

TREASURER'S REPORT

1. **Division and Department:** Finance and Administration, Budget and Financial Planning, Treasury Management, Controller's Office, and Facilities Management
2. **General Fund Budget Performance:** Oakland University's (University) actual year-to-date (through Summer II and Fall 2021) enrollment, measured by student credit hours, is 9.1% below prior year actual and 6.8% below budget. Financial aid distributions are running slightly below budget and a preliminary review of General Fund expenditures to date shows no major spending variances in any division or unit. In accordance with the State of Michigan's Public Act 86 of 2021, the University will be receiving a one-time supplemental allocation of \$2,084,800 in addition to monthly State appropriation payments of \$4,910,264 which begin in October. Planning is underway to address the revenue shortfall due to lower than budgeted enrollment, including the use of the supplemental appropriation, cost containment measures, budget reductions, reserves, and use of the Higher Education Emergency Relief Fund (HEERF) grant from the federal government.

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

3. **Investment Performance:** The results of the University's working capital and endowment investment activities for FY2021 is presented in Attachments A and B, as prepared by Commonfund and UBS.

Investment performance associated with the working capital pool for the quarter ended June 30, 2021 was positive and comparable to the benchmark. Performance for FY2021, while slightly below benchmark, was strong, providing an 8.98% return for funds under Commonfund management. Overall performance for FY2021, after inclusion of all cash and cash equivalent accounts was, 6.8%.

The University's endowment portfolio performance for the quarter ended June 30, 2021 was positive and slightly shy of the quarterly benchmark by 48 basis points. Performance for FY2021 was up significantly (30.7%), exceeding the fiscal year benchmark by 4.4%. The September 30, 2021 endowment balance of \$147.2 million was \$32.1 million higher than the September 30, 2020 balance.

Final data from the NACUBO/TIAA FY2020 annual endowment survey revealed that the University's endowment portfolio exceeded the average investment performance for both similar sized university endowments and all university endowments, regardless of size, for all measured periods; one, three, five, ten, fifteen, and twenty years.

Treasurer's Report
Oakland University
Board of Trustees Formal Session
October 11, 2021
Page 2

Liquidity of both the working capital and endowment investments remains strong. The University's investments are being managed according to the Board's policies. The University's Investment Advisors (i.e. Commonfund for working capital and UBS for the endowment) continue to adhere to a long-term investment strategy that focuses on outperforming identified benchmarks over time. The Advisors will make their annual presentation to the Board at the October 11, 2021 Formal Session.

4. **Debt Management:** The *Capital Debt Report, September 30, 2021* (Attachment C) shows the University's amount of outstanding principal, unamortized premiums, rate of interest, weighted average cost of capital, type of debt, annual debt service, maturity, purpose of each debt issuance, and information about the University's two swap arrangements. The University's debt, which has a weighted average cost of capital of 3.596%, is being managed according to the Board's policies and approvals.

5. **Construction Report:** The *Construction Report, September 30, 2021* (Attachment D) includes budget information, source of funding, forecasted final costs, and comments for all ongoing capital projects over \$500,000, as required by Board policy. All projects have been properly approved and are within budget.

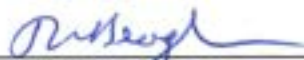
6. **University Reviews/Approvals:** The Treasurer's Report and attachments were prepared by the Budget and Financial Planning, Treasury Management, Controller, and Facilities Management Departments, and reviewed by the Treasury Committee, Vice President for Finance and Administration and Treasurer to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

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

8. **Attachments:**
A. UBS – Oakland University Endowment Performance Review – Year Ended June 30, 2021
B. Commonfund – Oakland University June 30, 2021 Treasury Solutions Quarterly Investment Report
C. Capital Debt Report, September 30, 2021
D. Construction Report, September 30, 2021

Treasurer's Report
Oakland University
Board of Trustees Formal Session
October 11, 2021
Page 3

Submitted to the President
on 10/4, 2021 by



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

Recommended on 10/5, 2021
to the Board of Trustees for Approval



Ora Hirsch Pescovitz, M.D.
President





OAKLAND UNIVERSITY ENDOWMENT

Board Meeting - October 2021

Performance Review - Year Ended June 30, 2021

Presented By:
UBS Financial Services, Inc.

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

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

Mark Anderson
Senior Vice President - Wealth Management



Oakland University Endowment Market Review

October, 2021

Recap of the Fiscal Year ended June 2021

The one year period ended June 2021 provided positive returns for the Oakland University Endowment Fund. Equities, hedge funds, and private equity provided strong investment returns. Fixed income, with interest rates at historic lows, provided continued diversity and safety to the overall portfolio but, while positive, contributed little to the endowment's performance.

During the March 2020 COVID equity selloff, most active managers stayed fully invested but upgraded the quality of their investment portfolios. As the market recovered and rallied, equities with poor fundamentals performed better than high quality companies, making it difficult for managers to outperform benchmarks. For the fiscal year ended June 30, small and mid-cap stocks outperformed large cap, value outperformed growth, and international managers lagged US equities. Since May of 2021, growth is once again out-performing value, in part due to concerns that the spread of the Delta variant could lead to further disruption and weaker activity in the more cyclical parts of the economy.

Equities added 40.78% to the portfolio for the fiscal year ended June 30, 2021 net of fees. Fixed income contributed 2.66%; hedge funds added 11.64%; and private equity 25.96%. The net return for the endowment for the period ended June 30, 2021 was 30.7% compared to the 70% MSCI ACW/30% BC AGG net benchmark return of 26.3% for the same period.

Going Forward

Despite some COVID setbacks, we see broad progress in combating the pandemic. The country continues to experience localized issues to combating COVID which could slow the rebound, but we do not foresee a return to lockdowns in the US or other highly vaccinated countries.

We expect global growth to remain high in the coming year, supported by rising household incomes and a recovering labor market. We do not believe that the stimulus package will have a prolonged negative effect on equity markets or that corporate tax increases will materially affect corporate earnings. The current 5% proposed increase in capital gain rates is unlikely to have a major effect on investor behavior or sentiment. We also believe that the effect of stimulus policy is likely to be mitigated by changes to the Fed's monetary policy.

Inflationary headlines continue to cause some investor alarm, but we don't believe inflation to be a current long-term risk to the economy. Rising wages, energy, and commodity prices, along with supply chain issues and semiconductor shortages, have resulted in higher corporate costs. However, these increased costs are expected to be temporary and largely offset by higher corporate revenues.

At UBS, we believe long-term future returns are likely to be lower than those in recent years across all major financial assets. We also believe the outlook for equities continues to be more favorable than cash and fixed income securities. We anticipate that interest rates will remain low for the foreseeable future. While the 10 year treasury rate could climb back to the 1.8% range before year-end and perhaps to 2% or more in 2022, we anticipate that rates will continue to stay historically low for some time.

Portfolio Recap

We continue to work closely with John Beaghan, Tom LeMarbe and Susan Sarkisian to help ensure the long term success of the endowment portfolio.

