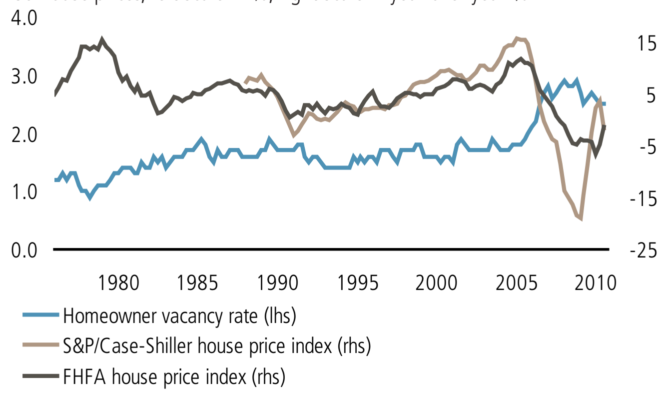
Economic Outlook: Chartbook

Fig. 5: Housing recovery likely to be lackluster
US housing market, left scale in % of GDP, right scale, in %



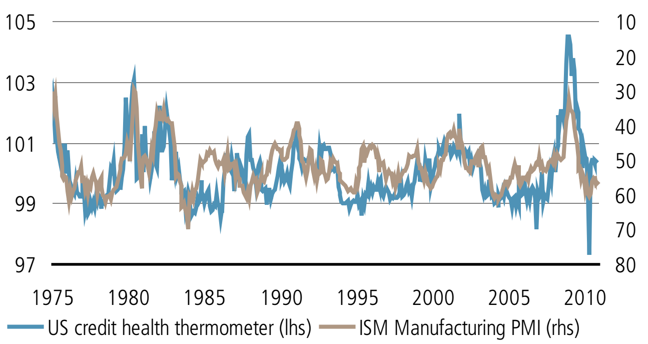
Source: Thomson Datastream, UBS WMR, as of 3 December 2010

Fig. 6: House prices to fall again moderately in 2011
US house prices, left scale in %, right scale in year-over-year %



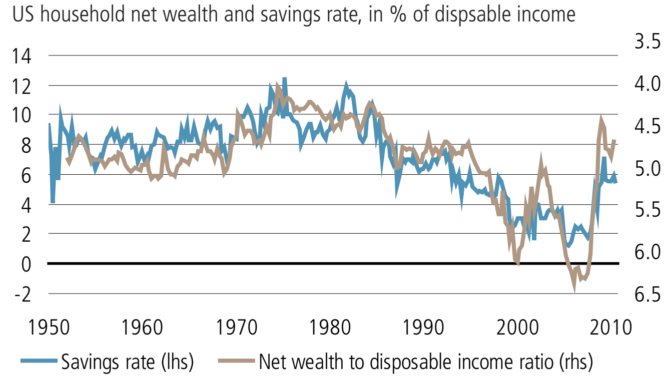
Source: Thomson Datastream, UBS WMR, as of 3 December 2010

Fig. 7: Credit health has normalized
US credit health (level) and real activity (level, inverted scale)



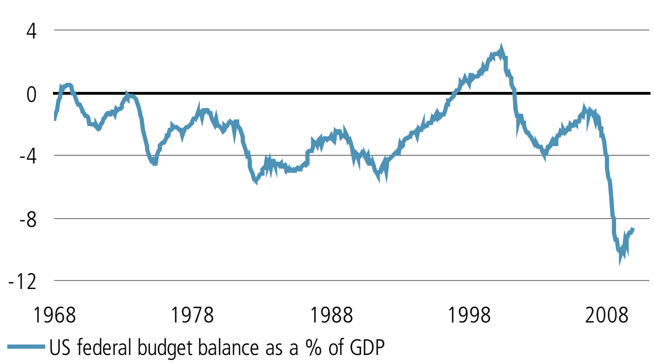
Note: For full explanation of this chart, please see appendix.
Source: Thomson Datastream, UBS WMR, as of 3 December 2010

Fig. 8: Net wealth has recovered, savings rate stabilized
US household net wealth and savings rate, in % of dispsable income



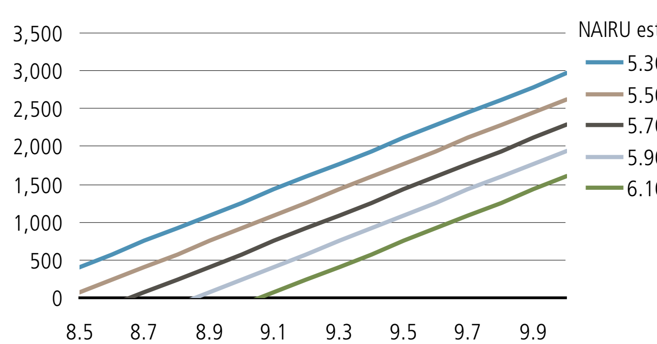
Note: Right scale is inverted
Source: Thomson Datastream, UBS WMR, as of 3 December 2010

Fig. 9: Federal deficit poised to narrow further
US Federal budget balance, in % of GDP



Note: Sum of monthly federal budget balance over the past 12 months divided by current-quarter annualized nominal GDP. Source: Bloomberg, UBS WMR, as of 3 December 2010

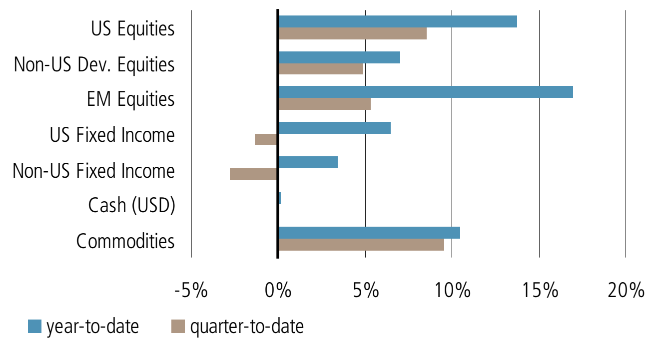
Fig. 10: Current Fed forecasts imply USD 580bn in purchases
Estimated Treasury purchase amount, in USD billion



Note: QE2 Treasury purchase amount assuming Taylor rule approach and inflation forecast of 1.4%. NAIRU stands for Non-Accelerating Inflation Rate of Unemployment
Source: UBS WMR, as of 3 December 2010

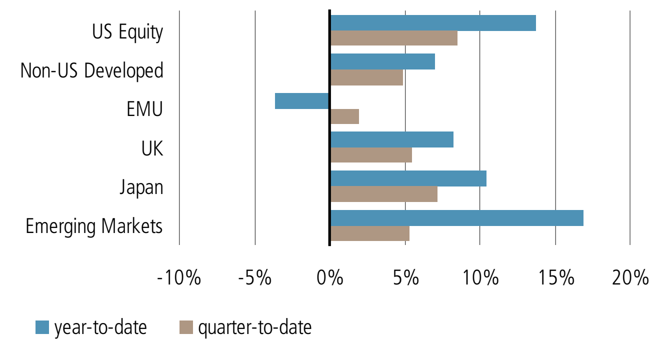
Financial Market Performance

Fig. 1: Asset Classes
Total return in USD and %



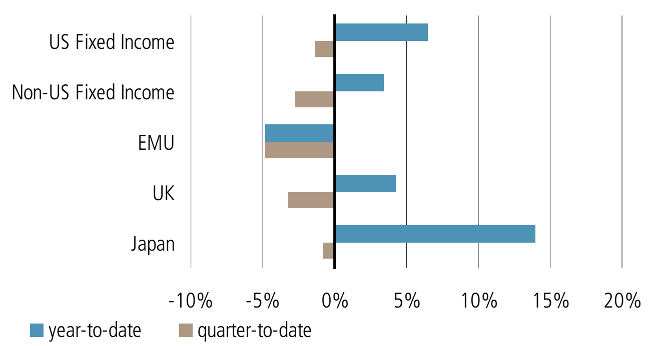
Source: Bloomberg, UBS WMR, as of 7 December 2010

Fig. 2: International Equity Markets
Total return in USD and %



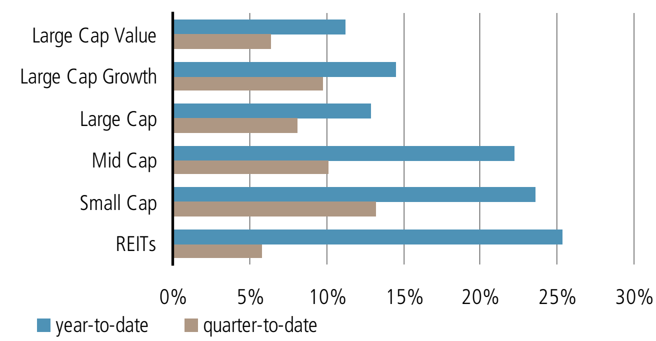
Source: Bloomberg, UBS WMR, as of 7 December 2010

Fig. 3: International Fixed Income
Total return in USD and %



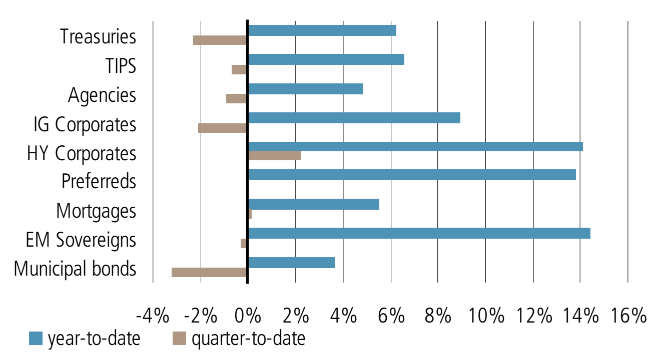
Source: Bloomberg, UBS WMR, as of 7 December 2010

Fig. 4: International Equity Markets
Total return in USD and %



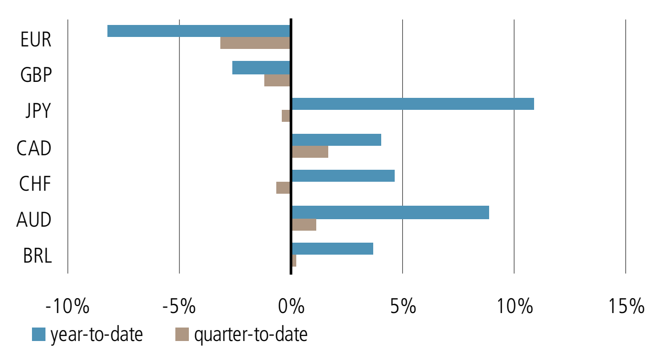
Source: Bloomberg, UBS WMR, as of 7 December 2010

Fig. 5: US Fixed Income
Total return in USD and %



Source: BoAML, UBS WMR, as of 7 December 2010

Fig. 6: Currency appreciation vs. USD
Appreciation vs. USD in %



Source: Thomson Datastream, UBS WMR, as of 7 December 2010

Asset Classes

Equities to outperform bonds in 2011

Equities are on track to outperform bonds by a margin in 2010. As the global recovery moves into a more sustainable expansion phase, we believe that equities have the potential to post higher returns than bonds over the next year. Therefore, we upgrade equities to a tactical overweight and reduce fixed income to underweight.

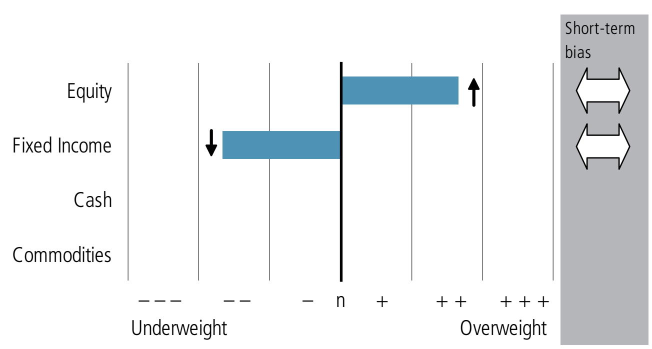
Just a year ago, there was much talk of the "Lost Decade" in reference to the 2000-2009 period during which bond markets massively outperformed stocks. Meanwhile, a few weeks before the end of the year, stocks are on track to outperform bonds for the second year in a row, though the margin is thinner this time around. As 2011 approaches, we are turning more constructive on equities than we have been during the last three quarters.

First, we believe that **equity valuations are moderately attractive**. While the valuation gap is by no means comparable to the 50% upside potential that existed at the bottom of the market in March 2009, we consider global equities to be trading at about 6% below fair value. Equities' appeal is especially noticeable when compared to their main alternative, namely bonds. As Figure 4 indicates, the earnings yield on global equities exceeds the yield on global bonds by a margin that has only been surpassed 5% of the time during the last 20 years. Price/earnings ratios (P/E) across the major equity markets are below their long-term averages. And, as discussed by Mike Ryan in the lead article, we do not expect P/Es to fully converge to these averages during the course of 2011; given ongoing macro and fiscal uncertainties, even a partial convergence could lead to equity market returns in excess of those achievable in other asset classes.

Overall, the **cyclical and earnings picture** should provide a supportive environment for equities. We expect earnings growth to decelerate in 2011. This is to be expected as the earnings growth just shy of 40% which 2010 is set to deliver can hardly be repeated without significant profit margin expansion. Yet, we expect some modest margin expansion combined with revenue growth to generate earnings growth in the high single digits to low double digits depending on the market. And while bottom-up consensus earning estimates have moved ahead of these figures, indicating some potential for downward earnings revisions, the gap is not unusually large and is not a cause for concern, in our view.

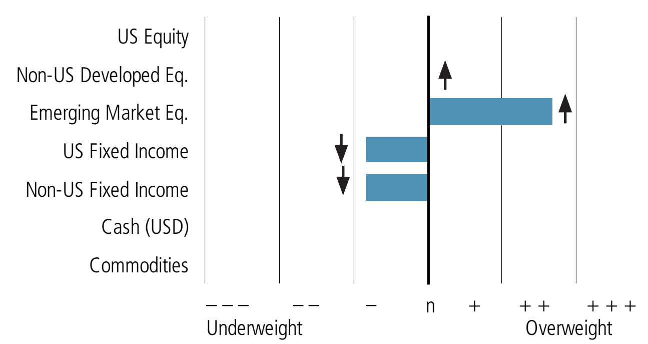
Finally, as far as **timing and sentiment** factors are concerned, we consider the current situation as fairly balanced for equities. The sentiment of individual investors has been improving over the last three months, suggesting that a gradual reengagement into equity markets may be in the making (see Fig. 6). This is compounded by the Federal Reserve's latest quantitative easing program (QE2) which should entice some investors with cash flow

Fig. 1: Asset class preference
Tactical deviations from benchmark



Note: Black arrows indicate changes as of this report. Thick white arrows indicate a short-term bias. Source: UBS WMR, as of 8 December 2010

Fig. 2: Asset class and regional preferences
Tactical deviations from benchmark



Note: Arrows indicate changes as of this report.
Source: UBS WMR, as of 8 December 2010

needs to look for better alternatives than low-yielding bonds in dividend-yielding portions of the stock market. Among institutional investors, sentiment has been improving as well without being euphoric. While risks arising from the European sovereign debt situation do pose significant challenges, barring a dramatic worsening of the situation over there, we believe that more evidence that a gradual economic expansion is on course will likely lead to further sentiment improvement.

Low returns at best in bond markets
Even after their most recent rise, bond yields are hovering near historical lows. We see very limited value in bond markets, even though we do not expect a significant sell-off in the near term. While we believe that Fed policy will anchor yields at low levels for most of 2011 and expect a largely range-bound yield environment, returns from coupon clipping are hardly a compelling reason to invest in bonds at this stage. Moreover, should the economy start to gather steam at a greater pace than we expect, bonds could come under pressure. Overall, we view bonds as unattractive, with risks clearly skewed to the downside. As a result, we have downgraded fixed income to a tactical underweight in our model portfolios.

Commodities offer selected opportunities
We see selected opportunities within commodity markets, although we are not aggressively recommending entering the asset class at this stage. We believe that demand growth arising from the global expansion is likely to create some scarcity in selected areas such as crude oil, some base metals and parts of the agricultural complex. This should create upward pressure on spot prices. Yet for diversified commodity exposure such as that provided by the DJ UBS commodity index, the potential for price appreciation should be limited to around 10%. Moreover, investors are unlikely to reap such returns. Total returns to investors who typically invest directly or indirectly (through funds) via financial futures are also determined by the term structure of future prices. These tend to be in what is known as a "contango" structure, where futures prices decline as they come close to maturity. This means that a substantial portion of the spot return is already reflected in futures prices and will de facto be eaten away, leaving only moderate total returns. For an overview of our preferred sectors within the commodity space, please consult the section on page 42.

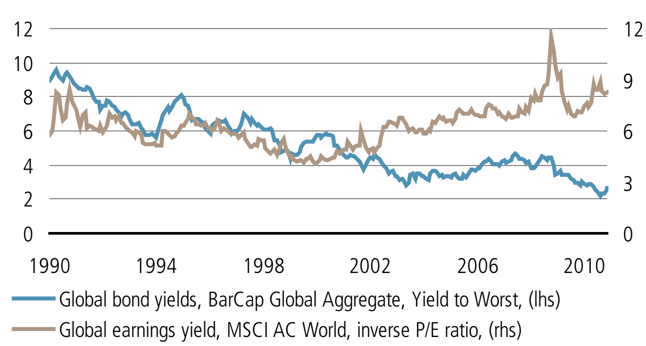
Stephen R. Freedman, PhD, CFA, Strategist

Fig. 3: Asset class scorecard
Scores range from -3 (very unattractive) to +3 (very attractive)

	Valuation	Cyclical	Timing	Overall
Global Equities	+1	+1	+0	+1
Commodities	–1	+1	+0	+0
Fixed Income	–2	–1	+0	–1

Source: UBS WMR, as of 8 December 2010

Fig. 4: Stocks present significant yield advantage over bonds
Global earnings yield and global bond yield, in %

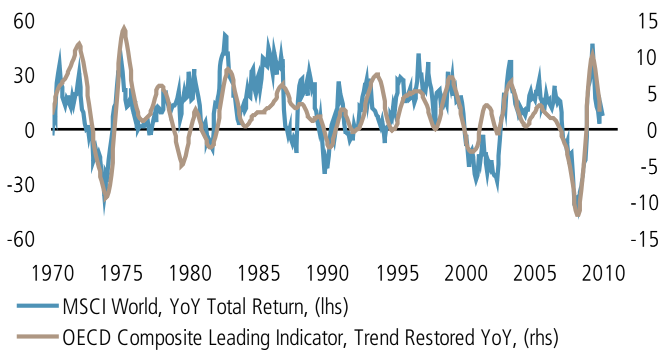


Source: Bloomberg, IBES, UBS WMR, as of 6 December 2010

Asset Classes: Chartbook

Fig. 5: Leading indicators imply 12% global stock return

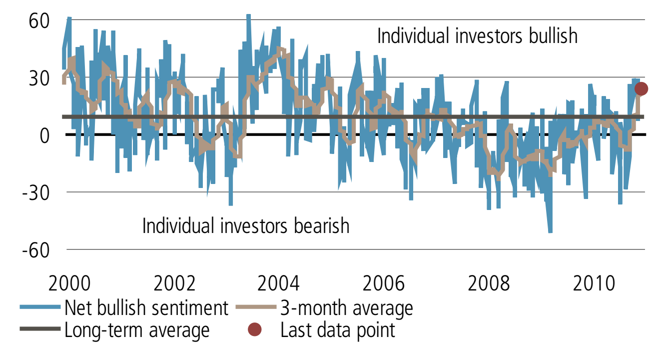
MSCI World total return and OECD leading indicators, in %



Source: Bloomberg, UBS WMR, as of 6 December 2010

Fig. 6: Improving individual investor sentiment

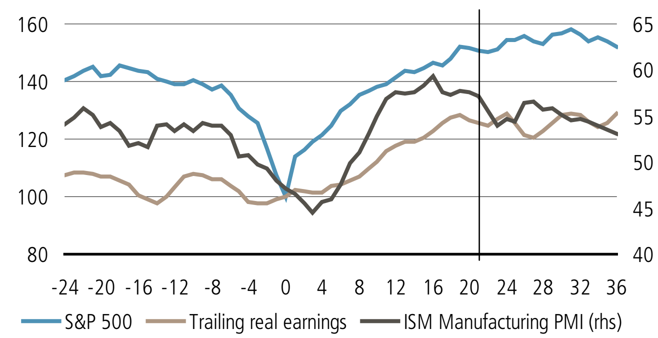
AAII net bullish sentiment (individual investor survey)



Source: American Association of Individual Investors, Bloomberg, UBS WMR, as of 2 December 2010

Fig. 7: Still some equity upside according to cyclical playbook

Average cycle since mid-1940's around market bottoms (month "0")

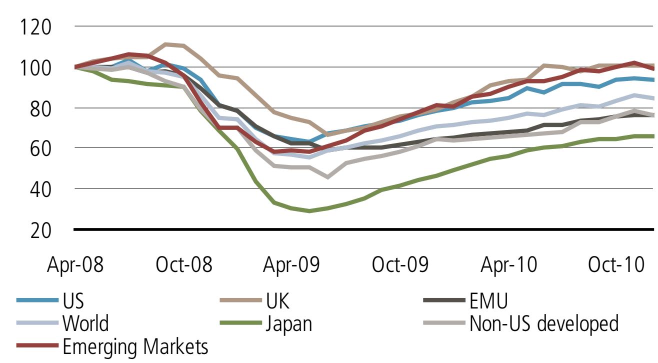


Source: Thomson Financial, Bloomberg, UBS WMR, as of 6 December 2010

Note: Vertical line shows number of months since March 2009 market bottom.

Fig. 8: Earnings momentum still positive but slowing

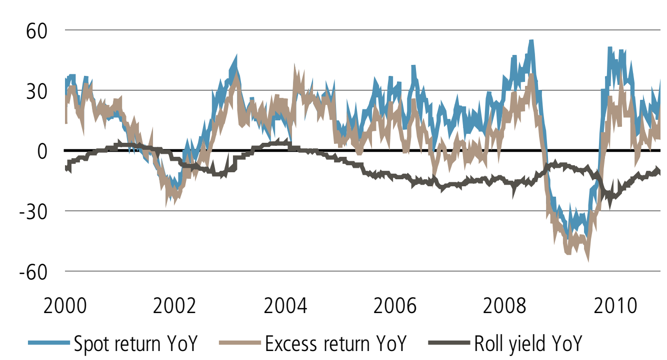
12-month forward Earnings-per-share, normalized Apr-08=100



Source: IBES, UBS WMR, as of 6 December 2010

Fig. 9: Commodity total returns affected by negative roll yield

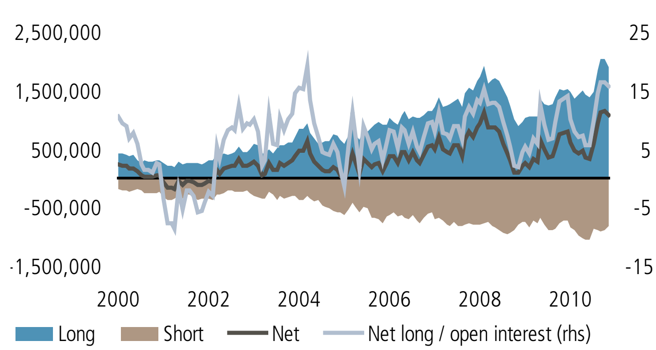
DJUBS Commodity index, return components, in %



Source: Bloomberg, UBS WMR, as of 6 December 2010

Fig. 10: Investors already have long positions in commodities

Futures contracts (non-commercial) and net long as a % of open interest



Source: Bloomberg, UBS WMR, as of 6 December 2010

Diversify carefully out of the US dollar

The US dollar has seen tremendous volatility, ending the year weaker than it started and on a downward trajectory. We expect the dollar to remain under pressure, but the other major currencies — the euro, the British pound and the Japanese yen — are also struggling. The profound weakness of the major reserve currencies has pushed investors into the currencies of commodity producers and emerging markets. We expect this trend to continue, and encourage US investors to add such exposure. That said, we do not expect a dollar crisis in the near term, as the alternatives remain unattractive or too small to challenge the dollar's role.

QE2 is not the dollar's friend

The Federal Reserve's implementation of additional quantitative easing (QE2) hurts the dollar as a "safe" currency. Before QE2, the dollar tended to fall when global economic conditions improved, as risk aversion fell and equities gained (see Fig. 9 on page 31). Now, however, the Fed has indicated it will increase money supply in adverse times. As a result, when the global economy rises, the dollar is likely to weaken because other countries offer better growth — and when the economy falters, investors could flee the US dollar as the Fed prints more money. Since increases in interest rates in 2011 are unlikely, the US dollar is likely to continue on a downward path.

The euro is also not a favorite

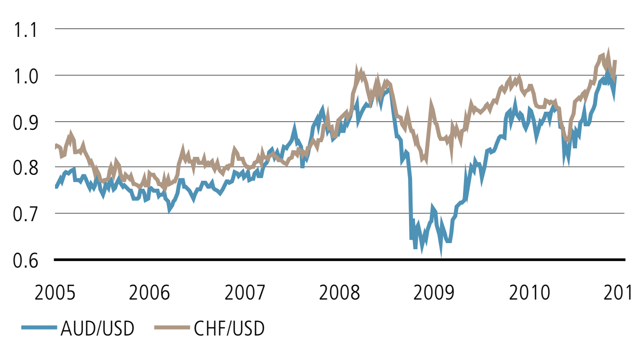
The euro is not the best alternative to the dollar, although some export-oriented countries will likely do very well. Europe is challenged by members struggling to service their debts, exposing deep structural troubles within the eurozone. These troubles hurt the euro's viability as a global reserve currency. We think a near-term crisis is unlikely, but expect that peripheral European countries will continue to produce ugly headlines and volatility. We doubt the European Central Bank will hike rates next year, thereby keeping the euro from gaining in yield attractiveness. We expect EURUSD to fluctuate in a broad 1.50–1.20 range. Europe's debt problems limit the euro's rise above 1.50, and if it approaches 1.20, we expect dollar-rich Asian and Middle Eastern investors will unwind their greenback exposure.

Diversify on dips

We continue to advise investors to seek alternatives to the dollar and euro. Given the strength of alternatives (see Fig. 1) such as the Australian dollar or the Swiss franc, we recommend investors add these currencies on any dips. Although buying into weakness carries downside risk, we expect these currencies to appreciate over the long term. Additionally, diversified investments in the smaller developed world and in emerging market currencies may be prudent.

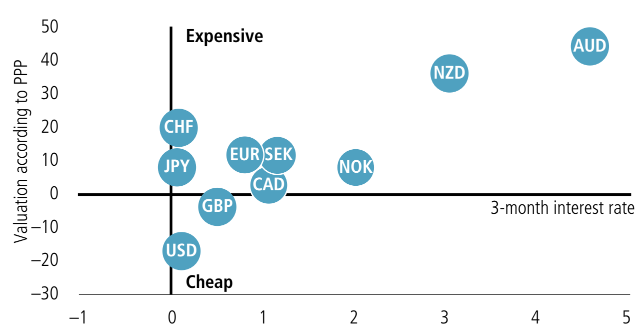
Katherine Klingensmith, Strategist

Fig. 1: Australian dollar and Swiss franc showing strength
AUD/USD and CHF/USD exchange rates



Source: Bloomberg, UBS WMR, as of 7 December 2010

Fig. 2: Low rates may keep pressure on US dollar
Valuation according to PPP versus 3-month interest rate



Note: As of 15 November 2010
Source: Fitch, Bloomberg, UBS WMR.

International Equities

Continue to favor emerging markets

Within global equities, we continue to favor emerging markets (EM). While they are no longer that cheap as they were, their strong economic growth potential gives them an advantage over developed markets. We particularly like China, Brazil and Russia. For investors unwilling to invest in EM equities, we suggest developed market stocks that can benefit from EM growth. The UK looks relatively attractive from this viewpoint. Eurozone equities are also attractive based purely on valuations, but we maintain a cautious view due to the ongoing public debt crisis.

Economic backdrop favors emerging markets

As we have stressed throughout the year, emerging markets (EM) are still trading at a discount to developed markets. We expect this gap to gradually disappear leading to EM outperformance, especially given EM's solid economic backdrop. Many developed countries are facing large budget deficits and high government debt levels. Most will therefore start to tighten fiscal policy despite less than solid economic conditions. While we do not expect this to derail the economic recovery, the majority of developed countries are likely to experience below-average growth in 2011. In contrast, public finances in most EM countries are in good condition, requiring fewer tightening measures. The biggest economic threat to EM is higher commodity prices, especially for food, which could cause inflation to accelerate and require tighter monetary policy.

BRICs are attractive, but India's valuations are stretched

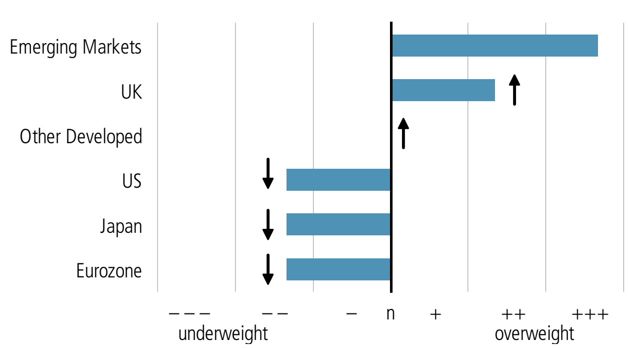
Within EM, we tend to focus on the BRICs (Brazil, Russia, India, China). With the exception of Russia, we expect these countries to enjoy high economic growth rates for many years to come. Rather than growth potential, the main attraction of the Russian equity market is that it trades on very low valuations, which compensates for the risky political situation. China and Brazil offer an attractive combination of reasonable valuations and high growth. While we are optimistic on the long-term prospects for India, valuations have become stretched and we see better opportunities elsewhere.

Indonesia is another country with a large population and strong growth potential. Many analysts view it as the next country to look at after the BRICs and we agree that it should do well in the long run. However, its valuations currently look very expensive and we recommend avoiding this market. While Taiwan is a developed economy, its equity market is usually included in EM. Around half of the market capitalization is comprised of IT companies, a sector we expect to outperform in 2011. Valuations are reasonable, making Taiwan one of our favorite "emerging" markets.

Developed markets: moderate earnings growth

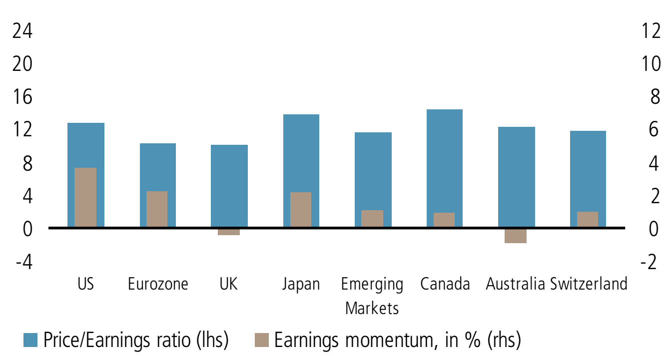
In most developed markets we expect moderate earnings growth in 2011 after the strong recovery in 2010. Eco-

Fig. 3: Equity Regions
Tactical deviations from benchmark



Source: UBS WMR, as of 8 December 2010

Fig. 4: Regional equity valuations and earnings momentum
12-month forward PE; 3-month change in 12-month forward consensus earnings



Source: Citigroup, Bloomberg, UBS WMR, as of 6 December 2010 nomic growth should be modest and inflation rates low, so that rapid revenue growth appears unlikely. Moreover, profit margins are already high by historical standards. While they could improve a bit further in 2011, at some point competitive forces will kick in and limit margin expansion. Earnings should expand at a moderate rate but we see some risk that consensus earnings forecasts will prove to be too optimistic.

We recommend an overweight position on the UK but not the eurozone

Among the developed markets, the US does not look expensive from a historical point of view. Other countries have more favorable valuations at the moment. The UK and the eurozone look the most attractive based on valuations.

The UK is embarking on a four-year fiscal austerity plan, which dampens its intermediate growth prospects. However, from an equity point of view, it is key to note that about 70% of the earnings of UK-listed large-cap companies come from outside the UK, with a large exposure to rapidly growing EM. UK equities include mining companies and energy stocks that are benefitting from high commodity prices. We are therefore constructive on the earnings outlook, and view the cheap valuations as an investment opportunity.

While eurozone equity valuations are also attractive, the ongoing public debt crisis is a tail risk that is too big to ignore. If the situation further deteriorates, it could begin to impact economic growth and corporate earnings. The euro could also drop further against the US dollar, hurting performance in dollar terms.

Japan not as expensive as it used to be

Japanese equities are not as expensive as they used to be. The equity market underperformed in 2010, and cost-cutting efforts have offset some of the impact of the stronger yen. However, we do not see any particularly good reason for US investors to put money into the Japanese market. A weaker yen would help boost corporate earnings but reduce returns in dollar terms.

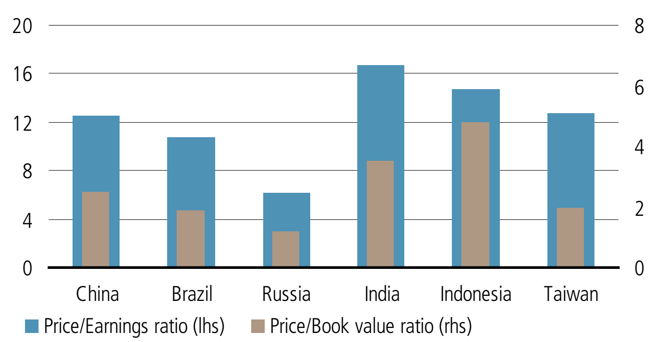
Other developed market equities upgraded to neutral

Among the other main developed equity markets, economic conditions are relatively strong in Australia and Canada, with higher commodity prices providing a boost. We see potential in Australia due to its commodity exposure and undemanding valuations. In contrast, Canadian stocks are more expensive, offsetting the appeal from the growth in commodity-related earnings. Switzerland has also done reasonably well, avoiding the turmoil in the eurozone. It offers attractive valuations but its defensive sector composition may place its stock market at a disadvantage.

Brian Rose, PhD, Strategist

Fig. 5: Emerging market valuations

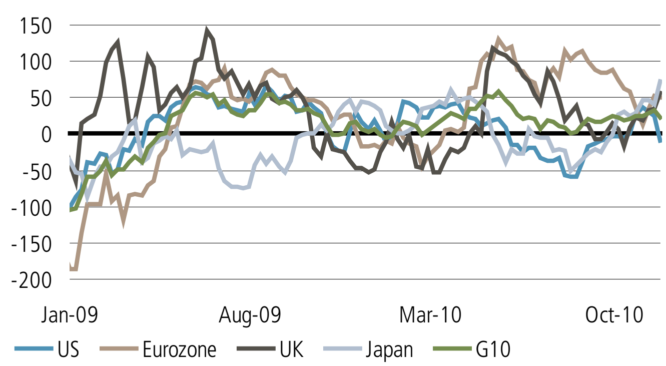
12-month forward PE ratios; Price to book value ratios



Source: IBES, Datastream, UBS WMR, as of 6 December 2010

Fig. 6: Recent economic data better than consensus

Economic surprise indices



Source: Bloomberg, as of 6 December 2010

International Fixed Income

Seek exposure to emerging markets and commodity producers

Our views on international fixed income are closely linked to the outlook for foreign exchange rates. On balance, we view foreign bonds as equally attractive to US bonds. However, we do see pockets of opportunity in minor foreign bond markets on currency grounds, including emerging markets and commodity producers.