We made few changes to the endowment portfolio this past year, with the exception of terminating two under-performing hedge funds. We continue to monitor all our managers versus their peers and benchmarks. Our equity managers were chosen primarily for their long-term positive returns when markets are good but were also selected because of their attractive downside capture ratios. Additionally, we are undergoing a review of the University Endowment holdings related to Environmental, Social and Corporate Governance (ESG). We anticipate that climate and green initiatives will become an ever increasing part of our economy and will remain important US and worldwide initiatives.

The portfolio holds sufficient money funds to cover anticipated withdrawals for the coming year.

For Oakland University's long-term endowment plan, we believe that a well-balanced diversified portfolio with an emphasis on equities continues to be appropriate given the current low interest rate environment. We remain in compliance with the Oakland University Endowment Investment Policy Statement.

Sincerely,

UBS Wealth Strategy Group

Rebecca S. Sorensen, CFP, CIMA
Sr. Vice President – Wealth Management, US
Institutional Consultant

Darin McBride, CRPC
Sr. Vice President – Wealth Management, US
Sr. Portfolio Manager

Mark Anderson
Sr. Vice President - Wealth Management, US
Sr. Portfolio Manager



Oakland University Endowment Review - Period Ending June 30 2021

Endowment Fund	Manager	Index	June 30, 2021 Value	June 30, 2021 % Alloc	Quarter Return Net of Fees 3/31/21-6/30/21		Fiscal Yr Return Net of Fees 6/30/20-6/30/21		Account Number
					OU	Benchmark	OU	Benchmark	
Equities Total	Bahl & Gaynor LCV	S&P 500	\$ 8,262,021	5.6%	4.99%	8.55%	31.27%	40.79%	TZ00815
	MFS LCV	Russell 1000 V	13,566,919	9.2%	4.78%	5.21%	34.53%	43.68%	TZ00834
	Alger LCG	S&P 500	7,176,541	4.9%	10.60%	8.55%	38.79%	40.79%	TZ00824
	S&P 500 SPDR ETF	S&P 500	10,758,004	7.3%	8.52%	8.55%	40.64%	40.79%	TZ00824
	Loomis Sayles LCG	Russell 1000 G	12,244,086	8.3%	10.46%	11.93%	36.20%	42.50%	TZ00537
	MFS MCV	Russell MCV	4,890,148	3.3%	4.94%	5.66%	49.55%	53.06%	TZ00826
	Wim Blair SMG	Russell MCV	6,862,979	4.7%	3.91%	11.07%	41.71%	43.77%	TZ00837
	Russell Mid Cap ETF	Russell MCC	6,770,900	4.6%	7.43%	7.50%	49.53%	49.80%	TZ00837
	MFS New Discovery Value	Russell 2000 V	4,439,978	3.0%	7.21%	4.56%	63.08%	73.28%	TZ00827
	Russell 2000 ETF	Russell 2000	5,437,904	3.7%	4.26%	4.29%	61.84%	62.03%	TZ00827
	T. Rowe Price SCG	Russell 2000 G	4,914,474	3.3%	2.51%	3.92%	40.07%	51.36%	TZ00835
	American Fds SCW	MSCI ACWI x US Net	6,083,905	4.1%	7.78%	5.48%	49.77%	35.72%	TZ00840
	American Fds International Gr	EAFE Free Net	3,898,140	2.6%	6.89%	5.17%	39.62%	32.35%	TZ00836
	MFS International Value	MSCI ACWI x US Net	4,682,788	3.2%	6.72%	5.48%	24.87%	35.72%	TZ00829
	MSCI EAFE ETF	EAFE Free Net	2,163,600	1.5%	5.23%	5.17%	32.58%	32.35%	TZ00836
Fixed Income Total	Am Fds New Wld	MSCI Emerg Mkt Eq Net	1,774,052	1.2%	9.22%	5.05%	41.79%	40.90%	TZ00796
	Invesco Dev Mkts	MSCI Emerg Mkt Eq Net	2,297,340	1.6%	5.56%	5.05%	36.81%	40.90%	TZ00796
	MSCI EM ETF	MSCI Emerg Mkt Eq Net	2,488,203	1.7%	4.92%	5.05%	39.92%	40.90%	TZ00796
			100,711,982	73.7%	6.60%	7.19%	40.78%	44.55%	
	FCI	BC GC	11,329,859	7.7%	2.49%	2.42%	-2.46%	-0.39%	TZ00811
Real Asset Total	Lord Abbett High Yield	BoA High Yld Master II	1,258,390	0.9%	3.11%	2.77%	18.75%	15.62%	TZ00873
	Blackrock Strategic Income	BC Agg	3,324,126	2.3%	0.98%	1.83%	8.05%	-0.33%	TZ00873
	SEDX High Yield	BoA High Yield II	2,451,240	1.7%	2.16%	1.69%	11.05%	8.94%	TZ00812
	Fixed Income TRPS	BC US Tsy Infl Prot	3,419,147	2.3%	3.20%	3.25%	6.05%	6.51%	TZ00839
			21,782,762	14.8%	2.36%	2.40%	2.66%	2.68%	
Hedge Funds Total	AG Energy Credit	Private Equity	25,582	0.0%	0.00%	0.00%	31.32%	31.32%	TZ00223
			25,582	0.0%	0.00%	0.00%	31.32%	31.32%	
	Alphakeys	HFRI Fd Wgt Comp	1,721,574	1.2%	2.30%	4.20%	17.73%	27.52%	TZ00777
	Skybridge Multi Advisor HF	HFRI Fd of Fds Comp	46,686	0.0%	0.00%	2.68%	29.46%	18.03%	TZ00851
	Alison	HFRI Eq Hedge	4,569,761	3.1%	0.69%	5.07%	7.81%	20.40%	TZ00836
Private Equity Total	Blue Mountain	BoA High Yield II	112,462	0.1%	5.49%	1.69%	-8.93%	8.94%	TZ00535
			6,450,483	4.4%	0.75%	4.76%	11.64%	22.08%	
	NB Crossroads	Private Equity	509,788	0.3%	0.00%	0.00%	17.10%	17.10%	TZ00778
	AI-Canyon Distressed	Private Equity	475,414	0.3%	19.97%	19.97%	56.22%	56.22%	TZ00707
	Portfolio Advisors 2017	Private Equity	1,597,329	1.1%	0.00%	0.00%	21.31%	21.31%	TZ00644
	Portfolio Advisors 2019	Private Equity	905,807	0.6%	0.00%	0.00%	18.37%	18.37%	TZ00874
	AI-StepStone Tactical Gr II	Private Equity	2,564,803	1.7%	0.00%	0.00%	55.72%	55.72%	TZ00643
	AI-Avenue Aviation Opp Fd II	Private Equity	1,332,718	0.9%	0.00%	0.00%	-3.13%	-3.13%	TZ00428
	Portfolio Advisors 2015	Private Equity	1,464,185	1.0%	0.00%	0.00%	19.87%	19.87%	TZ00717
			8,850,044	6.0%	1.03%	1.03%	25.96%	25.96%	
Money Market Total	UBS Government Fund/UBS Bank	C.G. T-Bill	1,598,837	1.1%	0.00%	0.00%	0.02%	0.02%	TZ00818
		20%MSCI ACWI 80% BC AGG MI				5.71%	30.97%	26.29%	
Endowment Total	Returns gross of fees				5.29%		30.97%		
	Returns net of fees	Total	147,419,690	100.0%	5.23%		30.68%		

Presented by UBS Financial Services Inc. - The Wealth Strategy Group;
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Quarterly review & outlook

2Q21 into 3Q21

Chief Investment Office GWM

July 2021

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



2Q saw some trend reversals from the first quarter...