With global bond yields near historical lows, appropriately choosing among international fixed income markets has become paramount. The relative performance of US and non-US fixed income investments is usually dominated by exchange rate movements. As noted in the FX section, we expect the dollar to remain under downward pressure in 2011. Nonetheless, we recommend a neutral tactical stance between US and non-US bonds. Our benchmark measure of non-US fixed income consists largely of the eurozone, Japan and the UK, all of which have weak currency and bond market fundamentals.

Developed economies struggling with deficits

The ongoing public debt crisis in the eurozone has caused bond markets to become more volatile than usual. Greece and Ireland have already sought outside help to deal with their debt. Portugal and Spain may be next in line. Economic conditions in these countries remain poor and low tax revenues will make it very difficult for them to narrow their budget deficits. The situation may continue to weigh down European bond markets.

In Japan, government debt levels are extremely high, while bond yields are extremely low. The yen is also one of the few currencies that we expect to depreciate significantly against the dollar, hence our view of Japan as one of the least attractive bond markets.

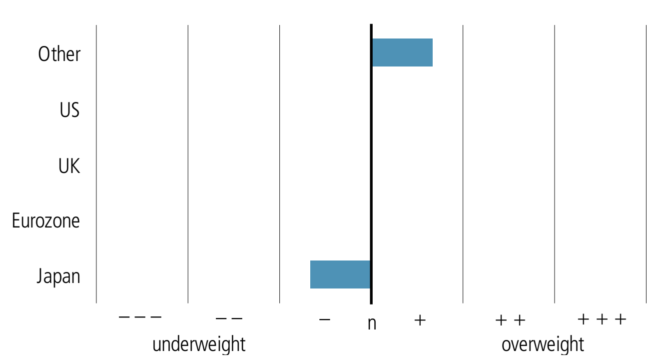
The UK currently offers slightly higher 10-year government bond yields than the US, but the inflation rate is much higher. The Bank of England has maintained very loose monetary policy, and inflation is likely to remain high relative to most other developed economies.

Emerging markets and commodity producers relatively attractive

In contrast to the developed economies, most emerging markets feature relatively healthy government finances. Higher growth rates and younger populations make it easier to keep budget deficits under control, and government bond ratings continue to trend higher. We also have a positive view on emerging market currencies. In addition, many countries issue debt denominated in US dollars, allowing exposure without exchange rate risk. However, investing in emerging market bonds is still risky, which suggests diversifying across countries. We also see opportunities in the bond markets of commodity producers, such as Canada and Australia. They enjoy favorable currency prospects and offer higher yields than the US.

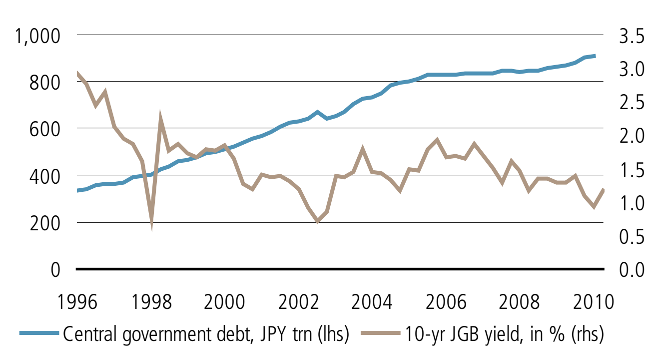
Brian Rose, PhD, Strategist

Fig. 7: Fixed Income Regions
Tactical deviations from benchmarks



Source: UBS WMR, as of 8 December 2010

Fig 8: Japanese yields low despite high debt
Central government debt and 10-yr bond yields

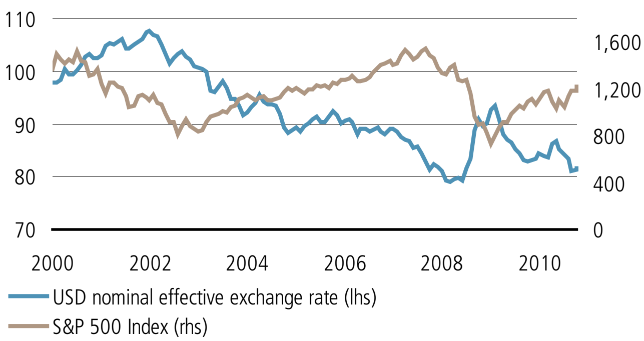


Source: Bloomberg, UBS WMR, as of 6 December 2010

International markets: Chartbook

Fig. 9: Dollar and equities move in opposite directions

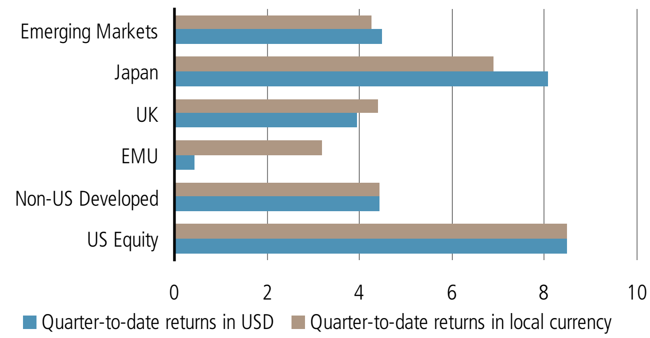
USD nominal effective exchange rate and the S&P 500



Source: Bloomberg, UBS WMR, as of 6 December 2010

Fig. 10: Equity market rally continued in 4Q

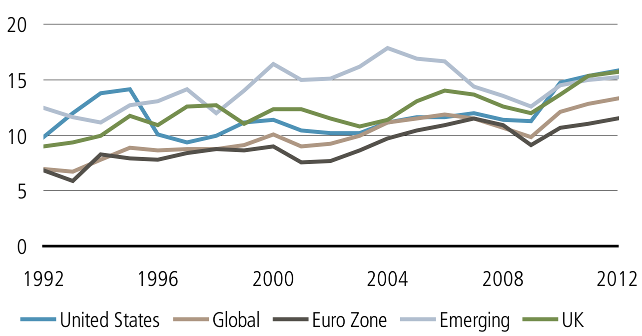
Equity market returns in USD and local currency



Source: Bloomberg, UBS WMR, as of 6 December 2010

Fig. 11: Profit margins heading for record highs

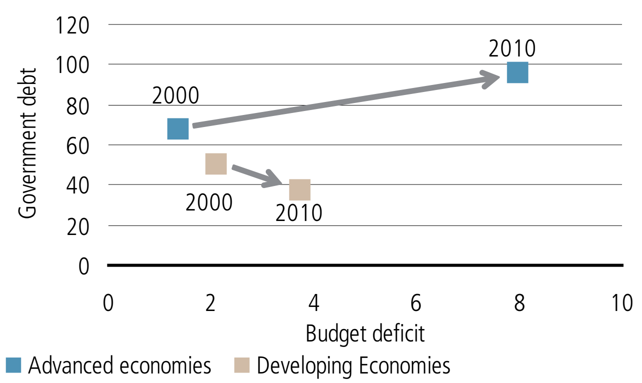
Profits as % of sales, 2010-2012 are UBS forecasts



Source: UBS, as of 7 December 2010

Fig. 12: Developing economies have better public finances

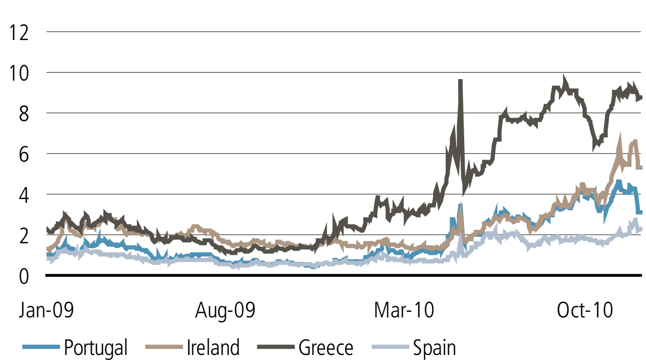
Government debt and budget deficit, as % of GDP



Source: IMF, UBS WMR, as of 2 December 2010

Fig. 13: European debt market showing stress

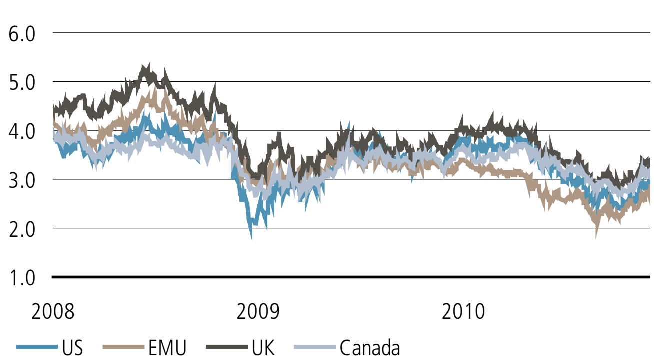
10 year government bond yields, spread over Germany, in %-pts



Source: Bloomberg, UBS WMR as of 6 December 2010

Fig. 14: Government bonds offering low yields

10-year government bond yields, in %



Source: Bloomberg, as of 6 December 2010

Focus on fundamentals

With the economy now more clearly on a sustainable growth path, we are entering a period where bottom up sector fundamentals will become the primary driver of sector performance. This stands in contrast to the last three years when the business cycle was the more dominant force. We favor sectors that will benefit from global growth.

Over the past few years we have pointed out that there can be big divergences in performance between cyclical and defensive sectors of the market based on important turning points in the business cycle. Not surprisingly, defensive sectors outperform when business conditions deteriorate but cyclical sectors outperform when the economy rebounds. With the economy now on a more sustainable, mid-cycle growth path, history suggests investors should look beyond the simple cyclical versus defensive trade and focus more on bottom up fundamentals for each sector. The divergence between cyclical and defensive sectors is most pronounced when markets are either weaker or stronger than average (see Fig. 1). As we move into a period of more normal returns for equity markets, therefore, the cyclical versus defensive trade becomes less important.

With the US consumer recovering but still facing substantial headwinds, we believe the sectors most leveraged to global growth are best positioned. As a result, we are upgrading Energy, Industrials, Tech and Materials. We fund these upgrades by downgrading Utilities, Telecom and Healthcare (see Fig. 2).

Info Tech (overweight)—low expectations

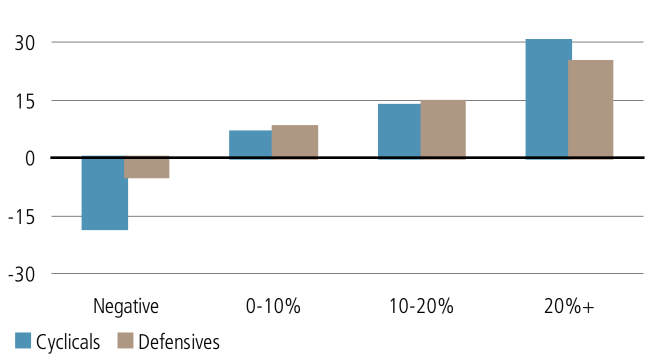
Tech is now our favored sector within the equity markets. We like the sector's strong product cycle-driven growth outlook (think smartphones and tablets), emerging markets exposure and strong balance sheets, suggesting that substantial cash will likely be returned to shareholders. Despite these positive attributes, the sector trades at only a modest 4% valuation premium to the overall equity market. With continued growth in the global economy, we think this positions the sector to surprise on the upside. Within the sector we favor Tech Hardware & Equipment as well as Software & Services. We are neutral on Semiconductors.

Staples (overweight)—our favorite dividend play

Consumer Staples is our most preferred defensive sector. In light of the sector's high emerging market exposure and strong brands in domestic markets we believe the sector should consistently grow earnings over the next several years. However, the shares trade at only a modest valuation premium to the market. We believe this valuation premium will likely expand. In a low interest rate environment, stocks with strong dividends are becoming increasingly attractive. Consumer Staples companies offer the best combination of current dividend yield and future dividend growth.

Fig. 1: Cyclical stance less important in "normal" markets

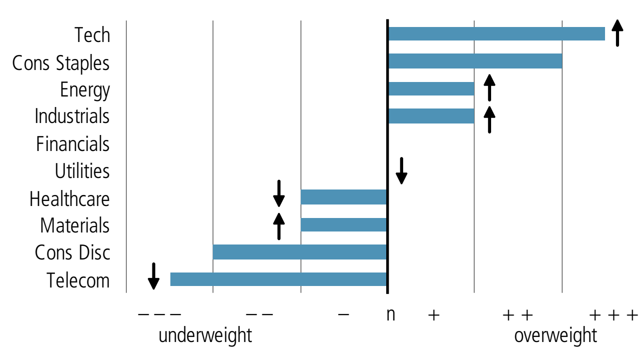
Average performance of cyclicals and defensives by annual S&P 500 return



Source: Bloomberg and UBS WMR, as of 3 December 2010

Fig. 2: Sector fundamentals to matter more as cycle matures

Tactical deviations from benchmark



Source: UBS WMR, as of 6 December 2010

Note: Arrows indicate ratings changes as of this report

Industrials (overweight)—utilization rebounding
We upgrade Industrials to overweight in light of likely continued upside in capacity utilization, which should drive further gains in margins and earnings. While capacity utilization has recovered from trough levels, it is still substantially below long-term averages. Within the sector, we prefer transportation companies which are benefitting from both higher utilization and improving pricing power.

Energy (overweight)—oil prices to grind higher
It should be no surprise that the performance of the Energy sector is highly correlated with oil prices. With our generally favorable outlook for oil prices—we expect crude oil prices to rise to USD 100 by the end of 2011—Energy stocks should enjoy a nice tailwind. We therefore upgrade the sector to overweight. The sector is also leveraged to emerging market demand. Energy stocks may deliver strong relative performance as the economic recovery matures and spare capacity begins to decline. Finally, an improvement in the outlook for refining margins also supports our thesis.

Utilities (neutral)—nice yield, but…
We downgrade Utilities to neutral from overweight given the sector's limited exposure to global growth. We still project moderate earnings growth for the regulated group. However the glut of generating capacity will only slowly be worked off and power prices will likely remain low, limiting earnings gains for the less regulated power generators. Sector valuation is fair.

Financials (neutral)—credit bubble hangover
As the economic recovery grinds higher, credit provisions should continue to improve, boosting bank earnings. However, loan growth will likely remain sluggish in the face of a tepid recovery in housing. In addition, regulatory uncertainty is likely to continue to flare up from time to time. Within Financials we prefer the diversified financials industry group which has the most attractive valuations, while we are underweight the real estate sector given high valuations and potentially rising interest rates.

Healthcare (underweight)—patent cliff still looms
The Healthcare sector looks inexpensive on most valuation metrics and is currently trading at a 15% P/E discount versus the overall market. However, with the large pharmaceutical companies facing patent expirations on a substantial portion of their portfolios over the next few years, earnings growth will be sluggish. The sector is also grappling with the prospect of further government austerity measures in Europe and policy changes in the US in order to reduce long-term government deficit projections.

Materials (underweight)—not as leveraged to emerging markets as you might think
We upgrade the Materials sector but stay moderately underweight. While certain parts of the sector should benefit from increased global growth, the US materials index is more leveraged to chemicals and agriculture products, rather than the industrial metals (such as iron ore and copper) that are in short supply in emerging markets. While agricultural products have seen strong pricing gains, a strong harvest can easily turn prices lower.

Consumer Discretionary (underweight)—be selective
We prefer the Autos & Auto Components industry group and are cautious on Retailing and Consumer Durables. New vehicle sales have recovered from their trough, but remain at a depressed level and should improve over the course of the next 2-3 years. The recent strong initial holiday sales results have boosted the shares of retailers and durables companies but valuations for these groups look stretched. Our forecast for further increases in crude oil prices could become problematic for both groups. We are neutral on the Media and Consumer Services groups.

Telecom (underweight)—still structural headwinds
While the Telecom sector sports attractive dividend yields, we are concerned about the continued secular decline in wireline revenues and the competitive pressures in wireless. With five or more wireless networks in all major markets, pricing pressure should remain a headwind despite the strong growth in smartphones and wireless data usage. Potentially higher interest rates are also a concern.

Jeremy A. Zirin, CFA, Strategist, **David Lefkowitz, CFA,** Strategist, **Joe Sawe,** Strategist

Going for growth

We strongly favor growth over value but don't think size will be a major driver of performance. REIT outperformance cycle appears to be over.

'Tis the season for small-caps?
Small- and mid-caps delivered impressive performance in 2010, outpacing the gains from larger US companies. Keep in mind that smaller companies typically outperform larger ones — the Russell 2000 small-cap index has delivered stronger annual performance over the Russell 1000 large-cap index 60% of the time since 1979 by an average of 1.5 percentage points per year. This is not a market anomaly but simply the interplay between risk and return. Small-cap returns are higher than large-caps in the long-run, but the volatility of those returns — and hence the risk to investors — is higher.

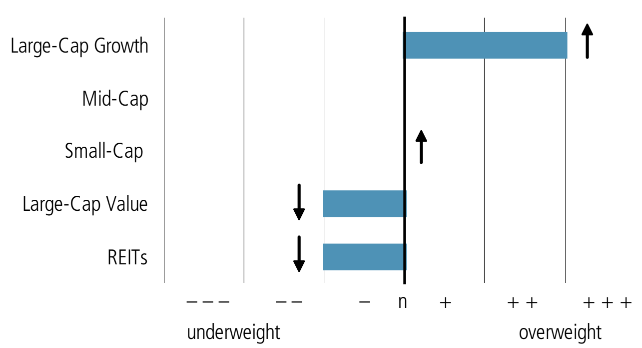
We are closing our small-cap underweight and moving to a benchmark stance across the capitalization spectrum. Many of our arguments favoring large-caps actually remain in place: large-caps are still inexpensive compared to both small- and mid-caps; larger companies have greater exposure to faster-growing emerging economies and confidence surveys still show a divergence in the outlook that favors larger corporations.

But several factors now suggest a more favorable backdrop for the smaller size segment. First, increased investor risk appetite favors small-caps. As we have become more convinced of the sustainability of the economic recovery, our more favorable view on equity markets should provide a tailwind for small- and mid-cap stocks. The rolling 2-year beta of small-caps is 1.23, implying stronger relative performance during periods of rising markets. Second, corporations have excess cash which should support a pickup in M&A activity, benefitting smaller companies, which tend to be targets. Third, small-cap earnings trends have improved over the past two quarters. And tactically, seasonality favors small-cap, as they typically outperform during the three-month period from December to February and generally have stronger relative performance during the first half of the year (see Fig. 4).

Growth is taking off—growth stocks are, that is
While economic growth is only mildly re-accelerating following the "soft patch" in summer 2010, the Russell 1000 Growth index has significantly outperformed the Russell 1000 Value index over the past several weeks (see Fig. 5). We expect this trend to continue into 2011.

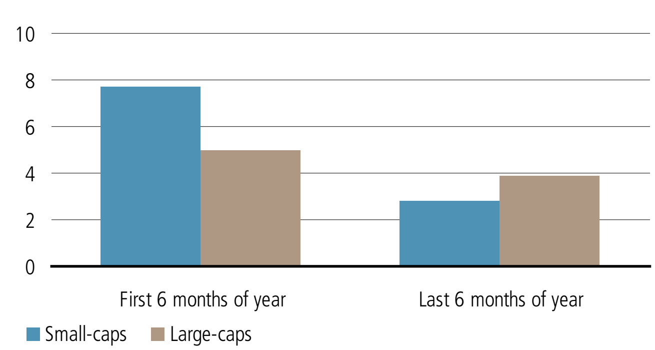
Indicators continue to favor growth. As we have often discussed, sector tilts strongly influence the relative call between growth and value. Fig. 6 illustrates how it all boils down to the prospects for Technology (pro-growth) versus Financials (pro-value). Since 1993, the correlation between the relative performance of Tech versus Financials and the relative performance of growth versus value

Fig. 3: Favor Large-cap Growth
Tactical deviations from benchmark



Note: Arrows indicate ratings changes as of this report
Source: UBS WMR, as of 6 December 2010

Fig. 4: Seasonal trends favor small-caps
Average index performance since 1979, in%



Source: Bloomberg and UBS WMR, as of 3 December 2010

is a remarkably high 71%! By definition, growth stocks are more expensive than value stocks. But growth is currently also very cheap relative to value. Or said differently, the premium valuation that growth typically commands over value is much lower than normal. On average, growth stocks have traded at nearly a 50% P/E premium to value; today, that premium is just 18%.

To demonstrate this with real life examples, we examine the average valuation premium that investors have been willing to pay for past "market darlings." We selected one representative large-cap growth stock from the early 1990s (Coke), the late 1990s (Pfizer) and earlier this decade (Cisco) and compared the P/E valuation premiums that each commanded relative to the S&P 500 to Apple, one of today's most representative growth stocks. Apple is currently trading at a 24% premium versus the market while Coke, Pfizer and Cisco traded at average premiums of 67%, 72% and 104% respectively during their valuation heydays.

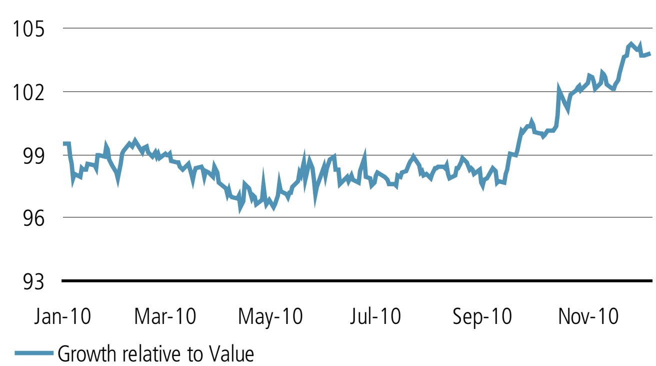
Real Estate Investment Trusts (REIT) — falling rates no longer a tailwind

In some respects, 2010 was the perfect backdrop for REITs. Although economic growth was not exactly robust, slow and steady growth provided the necessary preconditions for improvements in occupancy and rental rates and a leveling off in non-commercial mortgage delinquencies. But despite the modest fundamental recovery, the industry registered its strongest relative outperformance to the S&P 500 in 2010 during the six-month period from April to October. Why? Fig. 11 shows the path of the 10-year Treasury yield and the relative performance of the REIT industry group (to the S&P 500). Plunging interest rates — with the 10-year Treasury yield falling from 4.0% in April to under 2.5% in October — pushed capitalization rates lower and thus property valuations were well supported. Additionally, REIT short interest began the year at very elevated levels. This rare combination of improving economic fundamentals and falling interest rates, combined with high short interest, proved to be the perfect cocktail for REIT outperformance in 2010.

But the landscape is shifting. The economy continues to chug along at a modest yet sustainably positive growth rate but interest rates have backed up significantly over the past two months. While we are not expecting interest rates to surge further, we expect range-bound to slightly higher rates in 2011, suggesting that the tailwinds REITs enjoyed during 2010 will not extend into the new year. With relative REIT valuations at levels not witnessed since the peak of the real estate cycle in 2007, we expect that REITs will lag the broad equity market in 2011.

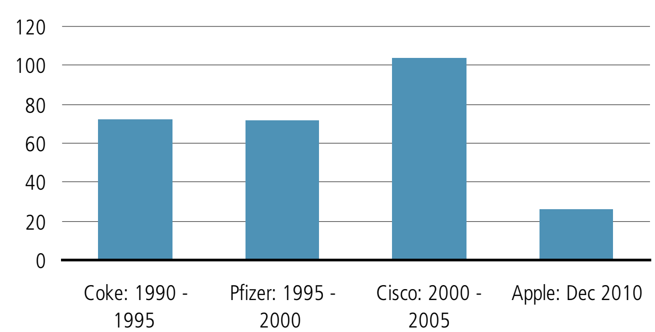
Jeremy A. Zirin, CFA, Strategist
David Lefkowitz, CFA, Strategist
Joe Sawe, Strategist

Fig. 5: Growth is taking off
Russell 1000 Growth index relative to Russell 1000 Value index



Source: Bloomberg and UBS WMR, as of 3 December 2010

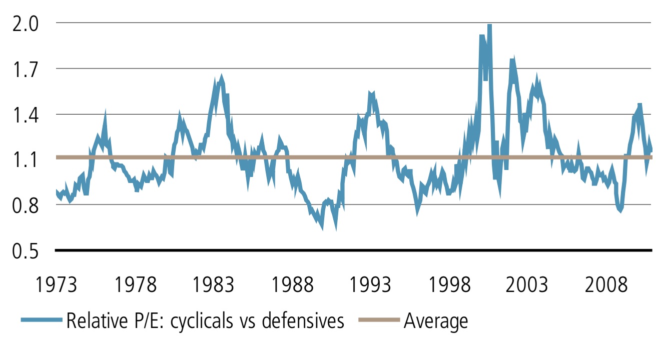
Fig. 6: Current "market darlings" P/E premium is low
Average relative P/E premium over the S&P 500 P/E, in %



Source: FactSet and UBS WMR, as of 3 December 2010

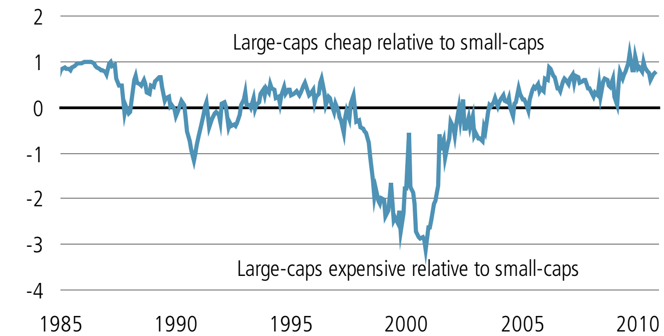
US Equities: Chartbook

Fig. 7: Cyclical vs. defensive valuations in line with history
Relative P/E ratio — cyclicals vs. defensives



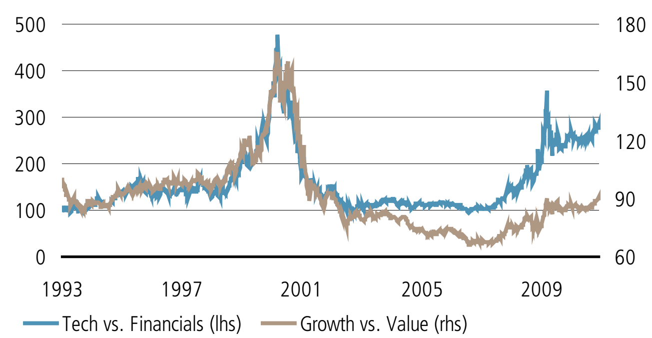
Source: DataStream and UBS WMR, as of 3 December 2010

Fig. 8: Large-caps are inexpensive vs. small-caps
Large-cap relative to small-cap valuation



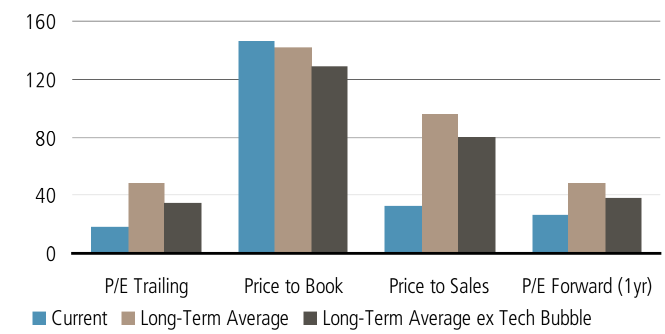
Source: Thomson Datastream, UBS WMR, as of 2 December 2010

Fig. 9: Growth vs. Value boils down to Tech vs Financials
Relative performance of Growth vs. Value and Tech vs. Financials



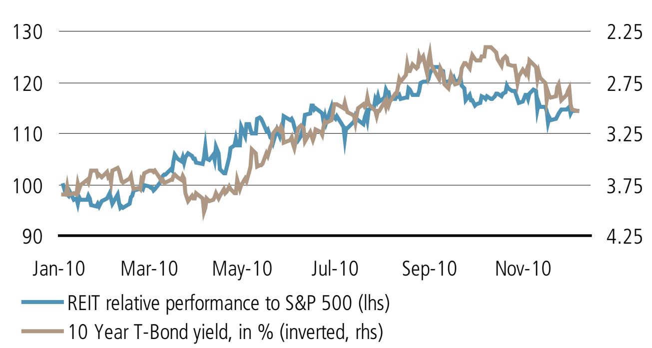
Source: Bloomberg and UBS WMR as of 3 December 2010

Fig. 10: Valuation favors Growth over Value
Relative premium, growth vs. value, since 1979, in %



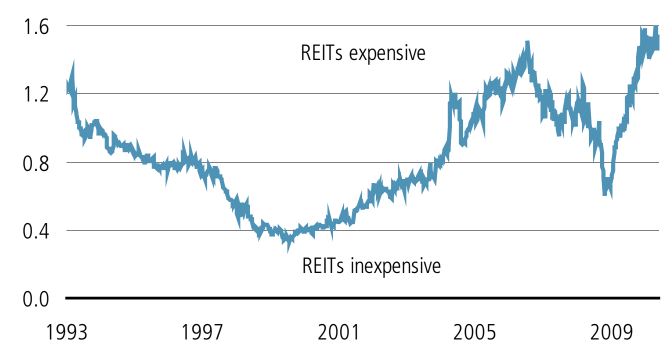
Source: Thomson Datastream, UBS WMR, as of 2 December 2010

Fig. 11: Falling rates no longer a tailwind for REITs
REIT relative performance to S&P 500 and 10-year T-Bond yield



Source: Bloomberg and UBS WMR, as of 3 December 2010

Fig. 12: REIT relative valuation near peak levels
US REITs price to forward funds from operations relative to S&P 500 P/E



Source: Bloomberg, SNL and UBS WMR, as of 3 December 2010

US Fixed Income

The run is done: modest returns in 2011

Our preference for credit over non-credit reflects our view that while absolute returns will likely be lower in 2011, Treasuries are apt to underperform the credit-sensitive segments of the bond market. In the aggregate, our overweight to credit now stands at +5%, offset by a 5% underweight on non-credit sectors. In the municipal market, we look for a modest uptick in default rates from very low historical levels. Systemic defaults are not expected, with the bulk of payment defaults likely occurring in non-investment grade bonds and higher-risk sectors such as land-based finance, single-site hospitals, multi-family rental housing and long-term care. Finally, we recommend increasing duration to neutral, from underweight, based on our forecast for range-bound to slightly higher Treasury yields.

Asset allocation favors credit exposure

For 2011, we are making several changes to our recommended fixed income asset allocation. We have increased our preference for high-yield corporate bonds (HY) while trimming our exposure, though remaining overweight, to investment-grade corporates (IG). Our overweight positioning on preferred securities is unchanged, while we have increased the allocation to dollar-denominated sovereign emerging market (EM) bonds, moving to modest overweight from neutral.

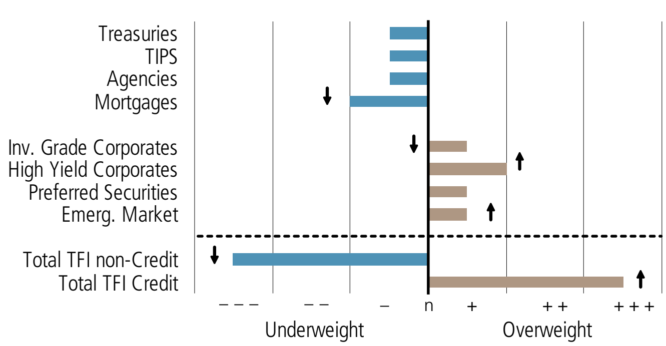
Regarding non-credit sectors, we are maintaining our underweight allocations to Treasuries, TIPS, and Agencies and have increased our underweight on Mortgages. We look for the performance of Agency debentures and Agency mortgage-backed securities to be closely tied to that of Treasuries, as their spreads have limited room for contraction, in our view.

Expect more modest returns

We believe double-digit total returns in credit are unlikely in 2011 as spreads have normalized to a large extent and Treasury yields are likely to remain range-bound to slightly higher. If this interest rate path materializes, Treasuries are likely to produce flat to slightly negative returns for the year. Credit-related segments, on the other hand, could continue to outperform Treasuries due to their higher income streams and potential for additional spread-tightening, which we project will result in modest single-digit total returns. Overall, we look for the IG sector to produce total returns of roughly 3-5% compared to 7-9% for the HY segment.

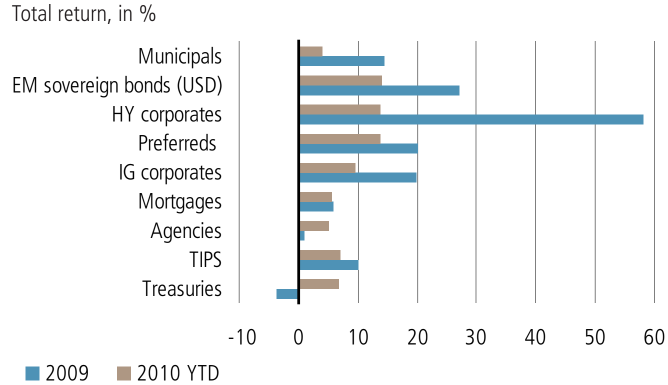
During the slow but stable recovery forecast by our economists, credit spreads should continue to compress toward long-term averages, though likely not reaching the tighter end of historical ranges. As a result, we see the potential for IG spreads to tighten by roughly 25bps while HY spreads may tighten by 75-100bps. Much like what was experienced in 2010, however, the path to spread tightening is not likely to be linear but rather

Fig. 1: USD fixed income strategy
Tactical deviations from benchmark



Source: UBS WMR, as of 8 December 2010

Fig. 2: Credit segments delivered double-digit returns YTD
Total return, in %



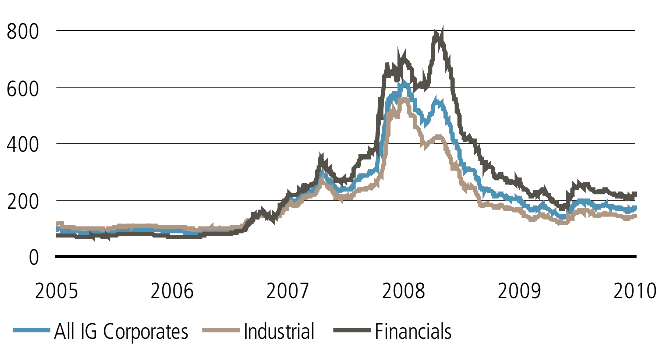
Source: BofA Merrill Lynch, UBS WMR, as of 3 December 2010 choppy, as macro-related headlines whipsaw market sentiment. Against this backdrop, we expect HY spreads to exhibit higher beta characteristics both to the upside during "risk on" periods, and to the downside, on "risk off" periods.

Aside from limited room for spread compression, we view event risk as a possible reason for more limited returns on corporate bonds. Low absolute yields, limited growth opportunities and, in many instances, stagnant equity prices may cause companies to pursue shareholder-friendly initiatives. While share repurchases and dividend increases have been mostly implemented in a manner that preserves credit metrics in recent years, we would not be shocked to see these activities funded with new debt in 2011. Further, we look for a pickup in M&A activity given favorable financing conditions. Although credit trends have been improving given strong balance sheets, a more aggressive financial policy on the part of IG management teams could lead to a decline in credit quality and thus some spread widening in certain pockets of the market.