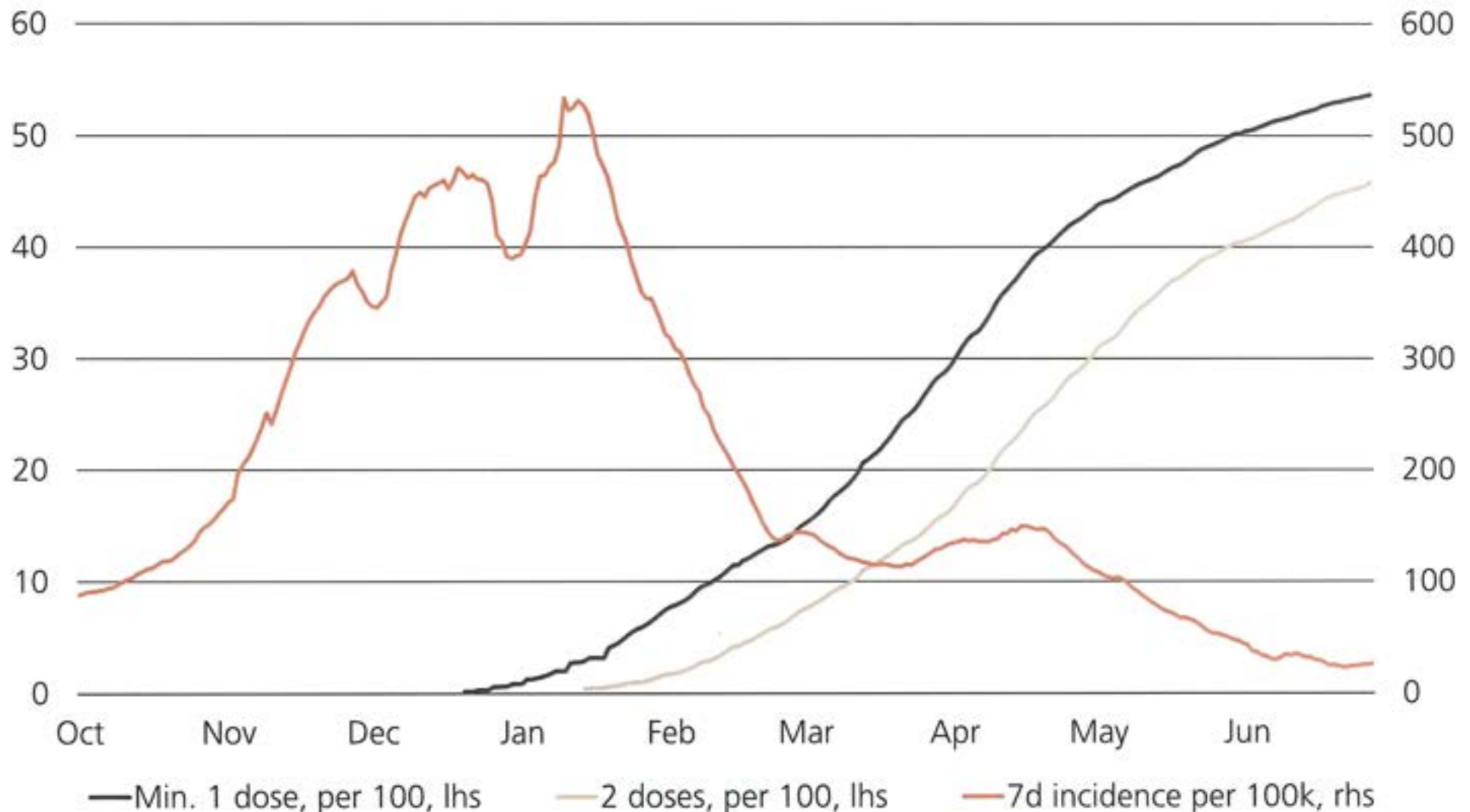
Performance, select asset classes

	Q2 2021	Q1 2021	FY 2020	Since pre-COVID peak (19 Feb '20)
Cash	0.0%	0.0%	0.5%	0.4%
US Gov't FI (short)	0.0%	-0.1%	3.2%	2.6%
US Gov't FI (intermediate)	1.1%	-2.9%	7.7%	3.8%
US Gov't FI (long)	7.3%	-14.2%	18.1%	1.5%
US TIPS	3.2%	-1.5%	11.0%	10.8%
US Municipal FI	1.4%	-0.4%	5.2%	4.3%
US IG Corp FI	3.3%	-4.5%	9.4%	5.2%
US HY Corp FI	2.8%	0.9%	6.1%	8.7%
EM FI (Hard)	4.1%	-4.5%	5.3%	2.2%
EM FI (Local)	3.5%	-6.7%	2.7%	0.4%
US All-cap	8.2%	6.3%	20.9%	32.4%
US Large cap growth	11.9%	0.9%	38.5%	43.2%
US Large cap value	5.2%	11.3%	2.8%	18.9%
US Mid cap	7.5%	8.1%	17.1%	31.1%
US Small cap	4.3%	12.7%	20.0%	38.8%
Int'l Developed Markets	5.2%	3.5%	7.8%	18.3%
Emerging Markets	5.0%	2.3%	18.3%	28.3%
Preferreds	3.5%	-0.5%	7.4%	9.3%
MLPs	21.2%	22.0%	-28.7%	12.5%
US Real Estate	12.0%	8.9%	-8.0%	7.2%
Senior loans	1.1%	1.0%	2.8%	4.8%

Source: Bloomberg, UBS, as of 30 June 2021.

...though falling COVID-19 hospitalizations wasn't one

US currently hospitalized COVID-19 patients (rhs) against vaccinations (lhs)



Source: Bloomberg, UBS, as of 27 June 2021.



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Sitting at record levels, stocks are likely to stay volatile

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



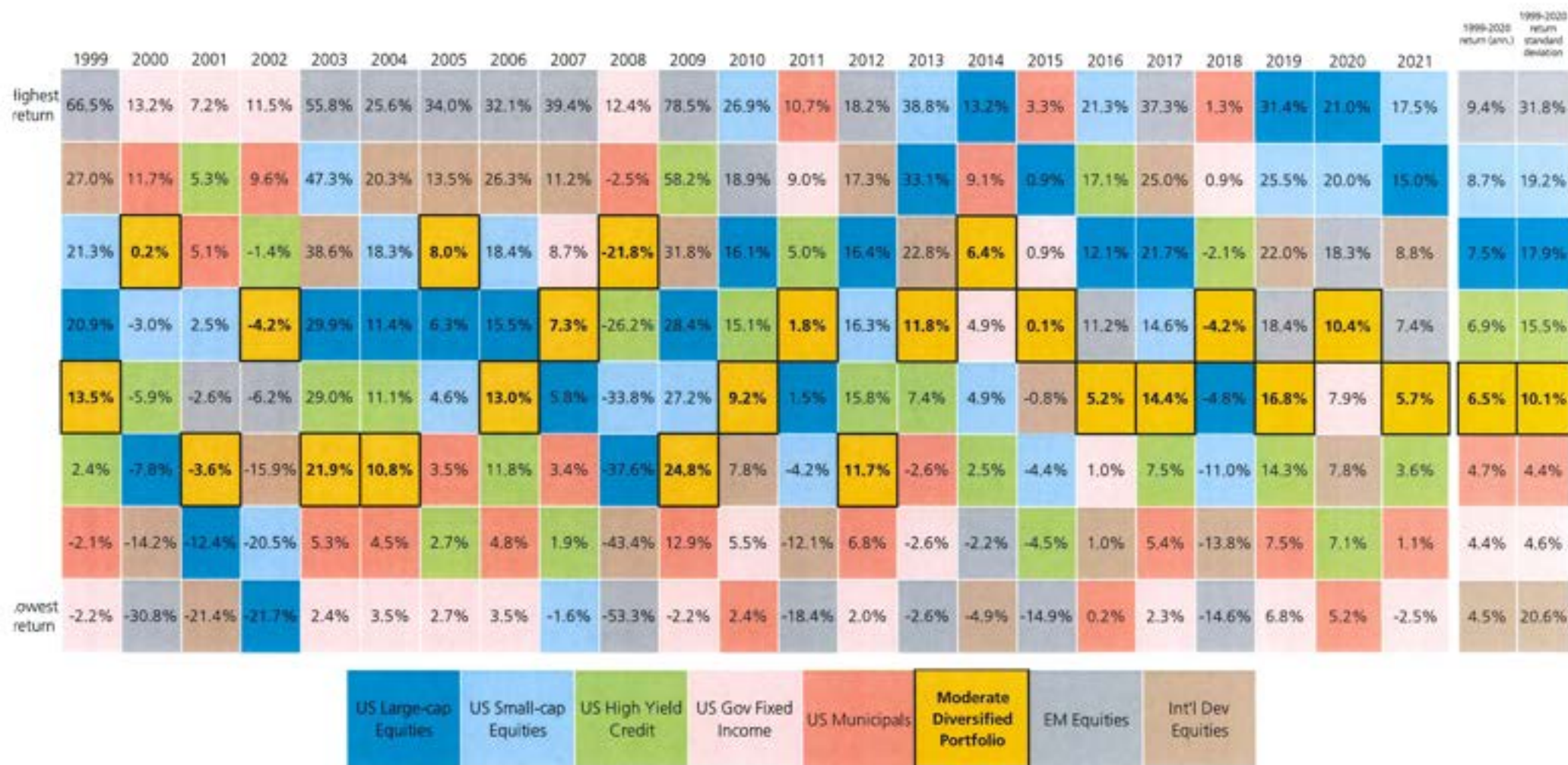
Source: Bloomberg, UBS, as of 24 June 2020



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Balanced portfolios have had a good first half of 2021...

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



Source: Bloomberg, UBS, as of 30 June 2021

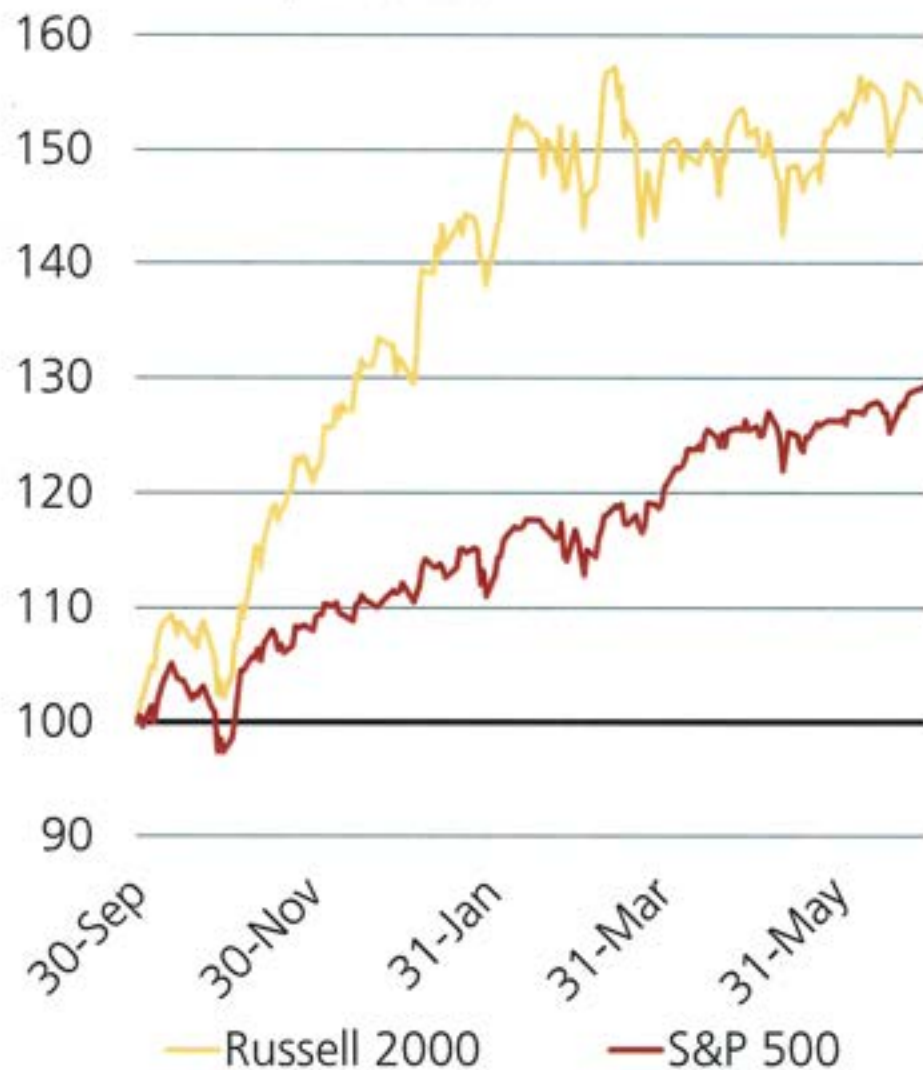
Note: The Moderate Diversified Portfolio performance calculations are a hypothetical analysis based on historical asset class returns. This backward-looking illustration assumes an investment in asset class indexes represented by the current Strategic Asset Allocation (SAA) for a moderate risk profile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