Overweight preferred securities
We maintain our 1% overweight on preferred securities. Similar to HY, we believe that the above-average coupon payments that preferreds offer should help their relative performance. We forecast modest spread tightening that should help to offset slightly higher Treasury yields. Issuance of new preferreds is likely to remain low as new bank regulations phase out the equity treatment previously awarded to hybrid securities. We look for many bank holding companies to eventually redeem many of their trust preferreds, but view this more as a 2012-2013 event. One of the main factors keeping us from being more positive on preferreds is the continued uncertainty surrounding the European periphery, which will likely heighten the price volatility of European financials that represent roughly 25% of the preferred market.

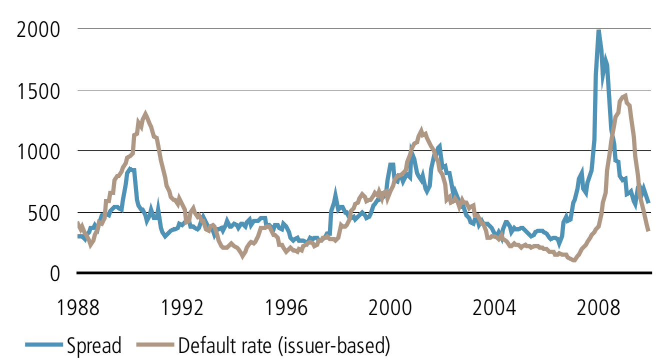
Add emerging markets (EM) exposure
We have also added credit risk by increasing our allocation to dollar-denominated sovereign EM bonds to a +1% allocation from neutral. We believe that EM is likely to continue to outgrow the developed world. Expectations for the asset class in 2011 include mid- to high-single-digit total returns supported by relatively strong fundamentals and modest net issuance of debt. Among the risk factors that prevent us from being more aggressive in EM include economic instability in Europe, which could translate into a repricing if risk aversion were to rise and increased reliance on China as a source for export growth, although the latter may be more of a medium- to long-term issue.

Fig. 3: IG spreads remained range-bound for most of 2010
Investment-grade corporate bond spreads, in basis points



Source: Barclays Capital, UBS WMR, 6 December 2010

Fig. 4: Steady decline in HY defaults implies tighter spreads
HY credit spreads and default rates, in basis points



Source: Deutsche Bank, Merrill Lynch, Moody's, UBS WMR, as of 6 December 2010
Note: Spread is based on Deutsche Bank data before 1997; Merrill Lynch afterwards

Interest rate outlook

We expect interest rates to be range-bound for most of of 2011. Short-term yields in particular should have limited upside, given the Fed's commitment to keep the target federal funds rate low for an "extended period." UBS economists do not foresee the first increase in the federal funds rate until January 2012. We look for 3-month Libor to average 0.30% in H2 2011 before rising to 0.50% by Q4 2012, as the market begins to price in expectations for Fed tightening. For investors holding positions in money market funds, the Fed's accommodative monetary policy implies that 2011 will be another year of record-low interest rates.

In addition to Fed policy, longer-term bond yields are influenced by other factors, including the outlook for growth and inflation. Recently, the economic data have met or exceeded analyst expectations. While this is welcome news that supports our base case for accelerating growth in the year ahead, we see little on the horizon to push Treasury yields sharply higher. The output gap remains wide and inflation pressures are likely to remain subdued. Our economics team expects the unemployment rate to remain above 9% while they forecast a 1.4% rise in the core Consumer Price Index.

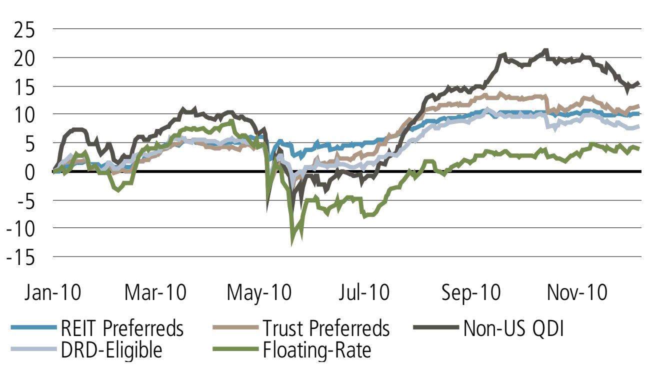
The Fed's asset purchase program will also help to temper a rise in Treasury yields, in our opinion. Of the USD 600 billion in Treasury securities the Fed intends to buy through June 2011, two-thirds mature in the 2- to 7-year area. The size of the Fed's purchase plan is equal to the amount of gross issuance that the Treasury is likely to borrow. As a result, yields on Treasury bonds in the short to intermediate maturity range should remain range-bound throughout most of the year. By year-end, we forecast the 10-year Treasury note to yield 3.25%. Given our forecast for range-bound Treasury yields, we recommend investors adopt a neutral duration exposure.

Municipal bonds: a rough road ahead

We expect the municipal bond market to exhibit less predictability in 2011. Since credit risk is higher, sources of credit enhancement are scarce and market liquidity is no longer certain. Credit fundamentals will remain a key area of focus as state and local government issuers face fiscal challenges throughout 2011 and beyond. Structural budget imbalances, unfunded pension liabilities and the end of stimulus payments to states are likely to garner ongoing media attention pressuring credit quality spreads wider, in our view. Against this backdrop, credit deterioration and ratings downgrades are likely to become more common. We expect headwinds for the broad muni market to linger for some time and believe credit pressure for local governments will be more intense than at the state level.

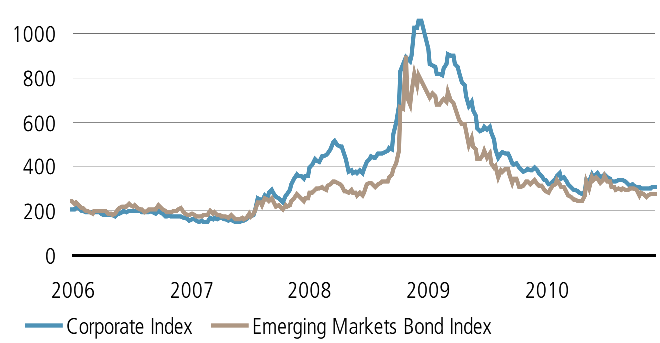
We look for a modest uptick in default rates from very low historical levels. Systemic defaults are not expected,

Fig. 5: Prices exhibited wide trading ranges
Preferred price changes YTD, in %



Source: Bloomberg, UBS WMR, as of 3 December 2010

Fig. 6: EM debt trades roughly in line with US corporates
Credit spreads, EM sovereign debt and similarly rated US corporates, in bps



Source: BoA Merrill Lynch; JP Morgan; UBS WMR, as of 6 December 2010 with the bulk of payment defaults occurring in non-investment grade bonds and higher risk sectors such as land-based finance, single-site hospitals, multi-family rental housing and long-term care. Yet, as discussed, it is possible that a general-purpose government with a higher profile may default in 2011. Essential purpose revenue bonds in the water/sewer and public utility sectors are likely to be among the most resilient from a credit perspective. Bond insurance (which accounts for just 6.5% of the new issue market) is likely to remain scarce, underscoring the importance of underlying credit assessments.

We look for supply/demand dynamics to be less supportive than in 2010. The ratio of tax-exempt supply to taxable muni debt is likely to rise due to pending changes in the taxable Build America Bonds (BABs) Program. At the same time, investor demand may soften on headline risk. Changes to individual income tax rates, which have important implications for investor demand, are still uncertain at this time. Over the year, we anticipate muni yields to edge modestly higher from current levels and the yield curve to remain relatively steep.

The persistence of a bifurcated market, given our expectations for reduced liquidity for less frequently traded bonds, is likely to create mispricing among credits offering income opportunities for investors that perform careful credit analysis and monitoring. In contrast, investors focused on total returns, or who otherwise may need to sell their securities before maturity, will face greater challenges, in our view.

Back to basics

We believe investors will be best served by taking a back-to-basics approach when constructing and reviewing municipal bond portfolios. Our key investment themes for 2011 include: sticking to high-quality bonds, diversifying by state and sector and managing interest rate risk. Examples of high-quality bonds include: essential purpose revenue bonds in the water/sewer and public utility sectors, state general obligation bonds and transportation agencies with well-established and demonstrably resilient revenue streams.

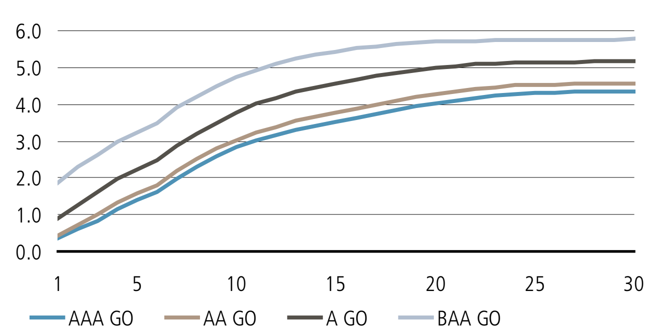
Anne Briglia, CFA, Strategist
Barry McAlinden, CFA, Strategist
Donald McLauchlan, Strategist
Kathleen McNamara, CFA, CFP, Strategist
Michael Tagliaferro, CFA, Strategist

Fig. 7: US interest rate forecasts, in %

	8-Dec	in 3 months	in 6 months	in 12 months
3-month LIBOR	0.30	0.30	0.30	0.50
2-year Treasury	0.59	0.50	0.75	1.00
5-year Treasury	1.85	1.50	1.75	2.00
10-year Treasury	3.24	2.75	3.00	3.25
30-year Treasury	4.43	4.25	4.25	4.50

Source: Bloomberg, UBS WMR, as of 8 December 2010

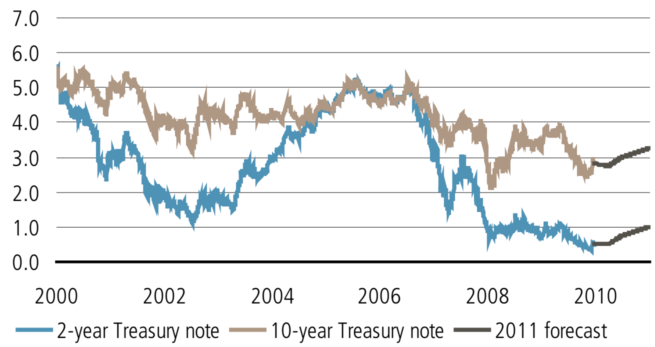
Fig. 8: Yield curve is steep, while credit spreads are wide
AAA, AA, A, BAA muni yield curves, in %



Source: MMD Interactive, UBS WMR, as of 2 December 2010

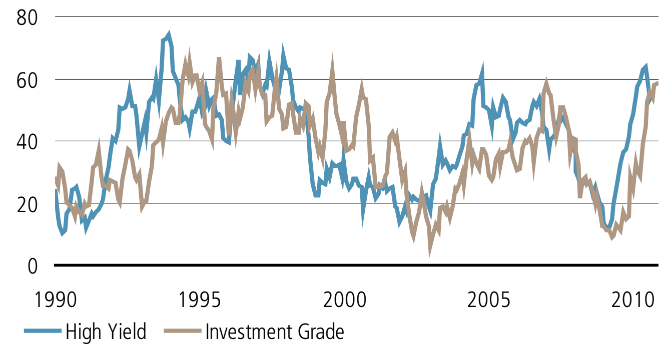
US Fixed Income: Chartbook

Fig. 1: Treasury yields to rise very gradually
Rate development and UBS WMR forecast, in %



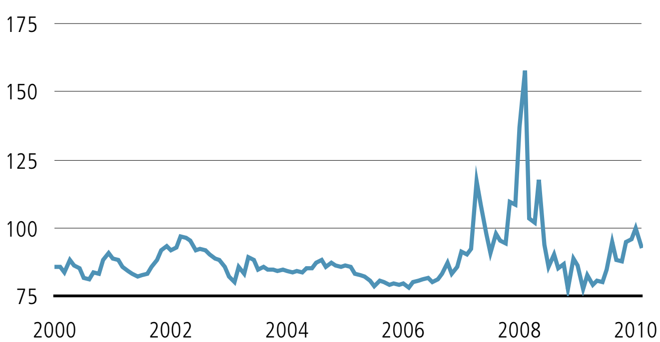
Source: Bloomberg, UBS WMR, as of 29 November 2010

Fig. 2: Credit rating trends have improved rapidly
Upgrades as a share of total ratings changes, in %



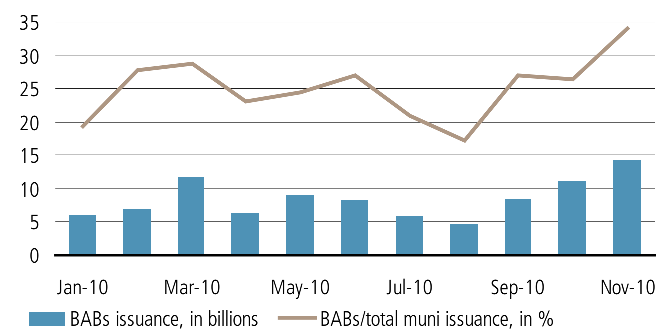
Source: Barclays Capital, UBS WMR, as of 6 December 2010

Fig. 3: Munis offer relative value opportunities
10-year AAA muni to Treasury yield ratio, in %



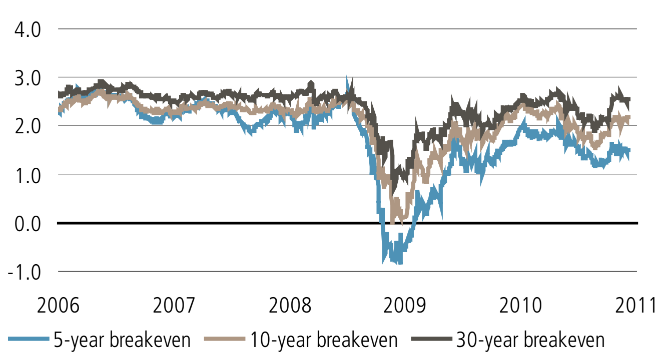
Source: MMD Interactive, UBS WMR, as of 3 December 2010

Fig 4: BABs accounted for about 26% of 2010 new issue supply
Taxable BABs new issue volume and market share



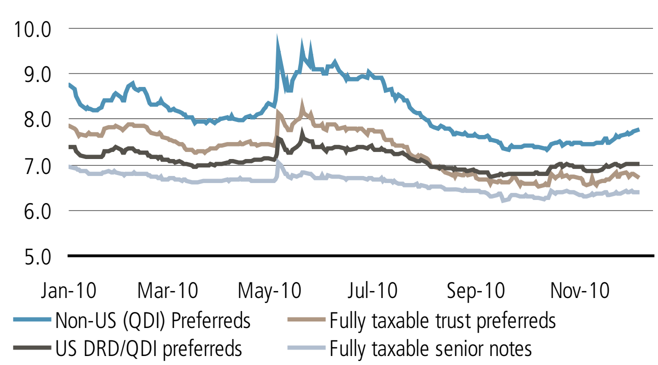
Source: Thomson Reuters, UBS WMR, as of 3 December 2010

Fig. 5: TIPS breakeven inflation rates



Source: Bloomberg, UBS WMR, as of 3 December 2010

Fig. 6: European preferred yields have edged higher recently
Preferred yield, in %



Source: Bloomberg, UBS WMR, as of 6 December 2010

Commodities

Moderate price gains in 2011

Following the sweet spot that commodities experienced in the last quarter of 2010, we believe there is still potential for higher prices during 2011. Nonetheless, we believe that selectivity remains of the essence.

Loose monetary policy and abundant liquidity should help spur a reacceleration in commodity demand, especially from emerging markets. While developed world growth is likely to remain moderate and bumpy, overall demand should hold up. In addition, financial investors in search of protection from currency and inflation risks are likely to favor commodities. Nonetheless, for broad commodity exposures, the range of price gains we expect is unlikely to exceed prevailing negative roll yields (arising when investing through commodity futures) by a wide enough margin to warrant entering the asset class aggressively.

Energy: ready to catch up after a lost 2010
Growing emerging market demand will drive down OPEC spare capacity in late 2011. Considering slowing supply growth from non-OPEC countries, sliding inventories in the developed world and a more relaxed OPEC stance toward higher prices, crude oil prices should trade above USD 100/bbl in 2011. In contrast, natural gas prices should disappoint in the first half of 2011 due to ample US supply.

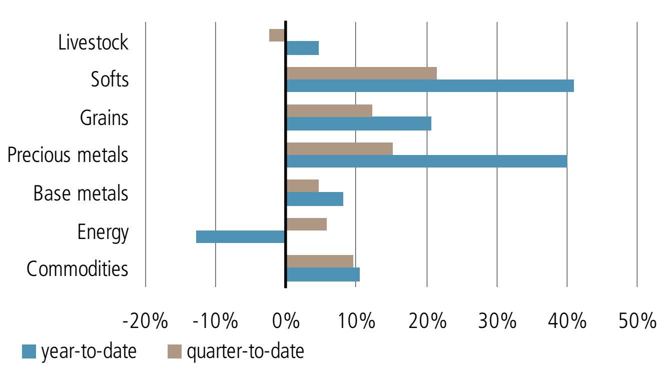
Precious metals: high financial demand for now
With inflationary pressures mounting in emerging markets and sovereign debt uncertainty intensifying, gold demand should trend higher and allow prices to reach record levels. Investors' search for real assets should provide a solid bid. Other precious metals should manage to see multi-decade highs as well. That said, a gold price move toward USD 1650/oz will take its toll on incremental jewelry demand and should represent an upper limit.

Base metals: selectivity is warranted
Overall we expect base metal prices to rise, but only moderately. Attempts by the Chinese central bank to cool the economy should limit the return potential of the sector. We advise investors to stick with copper. The lack of mining supply and structurally low inventories should pave the way for price moves toward USD 10000/mt.