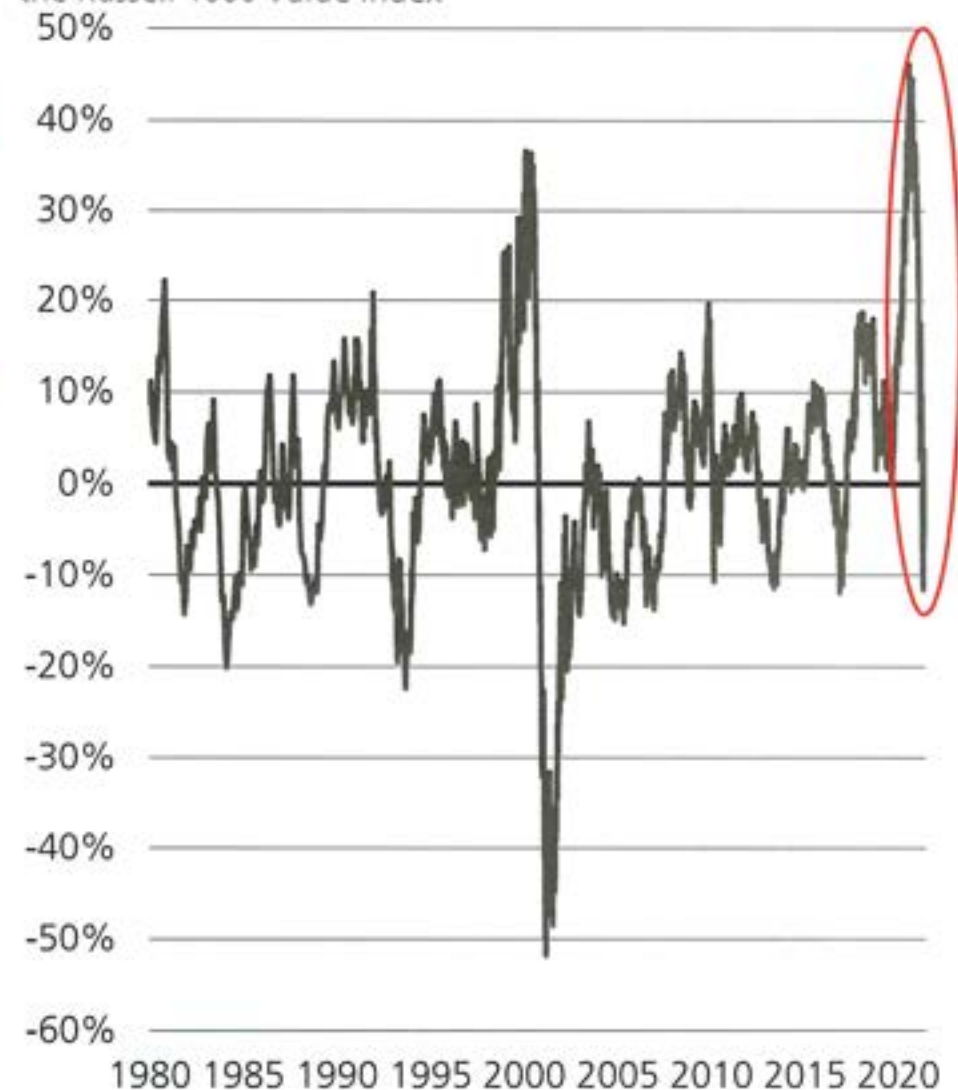
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...thanks to the small and value stock recovery

S&P 500 and Russell 2000 index total returns.
Base=100 on 30 September 2020



Last 12-months performance of Russell 1000 Growth index less the Russell 1000 Value index



Source: Bloomberg, UBS, as of 30 June 2021.



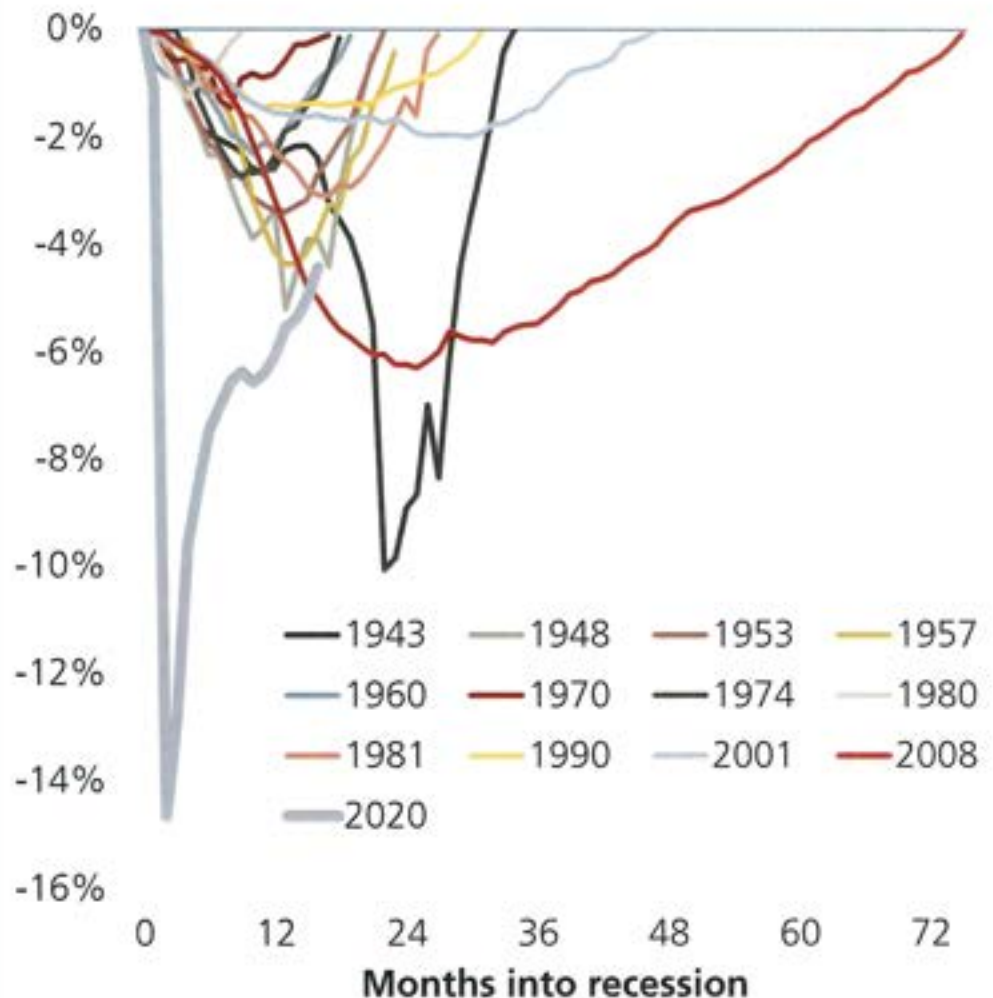
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2Q21 economic review

- **Economic growth** remains strong, though the market is slowly catching up with the reality that the recovery has been faster than a conventional recession-recovery cycle would suggest. Pandemic-related restrictions are the main constraint on economic activity, and as they ease consumers have shown a willingness to spend accumulated savings. Global trade now exceeds pre-pandemic levels.
- The expected trend of **consumer spending shifting** from goods to services has clearly come through where restrictions have eased. While the growth in goods demand is unlikely to turn negative, it may well slow from here.
- **Inflation** has, as expected, spiked during the second quarter. Events last year (pushing prices down in comparison to normal prices today) and demand surges in specific markets have raised prices.