Agriculture: further rally in grains, pause in softs
Grains should experience another round of higher prices, the key driver being corn, which benefits from structurally low inventories and lower yield per acreage. Soybeans and wheat should experience positive spillover effects, since they compete with corn for acreage. We expect to see demand catch up with supply from a structural perspective driven by bio fuel and Asian demand. Soft commodities (sugar, coffee, cotton and cocoa) should pause after a fantastic rally in 2010 on improving supply.

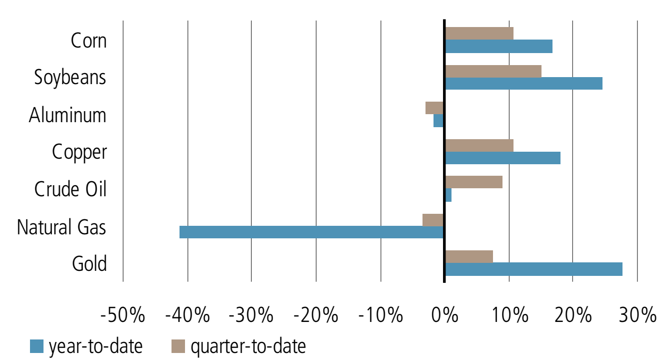
Dominic Schnider, Strategist

Fig. 1: Commodity market performance
Total return in USD and %, commodity sectors



Source: Bloomberg, DJ UBS, UBS WMR, as of 7 December 2010

Fig. 2: Commodity market performance
Total return in USD and %, selected commodities



Source: Bloomberg, DJ UBS, UBS WMR, as of 7 December 2010

Diversification and beyond

Hedge funds

Overall, 2010 saw decent hedge fund performance in the higher single-digit returns. For 2011, we expect ongoing market volatility to provide attractive opportunities in selected parts of the hedge fund space.

Looking back, the second half of 2010 brightened up for hedge funds. The third quarter (Q3) saw some attractive performance gains (5.2% industry-wide) bringing net asset values close to their prior October 2007 peak. Q3 net capital inflows (USD 19 billion) were also the largest since the end of 2007. The year-to-date (YTD) inflow for 2010 through Q3 of USD 42 billion brought industry assets under management to USD 1.77 trillion vs. global stock market capitalization of about USD 50 trillion.

In terms of hedge fund strategies, most of the inflows were experienced in the relative value, event-driven and macro categories, while fund of funds actually saw an outflow for the first three quarters.

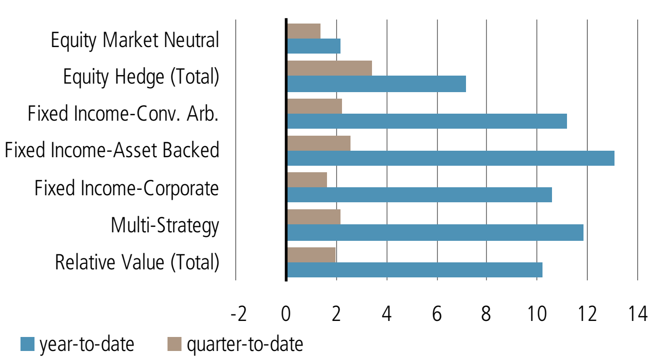
Outlook for the main hedge fund strategies

Relative value funds saw the largest inflows (USD 17 billion YTD) while their performance of nearly 10% through October was ahead of the industry average. Because they focus on capturing value from the relative mispricing of related assets, these strategies can generate returns independent of overall market movements, although many of these strategies in fact exhibit a net long or short exposure to equity or debt markets. **Fixed income arbitrage** funds tend to profit from price anomalies between related securities and/or bet on the evolution of interest rate spreads. They are expected to benefit from arbitrage opportunities within the US Treasury market emerging from dislocations that Fed quantitative easing policy is creating. **Volatility arbitrage** funds that, as a group, tend to be long volatility are expected to have a challenging period as volatility remains low (the VIX has been in the 20 to 25 range) and option values continue to decay. **Convertible arbitrage** should continue to benefit from discrepancies and arbitrage opportunities between convertible bonds and underlying stock and bond markets irrespective of market movements.

Long/short equity fund managers are coming out of low net market exposure. They remain cautious and selective in building long positions. We expect that fundamental valuation-oriented managers may be better positioned to take advantage of sector rotations and stock-specific opportunities than technically driven managers.

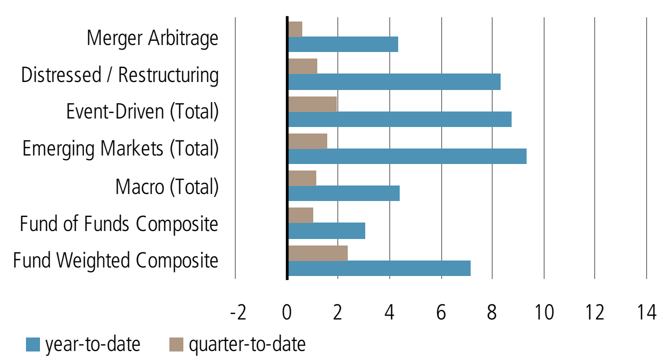
Event-driven funds have been strong performers with YTD performance of 8.5% and USD 11.6 billion of new capital through Q3. Plentiful cash on corporate balance sheets, easy access to capital and increased optimism from company management are contributing to an up-

Fig. 1A: Performance of selected Hedge Fund strategies
Until 30 November 2010, in USD and %



Source: Bloomberg, UBS WMR, as of 30 November 2010
Note: All figures based on Hedge Fund Research's HFRI indices

Fig. 1B: Performance of selected Hedge Fund strategies
Until 30 November 2010, in USD and %



Source: Bloomberg, UBS WMR, as of 30 November 2010
Note: All figures based on Hedge Fund Research's HFRI indices

tick in deal activity. Increasing company valuations could make stock more attractive as an acquisition currency for stock deals. Strategic buyers are expected to be more active than private equity sponsors, given easy capital market financing. Declining default rates are helping distressed securities managers.

For credit strategies, opportunities are attractive from a fundamental perspective. However, there could be pressures in the credit markets driven by technical factors, as new issuance remains solid. Credit risk appetite remains strong going into the new year.

Macro strategies have somewhat underperformed the industry this year absent strong directional markets which tend to benefit them. Most managers eschewed making strong bets. We expect this trend to persist going into 2011 and macro strategies, at least in the short term, to continue underperforming.

Private equity

While frozen credit markets created difficult conditions for private equity in 2008 and early 2009, they have been very strong in 2010. We expect supportive credit market conditions to remain in place in 2011, which should provide a solid fundamental backdrop for private equity (PE).

In the U.S. buyout market, transaction flow has improved but it is nowhere close to the frenzied activity of 2006. Rebound in company valuations has been stronger and faster than what was envisaged in early 2010; company sales by buyout funds have been strong as well, and earnings growth has been supportive. Deal sizes have been small and we expect most of the future activity to be in the middle market segment. We believe that, with exceptions, 2009-10 vintages of large buyouts may turn out to be relative disappointments with investors typically equating recession vintages with good returns. We also see much too much committed but undrawn capital (around USD500 billion). With many funds just two or three years away from the end of their investment period, we worry that acquisition valuations may get bid up, reducing future returns. In contrast, 2011 and 2012 vintages are expected to be better, with those that focus on niche areas to deliver outperformance. All in all, we think that the LBO volume should continue to rise in 2011. The debt market situation should remain supportive with interest rates unlikely to rise in the near term and leverage relatively low.

In terms of sectors we see energy as an excellent play. The long-term secular trends in an industry that has experienced underinvestment may well provide a great backdrop for energy-focused PE for the next decade.

We like emerging market-focused PE funds While it is true that there will always be risks of asset price inflation and bubbles in countries in transition, especially within a private fund's 10-year life, the economic value creation opportunity in these countries makes them a "must have" component of portfolios.

As far as secondary private equity sales go, the last 24 months have been a disappointment. Secondaries as a group missed the boat in 2009 and then suffered a quite competitive environment in 2010 given high demand for limited deal flow. However, the next 12 months will potentially house a more active secondary environment.

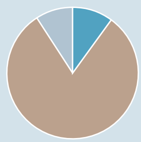
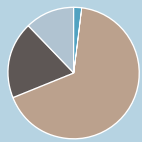
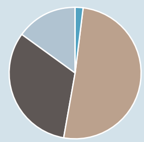
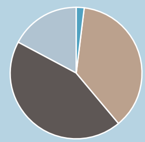
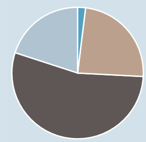
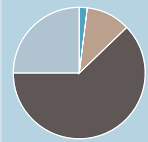
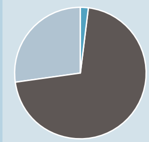
Expectations for distressed corporate debt strategies were high back in 2009. However, these did not entirely come to fruition as credit quality improvements reduced the availability of distressed securities. Unless the 2014 "wall of debt" in need of refinancing becomes a real challenge, which we doubt, the prospects for this strategy are more muted.

In special situations/turnaround funds, the next leg of the opportunity will be in more traditional turnaround groups (focused on operational, not financial, stress) and also in groups focused on distressed financial assets, where opportunities should arise from financial companies unloading distressed assets from their balance sheets.

For US growth capital, as the economic expansion proceeds, unlevered small company transactions can potentially be a great space in which to invest.

Stephen Freedman, PhD, CFA, Strategist

Detailed asset allocation, with non-traditional assets (NTAs)

Investor Risk Profile[1]	Very conservative				Conservative				Moderate conservative				Moderate				Moderate aggressive				Aggressive				Very aggressive			
	 Cash Equities Bonds NTAs				 Cash Equities Bonds NTAs				 Cash Equities Bonds NTAs				 Cash Equities Bonds NTAs				 Cash Equities Bonds NTAs				 Cash Equities Bonds NTAs				 Cash Equities Bonds NTAs			
	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]
Traditional Assets																												
Equity	0.0	+0.0		0.0	19.0	+2.5	▲	21.5	32.0	+4.0	▲	36.0	44.0	+5.0	▲	49.0	54.0	+6.0	▲	60.0	62.0	+7.5	▲	69.5	71.0	+2.0	▲	73.0
US Equity	0.0	+0.0		0.0	14.0	+1.0	▲	15.0	23.0	+0.5	▲	23.5	32.0	+0.0		32.0	39.0	+0.0		39.0	44.0	+0.0		44.0	52.0	−3.0	▲	49.0
Large Cap Value	0.0	+0.0		0.0	8.0	-0.5	▼	7.5	8.0	−1.0	▼	7.0	11.0	−1.5	▼	9.5	11.0	−2.0	▼	9.0	11.0	−2.0	▼	9.0	13.0	−4.0	▼	9.0
Large Cap Growth	0.0	+0.0		0.0	5.0	+1.5	▲	6.5	8.0	+2.5	▲	10.5	11.0	+3.0	▲	14.0	11.0	+4.0	▲	15.0	11.0	+4.0	▲	15.0	13.0	+4.5	▲	17.5
Mid Cap	0.0	+0.0		0.0	1.0	+0.0	▲	1.0	4.0	+0.0		4.0	5.0	+0.0		5.0	9.0	+0.0		9.0	11.0	+0.0		11.0	13.0	−0.5	▼	12.5
Small Cap	0.0	+0.0		0.0	0.0	+0.0		0.0	2.0	+0.0	▲	2.0	3.0	+0.0	▲	3.0	5.0	+0.0	▼	5.0	7.0	+0.0	▲	7.0	8.0	+0.0	▲	8.0
REITs	0.0	+0.0		0.0	0.0	+0.0		0.0	1.0	−1.0	▼	0.0	2.0	−1.5	▼	0.5	3.0	−2.0	▼	1.0	4.0	−2.0	▼	2.0	5.0	−3.0	▼	2.0
Non-US Equity	0.0	+0.0		0.0	5.0	+1.5	▲	6.5	9.0	+3.5	▲	12.5	12.0	+5.0	▲	17.0	15.0	+6.0	▲	21.0	18.0	+7.5	▲	25.5	19.0	+5.0	▲	24.0
Developed	0.0	+0.0		0.0	5.0	+1.5	▲	6.5	8.0	+0.5	▲	8.5	10.0	+0.0	▲	10.0	12.0	+0.0	▲	12.0	14.0	+0.5	▲	14.5	14.0	−3.0	▲	11.0
Emerging Markets	0.0	+0.0		0.0	0.0	+0.0		0.0	1.0	+3.0		4.0	2.0	+5.0	▲	7.0	3.0	+6.0	▲	9.0	4.0	+7.0	▲	11.0	5.0	+8.0	▲	13.0
Fixed Income	81.0	+0.0		81.0	67.0	−2.5	▼	64.5	51.0	−4.0	▼	47.0	37.0	−5.0	▼	32.0	24.0	−6.0	▼	18.0	11.0	−7.5	▼	3.5	0.0	+0.0		0.0
US Fixed Income	74.0	+0.0		74.0	59.0	−1.0	▼	58.0	43.0	−2.0	▼	41.0	29.0	−2.5	▼	26.5	18.0	−3.0	▼	15.0	9.0	−5.5	▼	3.5	0.0	+0.0		0.0
Non-US Fixed Income	7.0	+0.0		7.0	8.0	−1.5	▼	6.5	8.0	−2.0	▼	6.0	8.0	−2.5	▼	5.5	6.0	−3.0	▼	3.0	2.0	−2.0	▼	0.0	0.0	+0.0		0.0
Cash (USD)	10.0	+0.0		10.0	2.0	+0.0		2.0	2.0	+0.0		2.0	2.0	+0.0		2.0	2.0	+0.0		2.0	2.0	+0.0		2.0	2.0	−2.0	▼	0.0
Non-traditional Assets	9.0	+0.0		9.0	12.0	+0.0		12.0	15.0	+0.0		15.0	17.0	+0.0		17.0	20.0	+0.0		20.0	25.0	+0.0		25.0	27.0	+0.0		27.0
Commodities	2.0	+0.0		2.0	3.0	+0.0		3.0	4.0	+0.0		4.0	5.0	+0.0		5.0	5.0	+0.0		5.0	6.0	+0.0		6.0	7.0	+0.0		7.0
Alternative Investments[5]	7.0	+0.0		7.0	9.0	+0.0		9.0	11.0	+0.0		11.0	12.0	+0.0		12.0	15.0	+0.0		15.0	19.0	+0.0		19.0	20.0	+0.0		20.0

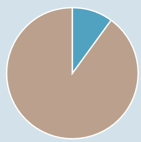
"WMR tactical deviation" legend: Overweight Underweight Neutral

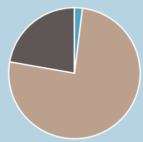
"Change" legend: ▲ Upgrade ▼ Downgrade

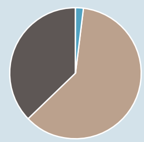
Source: UBS WMR and Investment Solutions, as of 8 December 2010.

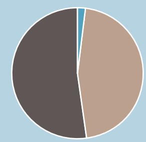
For end notes, please see appendix.

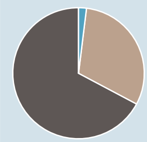
Detailed asset allocation, without non-traditional assets (NTAs)

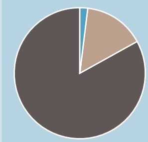


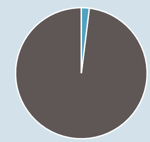












Investor Risk Profile[1]	Very conservative				Conservative				Moderate conservative				Moderate				Moderate aggressive				Aggressive				Very aggressive			
	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]	Benchmark allocation[2]	WMR tactical deviation[3]	Change	Current allocation[4]
Traditional Assets																												
Equity	0.0	+0.0		0.0	22.0	+2.5	▲	24.5	37.0	+4.0	▲	41.0	52.0	+5.0	▲	57.0	67.0	+6.0	▲	73.0	83.0	+7.5	▲	90.5	98.0	+2.0	▲	100.0
US Equity	0.0	+0.0		0.0	16.0	+1.0	▲	17.0	26.0	+0.5	▲	26.5	37.0	+0.0		37.0	48.0	+0.0		48.0	59.0	+0.0		59.0	72.0	−3.0	▼	69.0
Large Cap Value	0.0	+0.0		0.0	9.0	-0.5	▼	8.5	9.0	−1.0	▼	8.0	13.0	−1.5	▼	11.5	14.0	−2.0	▼	12.0	15.0	−2.0	▼	13.0	18.0	−4.0	▼	14.0
Large Cap Growth	0.0	+0.0		0.0	6.0	+1.5	▲	7.5	9.0	+2.5	▲	11.5	13.0	+3.0	▲	16.0	14.0	+4.0	▲	18.0	15.0	+4.0	▲	19.0	18.0	+4.5	▲	22.5
Mid Cap	0.0	+0.0		0.0	1.0	+0.0	▲	1.0	4.0	+0.0		4.0	6.0	+0.0		6.0	11.0	+0.0		11.0	15.0	+0.0		15.0	18.0	−0.5	▼	17.5
Small Cap	0.0	+0.0		0.0	0.0	+0.0		0.0	3.0	+0.0	▲	3.0	3.0	+0.0	▲	3.0	6.0	+0.0	▲	6.0	9.0	+0.0	▲	9.0	11.0	+0.0	▲	11.0
REITs	0.0	+0.0		0.0	0.0	+0.0		0.0	1.0	−1.0	▼	0.0	2.0	−1.5	▼	0.5	3.0	−2.0	▼	1.0	5.0	−2.0	▼	3.0	7.0	−3.0	▼	4.0
Non–US Equity	0.0	+0.0		0.0	6.0	+1.5	▲	7.5	11.0	+3.5	▲	14.5	15.0	+5.0	▲	20.0	19.0	+6.0	▲	25.0	24.0	+7.5	▲	31.5	26.0	+5.0	▲	31.0
Developed	0.0	+0.0		0.0	6.0	+1.5	▲	7.5	9.0	+0.5	▲	9.5	13.0	+0.0	▲	13.0	15.0	+0.0	▲	15.0	18.0	+0.5	▲	18.5	20.0	−3.0	▲	17.0
Emerging Markets	0.0	+0.0		0.0	0.0	+0.0		0.0	2.0	+3.0		5.0	2.0	+5.0	▲	7.0	4.0	+6.0	▲	10.0	6.0	+7.0	▲	13.0	6.0	+8.0	▲	14.0
Fixed Income	90.0	+0.0		90.0	76.0	−2.5	▼	73.5	61.0	−4.0	▼	57.0	46.0	−5.0	▼	41.0	31.0	−6.0	▼	25.0	15.0	−7.5	▼	7.5	0.0	+0.0		0.0
US Fixed Income	82.0	+0.0		82.0	67.0	−1.0	▼	66.0	51.0	−2.0	▼	49.0	36.0	−2.5	▼	33.5	23.0	−3.0	▼	20.0	12.0	−4.5	▼	7.5	0.0	+0.0		0.0
Non–US Fixed Income	8.0	+0.0		8.0	9.0	−1.5	▼	7.5	10.0	−2.0	▼	8.0	10.0	−2.5	▼	7.5	8.0	−3.0	▼	5.0	3.0	−3.0	▼	0.0	0.0	+0.0		0.0
Cash (USD)	10.0	+0.0		10.0	2.0	+0.0		2.0	2.0	+0.0		2.0	2.0	+0.0		2.0	2.0	+0.0		2.0	2.0	+0.0		2.0	2.0	−2.0	▼	0.0

"WMR tactical deviation" legend: Overweight Underweight Neutral

"Change" legend: ▲ Upgrade ▼ Downgrade

Source: UBS WMR and Investment Solutions, as of 8 December 2010.

For end notes, please see appendix.

Appendix

Portfolio Analytics

The portfolio analytics shown for each risk profile's benchmark allocations are based on estimated forward-looking return and standard deviation assumptions (capital market assumptions), which are based on UBS proprietary research. The development process includes a review of a variety of factors, including the return, risk, correlations and historical performance of various asset classes, inflation and risk premium. These capital market assumptions do not assume any particular investment time horizon. The process assumes a situation where the supply and demand for investments is in balance, and in which expected returns of all asset classes are a reflection of their expected risk and correlations regardless of time-frame. Please note that these assumptions are not guarantees and are subject to change. UBS has changed its risk and return assumptions in the past and may do so in the future. Neither UBS nor your Financial Advisor is required to provide you with an updated analysis based upon changes to these or other underlying assumptions.

In order to create the analysis shown, the rates of return for each asset class are combined in the same proportion as the asset allocations illustrated (e.g., if the asset allocation indicates 40% equities, then 40% of the results shown for the allocation will be based upon the estimated hypothetical return and standard deviation assumptions shown below).

You should understand that the analysis shown and assumptions used are hypothetical estimates provided for your general information. The results are not guarantees and pertain to the asset allocation and/or asset class in general, not the performance of specific securities or investments. Your actual results may vary significantly from the results shown in this report, as can the performance of any individual security or investment.

Risk Profile ==>>	Very conservative	Conservative	Moderate Conservative	Moderate	Moderate aggressive	Aggressive	Very aggressive
With non-traditional assets							
Estimated Return	4.81%	5.98%	6.89%	7.65%	8.36%	9.00%	9.56%
Estimated Risk	3.21%	4.70%	6.71%	8.69%	10.53%	12.16%	13.81%
Without non-traditional assets							
Estimated Return	4.46%	5.67%	6.62%	7.44%	8.33%	9.22%	10.00%
Estimated Risk	3.45%	4.78%	6.93%	9.17%	11.73%	14.46%	16.94%

Asset Class	Capital Market Assumptions	
	Estimated Risk	Estimated Return
US Equity		
Large Cap Value	16.4%	8.7%
Large Cap Growth	19.0%	9.3%
Mid Cap	18.4%	10.4%
Small Cap	21.4%	10.6%
REITs	23.0%	9.6%
Non-US Equity		
Developed markets Equities	17.7%	10.4%
Emerging markets Equities	26.6%	12.6%
US Fixed income	3.7%	4.4%
Non-U.S. fixed income	8.8%	6.1%
Cash (USD)	0.5%	4.0%
Commodities	17.1%	7.6%
Alternative investments	8.5%	8.7%

Appendix

Additional Asset Allocation Models

US Taxable Fixed Income Allocation, in %

	Benchmark allocation[1]	WMR Tactical deviation[2] Previous	WMR Tactical deviation[2] Current	Current allocation[3]
Treasuries	12.0	–1.0	–1.0	11.0
TIPS (Treasury inflation-protected securities)	5.0	–1.0	–1.0	4.0
Agencies	22.0	–1.0	–1.0	21.0
Mortgages	20.0	–1.0	–2.0	18.0
Inv. Grade Corporates	22.0	+2.0	+1.0	23.0
High Yield Corporates	10.0	+1.0	+2.0	12.0
Preferred Securities	4.0	+1.0	+1.0	5.0
Emerging Market sovereign bonds in US dollar	5.0	+0.0	+1.0	6.0
TFI non-Credit	**59.0**	**–4.0**	**–5.0**	**54.0**
TFI Credit	**41.0**	**+4.0**	**+5.0**	**46.0**

Non–US Developed Equity Module, in %

	Benchmark allocation[1]	WMR Tactical deviation[2] Previous	WMR Tactical deviation[2] Current	Current allocation[3]
Eurozone	28.0	–5.0	–15.0	13.0
UK	20.0	+10.0	+25.0	45.0
Japan	19.0	–5.0	–15.0	4.0
Other	33.0	+0.0	+5.0	38.0

Non–US Fixed Income Module, in %

	Benchmark allocation[1]	WMR Tactical deviation[2] Previous	WMR Tactical deviation[2] Current	Current allocation[3]
Eurozone	43.0	+0.0	+0.0	43.0
UK	9.0	+0.0	+0.0	9.0
Japan	32.0	–10.0	–10.0	22.0
Other	15.0	+10.0	+10.0	25.0

Source: UBS WMR and Investment Solutions, as of as of 8 December 2010

[1] The benchmark allocation refers to a moderate risk profile. See "Sources of Benchmark Allocations and Investor Risk Profiles" in the Appendix for an explanation regarding the source of benchmark allocations and their suitability.

[2] See "Deviations from Benchmark Allocations" in the Appendix for an explanation regarding the interpretation of the suggested tactical deviations from benchmark. The "current" column refers to the tactical deviation that applies as of the date of this publication. The "previous" column refers to the tactical deviation that was in place at the date of the previous edition of the Investment Strategy Guide or the last Investment Strategy Guide Update.

[3] The current allocation column is the sum of the benchmark allocation and the WMR tactical deviation columns.

Appendix

Additional Asset Allocation Models

Equity Industry Group Allocation, in %

	S&P 500 Benchmark allocation[1]	WMR Tactical deviation[2] Numeric Previous	Numeric Current	Symbol Previous	Symbol Current	Current allocation[3]
Consumer Discretionary	**10.7**	**-2.0**	**-2.0**	**– –**	**– –**	**8.7**
Auto & Components	0.8	+0.0	+1.0	n	+	1.8
Consumer Services	1.9	+0.5	+0.0	+	n	1.9
Media	3.1	+0.0	+0.0	n	n	3.1
Retailing	3.8	-1.5	-2.0	– –	– –	1.8
Consumer, Durables & Apparel	1.2	-1.0	-1.0	–	–	0.2
Consumer Staples	**10.8**	**+2.0**	**+2.0**	**++**	**++**	**12.8**
Food, Beverage & Tobacco	6.0	+1.0	+1.0	+	+	7.0
Food & Staple Retailing	2.4	+0.0	+0.0	n	n	2.4
Household & Personal Products	2.4	+1.0	+1.0	+	+	3.4
Energy	**11.8**	**+0.0**	**+1.0**	**n**	**+**	**12.8**
Financials	**15.8**	**+0.0**	**+0.0**	**n**	**n**	**15.8**
Banks	3.0	+1.0	+0.0	+	n	3.0
Diversified Financials	7.5	+0.0	+1.0	n	+	8.5
Insurance	3.9	+0.0	+0.0	n	n	3.9
Real Estate	1.5	-1.0	-1.0	–	–	0.5
Health Care	**11.0**	**+0.0**	**-1.0**	**n**	**–**	**10.0**
HC Equipment & Services	3.6	+0.0	+0.0	n	n	3.6
Pharmaceuticals & Biotechnology	7.4	+0.0	-1.0	n	–	6.4
Industrials	**10.9**	**+0.0**	**+1.0**	**n**	**+**	**11.9**
Capital Goods	8.3	+0.0	+0.0	n	n	8.3
Commercial Services & Supplies	0.6	+0.0	+0.0	n	n	0.6
Transportation	2.1	+0.0	+1.0	n	+	3.1
Information Technology	**19.0**	**+1.0**	**+2.5**	**+**	**+++**	**21.5**
Software & Services	9.1	+1.0	+1.0	+	+	10.1
Technology Hardware & Equipment	7.2	+1.0	+1.5	+	++	8.7
Semiconductors	2.6	-1.0	+0.0	–	n	2.6
Materials	**3.6**	**-2.0**	**-1.0**	**– –**	**–**	**2.6**
Telecom	**3.0**	**-1.0**	**-2.5**	**–**	**– – –**	**0.5**
Utilities	**3.3**	**+2.0**	**+0.0**	**++**	**n**	**3.3**

Source: S&P, UBS WMR as of 8 December 2010

The benchmark allocation, as well as the tactical deviations, are intended to be applicable to the US equity portion of a portfolio across investor risk profiles.

1 The benchmark allocation is based on S&P 500 weights.

2 See "Deviations from Benchmark Allocations" in the Appendix for an explanation regarding the interpretation of the suggested tactical deviations from benchmark. The "current" column refers to the tactical deviation that applies as of the date of this publication. The "previous" column refers to the tactical deviation that was in place at the date of the previous edition of the Investment Strategy Guide or the last Investment Strategy Guide Update.

3 The current allocation column is the sum of the S&P 500 benchmark allocation and the WMR tactical deviation columns.

Appendix

Additional Asset Allocation Models

Alternative Investment (AI) Benchmark Allocation (All figures in % of total portfolio)

	Risk profile						
	Very conservative	Conservative	Moderate conservative	Moderate	Moderate aggressive	Aggressive	Very aggressive
Tactical Trading	1.0	1.0	1.0	2.0	2.5	3.5	4.0
Relative Value	1.5	2.0	2.0	2.0	2.0	2.0	2.0
Credit Strategies	1.5	2.0	2.0	2.0	2.5	3.0	3.0
Event Driven	1.5	2.0	2.0	2.0	2.0	2.5	3.0
Equity Hedge	1.5	2.0	2.0	2.0	2.0	3.0	3.0
Private Equity	0.0	0.0	2.0	2.0	2.0	2.0	3.0
Private Real Estate	0.0	0.0	0.0	0.0	2.0	2.0	2.0
Total Alternative Investments	**7**	**9**	**11**	**12**	**15**	**19**	**20**

See "Sources of Benchmark Allocations and Investor Risk Profiles" in the Appendix for an explanation regarding the source of the benchmark allocations and their suitability.

Tactical Asset Allocation Performance Measurement

As explained more fully below, tables A and E reflect the performance of certain tactical asset allocation recommendations published by WMR during the time periods specified. Performance is calculated utilizing the returns of the indices identified, as applied to the respective benchmark allocations and the benchmark with the tactical shift (see detailed asset allocation tables where benchmark allocation with tactical shift is referred to as "current allocation"). For example, if cash were allocated 10% in the benchmark and 12% in the benchmark with the tactical shift, the performance of the cash index would provide 10% and 12% in the respective performance computation. Performance calculations assume that portfolios are rebalanced the day after publication by WMR of any changes to its tactical deviations. Performance shown is based on total returns, but does not include transaction costs, such as commissions, fees, margin interest, and interest charges. Actual total returns adjusted for such transaction costs will be reduced. A complete record of all the recommendations upon which these performance reports are based is available from UBS Financial Services Inc. upon written request. Past performance is not an indication of future results.

The performance attributable to the tactical deviations is reflected in the column labeled "Excess return", which shows the difference between the performance of the benchmark and the performance of the benchmark with the tactical shift. Unless otherwise noted below, performance is annualized for periods of less than one year. The Information ratio is a risk adjusted performance measure, which adjusts the excess returns for the tracking error risk of the tactical deviations. Specifically the information ratio is calculated as the ratio of the annualized excess return over a given time period and the annualized standard deviation of daily excess returns over the same period. Additional background information regarding the computation of the information ratio figures provided below is available upon request.

The performance shown in Table A is based on the Benchmark Allocation (with nontraditional assets) for a hypothetical moderate risk profile investor and the Benchmark with Tactical Shift (see "Sources of benchmark allocations and investor risk profiles" on page 46 for details regarding Benchmark construction). Performance is calculated utilizing the returns of the indices identified in Table B. Prior to 25 August 2008, WMR published tactical asset allocation recommendations using a less comprehensive set of asset classes and sectors, which makes a comparison with the current models difficult. In addition, since 25 August 2008, WMR has at times published a more detailed set of tactical deviations, whereby the categories "Non-US Developed Equities" and Non-US Fixed Income" were further subdivided into regional blocks. Only the cumulative recommendations at the level of "Non-US Developed Equities" and "Non-US Fixed Income" were taken into account in calculating the performance shown above.

The performance shown in Table C is based on Benchmark Allocation, and the Benchmark Allocation with tactical shift (see "Sources of benchmark allocations and investor risk profiles" on page 50 for details regarding Benchmark construction). Performance is calculated utilizing the returns of the indices identified in Table D.

Table A: Moderate Risk Profile Performance Measurement

	Benchmark allocation	Benchmark with tactical shift	Excess return	Information Ratio (annualized)	Russell 3000 stock index (total return)	Barclays Capital US Aggregate bond index (total return)
25 Aug. 08 to 31 Dec. 08	-16.59%	-15.64%	0.96%	+2.0	-29.00%	3.33%
2009 Q1	-5.52%	-5.45%	0.07%	+0.3	-10.80%	0.12%
2009 Q2	11.18%	11.37%	0.18%	+1.0	16.82%	1.78%
2009 Q3	10.44%	11.07%	0.63%	+2.1	16.31%	3.74%
2009 Q4	2.99%	3.30%	0.31%	+1.2	5.90%	0.20%
2010 Q1	2.74%	2.56%	-0.18%	-0.9	5.94%	1.78%
2010 Q2	-4.56%	-4.87%	-0.31%	-1.4	-11.32%	3.49%
2010 Q3	8.34%	7.99%	-0.35%	-2.2	11.53%	2.48%
2010 Q4 until 7 Dec. 2010	3.45%	3.41%	-0.04%	-0.5	8.51%	-1.35%
Since inception	9.54%	11.05%	1.52%	+0.6	3.60%	16.55%

Source: UBS WMR, as of 7 December 2010

Tactical Asset Allocation Performance Measurement

Table B: IS benchmark allocations for moderate risk profile investor, and underlying indices (all figures in %)

25 Aug 2008 to 23 Feb 2009		24 Feb 2009 to present	
US Large Cap Value (Russell 1000 Value)	12.5	US Large Cap Value (Russell 1000 Value)	11.0
US Large Cap Growth (Russell 1000 Growth)	12.5	US Large Cap Growth (Russell 1000 Growth)	11.0
US Small Cap Value (Russell 2000 Value)	2.0	US Mid Cap (Russell Midcap)	5.0
US Small Cap Growth (Russell 2000 Growth)	2.0	US Small Cap (Russell 2000)	3.0
US REITs (FTSE NAREIT All REITs)	1.5	US REITs (FTSE NAREIT All REITs)	2.0
Non-US Dev. Eq (MSCI Gross World ex-US)	10.5	Developed Markets (MSCI Gross World ex-US)	10.0
Emerging Markets Eq. (MSCI Gross EM USD)	2.0	Emerging Markets (MSCI Gross EM USD)	2.0
US Fixed Income (BarCap US Aggregate)	30.0	US Fixed Income (BarCap US Aggregate)	29.0
Non-US Fixed Income (BarCap Global Aggregate ex-USD)	8.0	Non-US Fixed Income (BarCap Global Aggregate ex-USD)	8.0
Cash (JP Morgan Cash Index USD 1 month)	2.0	Cash (JP Morgan Cash Index USD 1 month)	2.0
Commodities (DJ UBS total return index)	5.0	Commodities (DJ UBS total return index)	5.0
Alternative Investments (HFRX Equal Weighted Strategies)	12.0	Alternative Investments (HFRX Equal Weighted Strategies)	12.0

Source: UBS WMR and Investment Solutions

Table C: WMR US dollar Taxable Fixed Income Strategy Performance measurement

	Benchmark allocation	Benchmark with tactical shift	Excess return	Information ratio (annualized)	Barclays Capital US Aggregate
31 Jan. 2007 to 31 Dec. 2007	4.69%	4.56%	-0.12%	-1.4	7.01%
2008	-1.17%	-2.11%	-0.94%	-3.2	5.24%
2009	11.67%	12.96%	1.29%	2.8	5.93%
2010 Q1	2.27%	2.39%	0.12%	3.7	1.78%
2010 Q2	2.70%	2.56%	-0.14%	-2.3	3.49%
2010 Q3	3.51%	3.60%	0.09%	5.2	2.48%
2010 Q4 to 7 Dec. 2010	-0.74%	-0.72%	0.02%	1.1	-1.35%

Source: UBS WMR, as of 7 December 2010

Table D : Benchmark allocation for US dollar Fixed Income Strategy and underlying indices used to calculate performance shown in Table C (all figures in %)

	31 Jan. 2007 to 30 July 2007	31 July 2007 to 24 Aug 2008	25 Aug 2008 to 30 March 2009	31 March 2009 to present
Treasuries (BoA ML Treasury Master Index)	10.0%	12.0%	12.0%	12.0%
TIPS (BoA ML Treasury Inflation-Linked Index)	5.0%	5.0%	5.0%	5.0%
Agencies (BoA ML Agency Composite Master Index)	20.0%	22.0%	22.0%	22.0%
Inv. Grade Corporates (BoA ML Corporate Master Index)	20.0%	21.0%	18.0%	22.0%
High Yield Corporates (BoA ML High Yield Master II Constrained Index)	10.0%	10.0%	8.0%	10.0%
Preferred Securities (BoA ML Preferred Stock Fixed Index)	10.0%	10.0%	10.0%	4.0%
Mortgages (BoA ML US Mortgage Master Index)	20.0%	20.0%	20.0%	20.0%
Emerg. Markets (BoA ML Emerging Sovereign Plus Index)	0.0%	0.0%	5.0%	5.0%
Cash (BoA ML US T-Bill 3-month Index)	5.0%	0.0%	0.0%	0.0%

Source: UBS WMR and Investment Solutions

Appendix

End notes for table labeled detailed asset allocations with non-traditional assets (NTAs)
1 See "Sources of benchmark allocations and investor risk profiles"on next page regarding the source of investor risk profiles.
2 See "Sources of benchmark allocations and investor risk profiles" on next page regarding the source of benchmark allocations and their suitability.
3 See "Deviations from benchmark allocations" in the appendix regarding the interpretation of the suggested tactical deviations from benchmark.
4 The current allocation row is the sum of the benchmark allocation and the WMR tactical deviation rows.
5 UBS WMR considers that maintaining the benchmark allocation is appropriate for alternative investments. The recommended tactical deviation is therefore structurally set at 0. See "Sources of benchmark allocations and investor risk profiles" on next page regarding the types of alternative investments and their suitability.