The labor market still has a long way back

Job losses, % of pre-recession peak in nonfarm payrolls



Source: Bloomberg, UBS, as of 30 June 2021

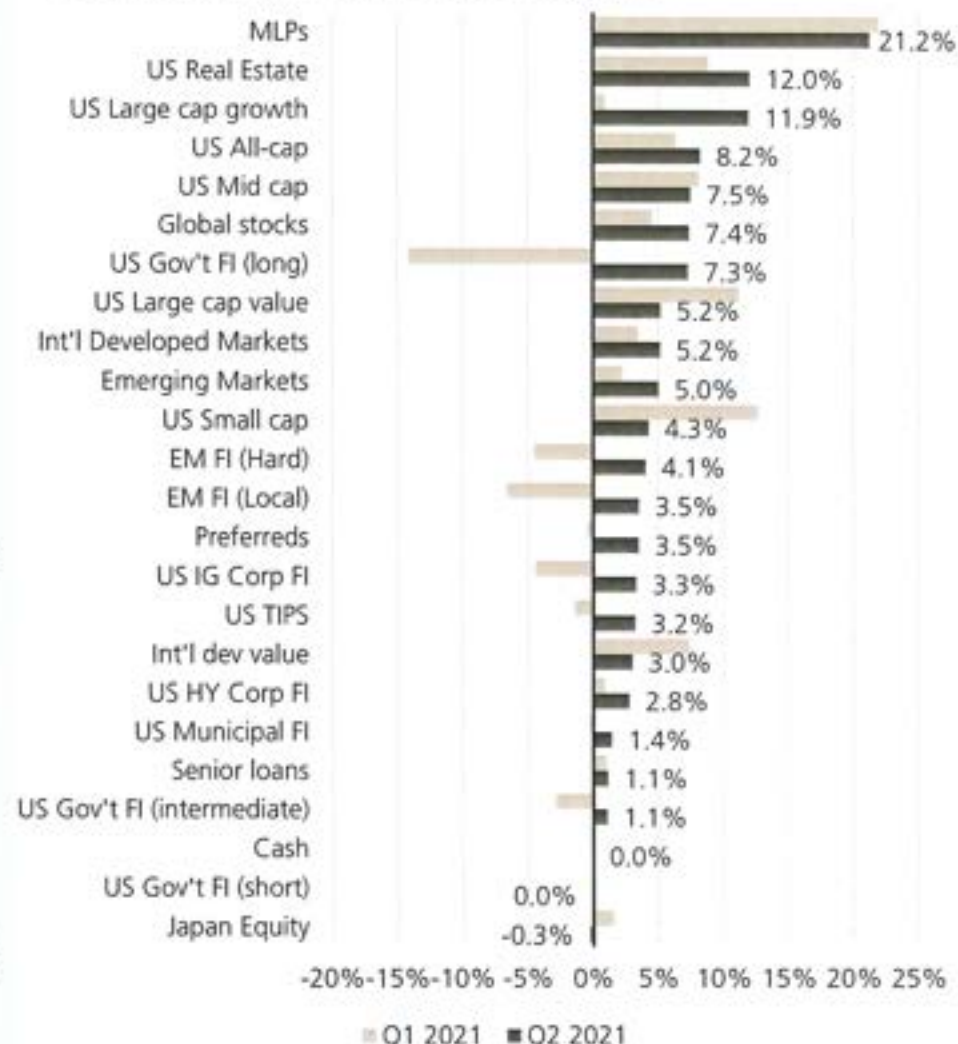
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2Q21 market review

- **Equities** – Stocks have continued to make new all-time highs, with global equities returning over 7% in 2Q on a total return basis. However, volatility is set to continue until the spread of the virus has been all but ended. The rotation into value names from growth that took place in 1Q reversed in 2Q, though we continue to expect value to outperform from here.
- **Fixed income** – Interest rates were mostly range-bound through the quarter, though the 10-year US Treasury yield ended June 25bps lower than the 1.74% level at the start of 2Q. Given the slight overall decrease in rates, most government issues ended the quarter in positive territory, while stable to tighter credit spreads mean most credit segments had low-single-digit positive returns for the quarter.
- **Commodities** – Nearly all commodities had a strong second quarter. Broad indexes returned around 13–14%, and the energy sector was responsible for much of the robust performance, with Brent up over 21% in the quarter. The reopening of economies supported oil demand, while ongoing declines in inventories supported prices.

Nearly all asset classes had a positive 2Q21

Total return, callouts for 2Q21 returns



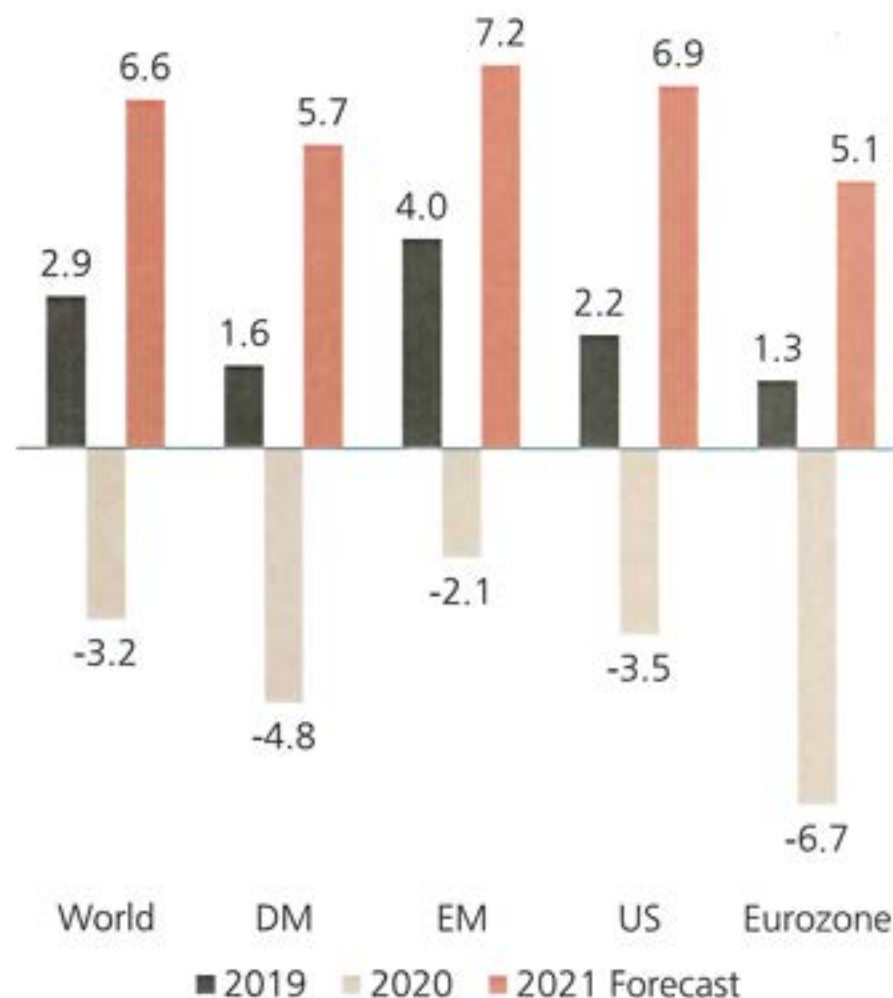
Source: Bloomberg, UBS, as of 30 June 2021.

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3Q21 economic and market outlook

- **Overview** – Global monetary policy remains extraordinarily supportive, and sizable fiscal stimulus has been implemented across the globe, with the effects likely to be felt for some time to come. The positive results from massive inoculation efforts reduce downside risks, even as the virus's spread continues in many regions. Still, the exact path remains highly uncertain—please see our scenarios on the next page.
- **Earnings and valuations** – With the strong rally in stocks, we believe investors are looking past the earnings carnage of last year and focusing on earnings expectations for 2021 and beyond. Valuations appear reasonable based on our view for a 40% increase in S&P 500 profits in 2021 to USD 200 per share, and a further 7.5% improvement to USD 215 in 2022. This still equates to an S&P 500 P/E multiple near 20x, higher than the average multiple of 16.7x in the five years before COVID-19.
- **Interest rates** – Although equity valuations look high in aggregate, interest rates will remain a key driver in 2021 and beyond. As long as economic activity continues to recover, low interest rates will support valuations. We expect Treasury yields to continue to rise into the end of 2021, but the path higher will be volatile. A steeper yield curve is positive for the earnings of value companies but may hurt some growth companies' lofty current valuations.

We expect a strong recovery after 2020's GDP collapse
Global and regional GDP y/y growth, with UBS forecasts, in % (annualized)



Source: UBS, as of 30 June 2021.

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

Upside	Central	Downside
• Inflation increases on the back of positive economic growth ("good inflation") • Central banks stay accommodative but start reducing asset purchases by end-2021 as the recovery beats expectations • Growth momentum accelerates, with developed countries' GDP returning to pre-pandemic levels by 3Q21 • Discretionary fiscal impulse continues to support the economy • Vaccinations generate long lasting immunity across developed markets, and most adults in key emerging economies are vaccinated by end-2021 • A partial rollback of existing trade tariffs raises global growth	• US inflation stays elevated until end-2021 before gradually falling toward 2% by mid-2022 • Central banks stay accommodative. The Fed discusses tapering, but only to commence in 2022 • Growth momentum remains strong, with developed countries' GDP returning to pre-pandemic levels by 4Q21 • Fiscal impulse fades as governments account for economic recovery • Restrictions unlikely to return forcefully as current vaccines offer sufficient protection against severe disease, and public fear remains low. Boosters against variants may be necessary • The US takes a more multilateral and predictable approach to trade policy	• Inflation rises more persistently while growth disappoints ("bad inflation") • The Fed announces tapering of asset purchases to start by end-2021 • Growth momentum fades soon, with developed countries' GDP returning to pre-pandemic levels in 2022 • Diminishing fiscal impulse is unable to compensate for economic weakness • Immunity against COVID-19 is less durable than anticipated or more resistant mutations emerge, leading to heightened public fear and recurrent strict restrictions on business activity • Growth is hurt by renewed US-China tensions over trade or by regional politics.

Source: UBS.



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

...which help us identify **opportunities** amid **uncertainty**.

UBS CIO central, downside, and upside December 2021 expectations

Index	Current (30 June)	December 2021 forecasts, projected change		
		Central scenario	Upside scenario	Downside scenario
S&P 500	4,360	4,400 0.9%	4,600 5.5%	3,500 -19.7%
Euro Stoxx 50	4,079	4,350 6.7%	4,700 15.2%	3,400 -16.6%
MSCI EM	1,347	1500 11.4%	1650 22.5%	1100 -18.3%
Swiss Market Index	12,086	12,000 -0.7%	12,500 3.4%	10,000 -17.3%
US IG spread (bps)	87	100 bps 13	90 bps 3	225 bps 138
US HY spread (bps)	306	300 bps -6	270 bps -36	550 bps 244
EM USD bonds spread (bps)	331	340 bps 9	300 bps -31	550 bps 219

Source: UBS, as of 30 June 2021

Recap

- Economic activity continues to recover meaningfully worldwide, though some emerging markets in particular continue to struggle with high levels of COVID-19 cases. That said, the latest fiscal package in the US, the announcement of further spending in the months and years ahead through infrastructure proposals, and the ongoing inoculation efforts around the world are compelling reasons for investor optimism to stay elevated over the coming months.
- Despite our conviction for rising asset prices in the medium term, **we expect market volatility to moderate in 2021 but remain higher than recent history.**
- Tactically, **we see value in both equities and credit**, thanks to unprecedented fiscal and monetary support around the world and an economic expansion that is beginning to take root.
 - **Within fixed income**, we like **senior loans**, which should benefit from a recovery in corporate earnings as well as a modest rise in interest rates given their floating rate coupons.
 - **Within equities**, we have a preference for **developed market (US and ex-US) small-cap stocks**. Like our preference for **US mid-caps**, these stocks are more leveraged to the pickup in economic growth that we expect as vaccines are distributed and economies reopen.
 - We also maintain our preference for **value stocks versus growth stocks**. With the backdrop of economic reopening, pent-up consumer demand, broadening economic activity, and higher interest rates, earnings for value companies should grow at a faster rate than growth companies in this environment.
 - We have a **most preferred view on Japanese equities**, which have lagged materially this year and should recoup that underperformance as vaccination progress picks up steam. They also tend to perform well in periods of rising US real rates, which we expect.
 - We also have a **most preferred view on emerging market equities**, which should benefit from an increase in commodity demand, a weaker US dollar, and a broadening in economic activity.
 - **In commodity markets**, we see value in **oil**, while we have a least preferred view on **gold**, which we expect to remain out of vogue thanks to higher US rates, and overall decreased demand for safe-haven assets.

Source: UBS, as of 30 June 2021.

Appendix: Investment committees

Global Investment Process and Committee Description

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

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

Global Investment Committee Composition

The GIC comprises top market and investment expertise from across all divisions of UBS:

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

GWMA Asset Allocation Committee Description

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

GWMA Asset Allocation Committee Composition

The GWMA Asset Allocation Committee comprises nine members:

- Solita Marcelli
- Jason Drahö
- Leslie Falconio
- Laura Kane
- David Lefkowitz
- Dan Scansaroli
- Tom McLoughlin
- Brian Rose

Appendix: Statement of risk

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

Appendix

Emerging Market Investments

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

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

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

Non-Traditional Assets

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

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

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

- **Hedge Fund Risk:** There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- **Managed Futures:** There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- **Real Estate:** There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- **Private Equity:** There are risks specifically associated with investing in private equity. Capital calls can be made on short no-tice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- **Foreign Exchange/Currency Risk:** Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

Appendix: explanations about asset allocations

Sources of strategic asset allocations and investor risk profiles

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

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

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

Deviations from strategic asset allocation or benchmark allocation

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

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

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

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UBS House View

Investment Strategy Guide
October 2021

Chief Investment Office
Global Wealth Management
US edition



Back to school



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Global Wealth Management

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Monthly House View
client call:

7 October, 2021

1:00 PM ET



This month's conversation
will be available [here](#).

Dear reader,

Fall is here, and as noted in the Monthly Letter, we have much to learn as we head "back to school." Going into the new season, investors have taken notice of some weakness popping up in economic data, largely due to the delta variant. Despite the familiar cast of risks, including COVID-19 cases, growth concerns over China, inflationary pressures, and more, we maintain a risk-on stance. While we are likely to see some volatility over the coming weeks, we expect a modest reacceleration of growth to drive markets higher into year-end.

In the US, we will continue to look out for important policy developments. In particular, investors will closely watch the timing of the Fed's tapering plans, which could begin before year-end. We believe the market is prepared to digest tapering, and more importantly, expect the Fed to remain accommodative by maintaining its patient approach toward interest rates.