End notes for table labeled detailed asset allocations without non-traditional assets (NTAs)
1 See "Sources of benchmark allocations and investor risk profiles"on next page regarding the source of investor risk profiles.
2 See "Sources of benchmark allocations and investor risk profiles" on next page regarding the source of benchmark allocations and their suitability.
3 See "Deviations from benchmark allocations" in the Appendix regarding the interpretation of the suggested tactical deviations from benchmark.
4 The current allocation row is the sum of the benchmark allocation and the WMR tactical deviation rows.

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

For more background on emerging markets generally, see the WMR Education Notes "Investing in Emerging Markets (Part 1): Equities", 30 July 2007, "Emerging Market Bonds: Understanding Emerging Market Bonds," 12 August 2009 and "Emerging Market Bonds: Understanding Sovereign Risk," 17 December 2009.

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

Non-Traditional Assets
Nontraditional assets include commodities and alternative investments. Alternative investments, in turn, include hedge funds,private equity, real estate, and managed futures. Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Alternative investment funds are not mutual funds and are not subject to the same regulatory requirements as mutual funds. Alternative investment funds' performance may be volatile, and investors may lose all or a substantial amount of their investment in an alternative investment fund. Alternative investment funds may engage in leveraging and other speculative investment practices that may increase the risk of investment loss. Interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer. Alternative investment funds may not be required to provide periodic pricing or valuation information to investors. Alternative investment fund investment programs generally involve complex tax strategies and there may be delays in distributing tax information to investors. Alternative investment funds are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits. Alternative investment funds may fluctuate in value. An investment in an alternative investment fund is long-term, there is generally no secondary market for the interests of a fund, and none is expected to develop. Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.
In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- Hedge Fund Risk: There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- Hedge Fund of Funds: In addition to the risks associated with hedge funds generally, an investor should recognize that the overall performance of a fund of funds is dependent not only on the investment performance of the manager of the fund, but also on the performance of the underlying managers. The investor will bear the management fees and expenses of both the fund of funds and the underlying hedge funds or accounts in which the fund of funds invests, which could be significant.
- Managed Futures: There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- Real Estate: There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- Private Equity: There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- Foreign Exchange/Currency Risk: Investors in securities of issuers located outside

Appendix

of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

- Options: Options are not suitable for all investors. Please read the Options Clearing Corporation Publication titled "Characteristics and Risks of Standardized Options Trading" and consult your tax advisor prior to investing. The Publication can be obtained from your Financial Services Inc., Financial Advisor, or can be accessed under the Publications Section of the Option Clearing Corporation's website: www.theocc.com.

Description of Certain Alternative Investment Strategies

- Equity Hedge: Investment managers who maintain positions both long and short in primarily equity and equity-derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. Equity hedge managers would typically maintain at least 50% and may, in some cases, be substantially entirely invested in equities, both long and short.
- Event Driven: Investment managers who maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including, but not limited to, mergers, restructurings, financial distress, tender offers, share-holder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities. Event-driven exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company-specific developments. Investment theses are typically predicated on fundamental characteristics (as opposed to quantitative), with the realization of the thesis predicated on a specific development exogenous to the existing capital structure.
- Credit Arbitrage Strategies: Employ an investment process designed to isolate attractive opportunities in corporate fixed in-come securities. These include both senior and subordinated claims as well as bank debt and other outstanding obligations, structuring positions with little or no broad credit market exposure. These may also contain a limited exposure to government, sovereign, equity, convertible or other obligations, but the focus of the strategy is primarily on fixed corporate obligations and other securities held as component positions within these structures. Managers typically employ fundamental credit analysis to evaluate the likelihood of an improvement in the issuer's creditworthiness. In most cases, securities trade in liquid markets, and managers are only infrequently or indirectly involved with company management. Fixed income: corporate strategies differ from event driven; credit arbitrage in the former more typically involves more general market hedges, which may vary in the degree to which they limit fixed income market exposure, while the latter typically involves arbitrage positions with little or no net credit market exposure, but are predicated on specific, anticipated idiosyncratic developments.
- Macro: Investment managers who trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top-down and bottom-up theses, quantitative and fundamental approaches and long- and short-term holding periods. Although some strategies employ relative value techniques, macro strategies are distinct from relative value strategies in that the primary in-vestment thesis is predicated on predicted or future movements in the underlying instruments, rather than realization of a valuation discrepancy between securities. In a similar way, while both macro and equity hedge managers may hold equity securities, the overriding investment thesis is predicated on the impact movements in underlying macroeconomic variables may have on security prices, as opposed to equity hedge, in which the fundamental characteristics of the company are the most significant and integral to investment thesis.
- Distressed Restructuring Strategies: Employ an investment process focused on corporate fixed income instruments, primarily on corporate credit instruments of companies trading at significant discounts to their value at issuance, or obliged (par value) at maturity, as a result of either a formal bankruptcy proceeding or financial market perception of near-term proceedings. Managers are typically actively involved with the management of these companies, frequently involved on creditors' committees in negotiating the exchange of securities for alternative obligations, either swaps of debt, equity or hybrid securities. Managers employ fundamental credit processes focused on valuation and asset coverage of securities of distressed firms. In most cases, portfolio exposures are concentrated in instruments which are publicly traded, in some cases actively and in others under reduced liquidity but, in general, for which a reasonable public market exists. In contrast to special situations, distressed strategies primarily employ debt (greater than 60%) but also may maintain related equity exposure.
- Relative Value: Investment managers who maintain positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types range broadly across equity, fixed income, derivative or other security types. Fixed income strategies are typically quantitatively driven to measure the existing relationship between instruments and, in some cases, identify attractive positions in which the risk-adjusted spread between these instruments represents an attractive opportunity for the investment manager. Relative value position may be involved in corporate transactions also, but as opposed to event driven exposures, the investment thesis is predicated on realization of a pricing discrepancy between related securities, as opposed to the outcome of the corporate transaction.

Appendix

Explanations about Asset Classes

Sources of benchmark allocations and investor risk profiles

- Benchmark allocations represent the longer-term allocation of assets that is deemed suitable for a particular investor. Except as described below, the benchmark allocations expressed in this publication have been developed by UBS Investment Solutions (IS), a business sector within UBS Wealth Management Americas that develops research-based traditional investments (e.g., managed accounts and mutual fund options) and alternative strategies (e.g., hedge funds, private equity, and real estate) offered to UBS clients. The benchmark allocations are provided for illustrative purposes only and were designed by IS for hypothetical US investors with a total return objective under seven different Investor Risk Profiles ranging from very conservative to very aggressive. In general, benchmark allocations will differ among investors according to their individual circumstances, risk tolerance, return objectives and time horizon. Therefore, the benchmark allocations in this publication may not be suitable for all investors or investment goals and should not be used as the sole basis of any investment decision. As always, please consult your UBS Financial Advisor to see how these weightings should be applied or modified according to your individual profile and investment goals.
- The process by which UBS Investment Solutions has derived the benchmark allocations can be described as follows. First, an allocation is made to broad asset classes based on an investor's risk tolerance and characteristics (such as preference for international investing). This is accomplished using optimization methods within a mean-variance framework. Based on a proprietary set of capital market assumptions, including expected returns, risk, and correlation of different asset classes, combinations of the broad asset classes are computed that provide the highest level of expected return for each level of expected risk. A qualitative judgmental overlay is then applied to the output of the optimization process to arrive at the benchmark allocation. The capital market assumptions used for the benchmark allocations are developed by UBS Global Asset Management. UBS Global Asset Management is a subsidiary of UBS AG and an affiliate of UBS Financial Services Inc.
- In addition to the benchmark allocations IS derived using the aforementioned process, WMR determined the benchmark allocation by country of Non-US Developed Equity and Non-US Fixed Income in proportion to each country's market capitalization, and determined the benchmark allocation by Sector and Industry Group of US Equity in proportion to each sector's market capitalization. WMR, in consultation with IS, also determined the benchmark allocation for US dollar taxable fixed income. It was derived from an existing moderate risk taxable fixed income allocation developed by IS, which includes fewer fixed income segments than the benchmark allocation presented here. The additional fixed income segments were taken by WMR from related segments. For example, TIPS were taken from Treasuries and Preferred Securities from Corporate Bonds. A level of overall risk similar to that of the original IS allocation was retained.
- Alternative investments (AI) include hedge funds, private equity, real estate, and managed futures. The total benchmark allocation was determined by IS using the process described above. The Wealth Management Americas Investment Committee (WMA IC) derived the AI subsector benchmark allocations by adopting IS' determination as to the appropriate subsector benchmark allocations with AI for the following risk profiles: conservative, moderately conservative, moderate, moderate aggressive and aggressive. The WMA IC then developed subsector allocations for very conservative and very aggressive risk profiles by taking the IS subsector weightings for conservative and aggressive risk profile investors and applying them pro rata to the IS AI total benchmark allocations for very conservative and very aggressive, respectively. Allocations to AI as illustrated in this report may not be suitable for all investors. In particular, minimum net worth requirements may apply.
- The background for the benchmark allocation attributed to commodities can be found in the WMR Education Note "A pragmatic approach to commodities," 2 May 2007.

Deviations from benchmark allocation

- The recommended tactical deviations from the benchmark are provided by WMR. They reflect our short- to medium-term assessment of market opportunities and risks in the respective asset classes and market segments. Positive / zero / negative tactical deviations correspond to an overweight / neutral / underweight stance for each respective asset class and market segment relative to their benchmark allocation. The current allocation is the sum of the benchmark allocation and the tactical deviation.
- Note that the regional allocations on the International Equities page are provided on an unhedged basis (i.e., it is assumed that investors carry the underlying currency risk of such investments). Thus, the deviations from the benchmark reflect our views of the underlying equity and bond markets in combination with our assessment of the associated currencies. The two bar charts ("Equity Regions" and "Fixed Income Regions") represent the relative attractiveness of countries (including the currency outlook) within a pure equity and pure fixed income portfolio, respectively. In contrast, the detailed asset allocation tables integrate the country preferences within each asset class with the asset class preferences stated earlier in the report. As the tactical deviations at the asset class level are attributed to countries in proportion to the countries' market capitalization, the relative ranking among regions may be altered in the combined view.

Scale for tactical deviation charts

Symbol	Description/Definition	Symbol	Description/Definition	Symbol	Description/Definition
+	moderate overweight vs. benchmark	–	moderate underweight vs. benchmark	n	neutral, i.e., on benchmark
++	overweight vs. benchmark	– –	underweight vs. benchmark	n/a	not applicable
+++	strong overweight vs. benchmark	– – –	strong underweight vs. benchmark		

Source: UBS WMR

Disclaimer

Wealth Management Research is published by Wealth Management & Swiss Bank and Wealth Management Americas, Business Divisions of UBS AG (UBS) or an affiliate thereof. In certain countries UBS AG is referred to as UBS SA. This publication is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS and its affiliates). All information and opinions as well as any prices indicated are currently only as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria. At any time UBS AG and other companies in the UBS group (or employees thereof) may have a long or short position, or deal as principal or agent, in relevant securities or provide advisory or other services to the issuer of relevant securities or to a company connected with an issuer. Some investments may not be readily realisable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, divisions or affiliates of UBS. Futures and options trading is considered risky. Past performance of an investment is no guarantee for its future performance. Some investments may be subject to sudden and large falls in value and on realisation you may receive back less than you invested or may be required to pay more. Changes in FX rates may have an adverse effect on the price, value or income of an investment. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein. This document may not be reproduced or copies circulated without prior authority of UBS or a subsidiary of UBS. UBS expressly prohibits the distribution and transfer of this document to third parties for any reason. UBS will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document. This report is for distribution only under such circumstances as may be permitted by applicable law.

- **Australia:** Distributed by UBS Wealth Management Australia Ltd (Holder of Australian Financial Services License No. 231127), Chifley Tower, 2 Chifley Square, Sydney, New South Wales, NSW 2000. **Bahamas**: This publication is distributed to private clients of UBS (Bahamas) Ltd and is not intended for distribution to persons designated as a Bahamian citizen or resident under the Bahamas Exchange Control Regulations. **Canada**: In Canada, this publication is distributed to clients of UBS Wealth Management Canada by UBS Investment Management Canada Inc.. **Dubai**: Research is issued by UBS AG Dubai Branch within the DIFC, is intended for professional clients only and is not for onward distribution within the United Arab Emirates. **France**: This publication is distributed by UBS (France) S.A., French "société anonyme" with share capital of € 125.726.944, 69, boulevard Haussmann F-75008 Paris, R.C.S. Paris B 421 255 670, to its clients and prospects. UBS (France) S.A. is a provider of investment services duly authorized according to the terms of the "Code Monétaire et Financier," regulated by French banking and financial authorities as the "Banque de France" and the "Autorité des Marchés Financiers." **Germany**: The issuer under German Law is UBS Deutschland AG, Stephanstrasse 14-16, 60313 Frankfurt am Main. UBS Deutschland AG is authorized and regulated by the "Bundesanstalt für Finanzdienstleistungsaufsicht." **Hong Kong**: This publication is distributed to clients of UBS AG Hong Kong Branch by UBS AG Hong Kong Branch, a licensed bank under the Hong Kong Banking Ordinance and a registered institution under the Securities and Futures Ordinance. **Indonesia**: This research or publication is not intended and not prepared for purposes of public offering of securities under the Indonesian Capital Market Law and its implementing regulations. Securities mentioned in this material have not been, and will not be, registered under the Indonesian Capital Market Law and regulations. **Italy**: This publication is distributed to the clients of UBS (Italia) S.p.A., via del vecchio politecnico 3 - Milano, an Italian bank duly authorized by Bank of Italy to the provision of financial services and supervised by "Consob" and Bank of Italy. **Jersey**: UBS AG, Jersey Branch is regulated by the Jersey Financial Services Commission to carry on investment business and trust company business under the Financial Services (Jersey) Law 1998 (as amended) and to carry on banking business under the Banking Business (Jersey) Law 1991 (as amended). **Luxembourg/Austria**: This publication is not intended to constitute a public offer under Luxembourg/Austrian law, but might be made available for information purposes to clients of UBS (Luxembourg) S.A./UBS (Luxembourg) S.A. Niederlassung Österreich, a regulated bank under the supervision of the "Commission de Surveillance du Secteur Financier" (CSSF), to which this publication has not been submitted for approval. **Singapore**: Please contact UBS AG Singapore branch, an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110) and a wholesale bank licensed under the Singapore Banking Act (Cap. 19) regulated by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with, the analysis or report. **Spain**: This publication is distributed to clients of UBS Bank, S.A. by UBS Bank, S.A., a bank registered with the Bank of Spain. **UAE**: This research report is not intended to constitute an offer, sale or delivery of shares or other securities under the laws of the United Arab Emirates (UAE). The contents of this report have not been and will not be approved by any authority in the United Arab Emirates including the UAE Central Bank or Dubai Financial Authorities, the Emirates Securities and Commodities Authority, the Dubai Financial Market, the Abu Dhabi Securities market or any other UAE exchange. **UK**: Approved by UBS AG, authorised and regulated in the UK by the Financial Services Authority. A member of the London Stock Exchange. This publication is distributed to private clients of UBS London in the UK. Where products or services are provided from outside the UK they will not be covered by the UK regulatory regime or the Financial Services Compensation Scheme. **USA**: Distributed to US persons by UBS Financial Services Inc., a subsidiary of UBS AG. UBS Securities LLC is a subsidiary of UBS AG and an affiliate of UBS Financial Services Inc. UBS Financial Services Inc. accepts responsibility for the content of a report prepared by a non-US affiliate when it distributes reports to US persons. All transactions by a US person in the securities mentioned in this report should be effected through a US-registered broker dealer affiliated with UBS, and not through a non-US affiliate.

UBS Financial Services Inc.
www.ubs.com/financialservicesinc

UBS Financial Services Inc. is a subsidiary of UBS AG.
Order # X3076

UBS