When looking at DC politics, we do not think the spending packages in progress will represent significant events for investments. Markets should be able to withstand the tax changes proposed to pay for the bills, which should limit any risks. And the total spending that passes will likely be pared down and spread over many years, which limits the upside boost.

On the topic of tapering, this month's **Top Themes Spotlight** offers guidance for investors hunting for yield and addresses concerns over a "taper tantrum." We recommend investors seek out fixed income investments with low interest rate risk, or look outside of traditional fixed income opportunities including dollar-denominated sovereign debt in select pockets of emerging markets. Within our thematic universe, "Senior loans" and "Yield opportunities in Latin America" are two themes that look well positioned to capture further outperformance.

In the **Bull Market Monitor**, we reiterate our view that the US economy is in mid-cycle and bolstered by accommodative fiscal and monetary policy. This supports our continued preference for investments that should benefit from positive global growth momentum. Within US equities, we favor value over growth, and prefer mid-caps. In addition, we have a positive view on Japanese stocks, as well as commodities.

We hope you enjoy this edition of the House View and, as always, we encourage you to speak with your financial advisor about how these insights fit into your own financial picture.

Regards,

Solita Marcelli

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CIO Preferences

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

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

Also in this report

- 04 Feature
- 14 Asset allocation implementation
- 16 Bull Market Monitor
- 17 Thematic spotlight
- 18 Top themes
- 19 Global outlook
- 20 Equities
- 21 US Equities
- 22 Bonds
- 24 Commodities
- 25 Foreign exchange

Back to school

Lockdowns unlikely

Despite localized setbacks in combating COVID-19, we continue to see broad progress in curbing the pandemic and do not expect renewed lockdowns in highly vaccinated countries.

Positive policy mix

While we don't expect a significant macro impact from US fiscal stimulus, we think Fed tapering won't derail the equity rally.

Cost conscious

Supply chain disruptions and rallying commodity prices mean rising costs are in focus. But we expect robust revenue growth to keep profit margins strong, and see opportunity in the commodity rally.

Asset allocation

We are positive on equities, tilted toward cyclicals—the winners from global growth. Regionally, we see the most potential near-term upside in Japan. At a sector level, we like energy, financials, and healthcare, as well as US mid-caps.



Mark Haefele

Global Chief Investment Officer
Wealth Management

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It's back to school time in the Northern Hemisphere, and we have an eventful term ahead. In biology, we'll learn whether vaccines can prevent further COVID-19 lockdowns. In politics, we'll find out what happens when you try to pass a USD 3.5tr fiscal package with thin majorities in the House and Senate. In economics, we'll see how slower central bank bond purchases affect bond and equity markets. In business studies, we'll think about the implications for profit margins when both revenues and costs rise. In ecology, we'll consider the impact of "greenflation." And in contemporary history, we'll be looking at Germany and Japan, with new leaders set to take over.

In last month's letter, "The return from orbit," I presented our view that economic growth will remain high for the coming quarters—supported by rising household incomes, retailers' restocking, and a recovering labor market—but that the path by which we return to more normal levels will define the investment outlook. In this letter, I highlight some of the big questions that should be answered before the end of the year, and our view on how they can impact our portfolios.

In short, while localized setbacks in combating COVID-19 have the potential to slow the rebound in individual economies, we continue to see broad progress in curbing the pandemic and do not expect renewed lockdowns in highly vaccinated countries. Higher funding rates, higher input costs, and higher US corporate tax rates also pose potential risks, but should not preclude continued upside for global stocks while economic growth remains strong.

Tactically, we are positive on equities, tilted toward cyclicals—the winners from global growth. Regionally, we see the most potential near-term upside in Japan, which has begun to stand out on expectations of fresh fiscal stimulus. At a sector level, we like energy, financials, and healthcare as well as US mid-caps. Fixed income opportunities are more limited, with spreads tight, yields low, and tapering ahead. However, we like floating-rate US senior loans, Asia high yield, and opportunities for earning "unconventional" yield through strategies like volatility-selling.

For longer-term investors, the transition to net-zero carbon remains a key theme. The squeeze higher in natural gas and coal prices this month, partly resulting from attempts to meet emissions goals, demonstrates the continued need for investment in renewable energy capacity and green technology. We also see long-term opportunity in themes including automation and robotics, cybersecurity, and healthcare. For more on our outlook for the remainder of the year and key longer-term ideas, see our 4Q outlook report, "Navigating record highs."

Biology: Why highly vaccinated countries will avoid renewed lockdowns in the fall and winter

Figure 1

The reopening trade is still not fully priced in

Cyclical basket vs. Tech, since 2020



Source: Bloomberg, UBS, as of September 2021

Despite delta's spread, hospitalization and death rates remain sufficiently low to avoid the need to reinstate many restrictions.

Value stocks have underperformed growth peers by 8% since May (based on MSCI AC World Value vs. Growth), in part due to concerns that the spread of the delta variant could lead to renewed lockdowns and weaker activity in more cyclical parts of the economy. Yet, despite delta's spread, hospitalization and death rates remain sufficiently low to avoid the need to reinstate many restrictions. Even as we approach fall and winter in the Northern Hemisphere, we continue to believe we will not see renewed lockdowns in highly vaccinated countries.

- *Vaccines offer a route to treating COVID-19 as an endemic disease.* By weakening the link between new cases, hospitalizations, and deaths, vaccines are the key for economies to manage COVID-19 as an endemic disease rather than as a pandemic requiring lockdowns. A recent report by McKinsey highlights that the rate of hospitalizations in the US for COVID-19 among the vaccinated (21 per million in the week to 29 August) was about the same as for influenza historically (26 per million on average between 2010 and 2019).
- *Restrictions on movement remain a risk in less vaccinated countries, but vaccinations are progressing.* The number of new doses administered globally remains close to its highs, with four to five people per 1,000 in the global population receiving a vaccine each day, even if it has slowed in regions that started their rollout earlier. Significantly, in many countries where restrictions remain in place, and where the proportion of the population that is fully vaccinated is relatively low, the pace of vaccinations is picking up. Australia (32% fully vaccinated), New Zealand (29%), Korea (38%), and Japan (50%) are currently demonstrating among the highest daily vaccination rates.

UK case study: High vaccination rate reduces the risk of lockdowns

Since the onset of the pandemic, the UK has imposed two national lockdowns with staggered reopenings. More recently, the government has chosen to continue to relax restrictions despite rising case numbers of the delta variant, relying instead on the effectiveness of vaccines to reduce the level of hospitalizations and deaths.

According to Public Health England data, two doses of the Pfizer-BioNTech or Oxford-AstraZeneca vaccine are estimated to be 96% and 92% effective against hospitalization with the delta variant, respectively. This is broadly in line with data from the US Centers for Disease Control and Prevention released this month, showing 90% effectiveness for vaccines against delta, and a study by Germany's Robert Koch Institute showing that unvaccinated people were 10 times more likely to be hospitalized.

In the UK, 81% of the population over 16 years of age (those more vulnerable to being hospitalized) has been fully vaccinated.

Consider 1,000 people who were hospitalized prior to the availability of vaccines. Today in the UK, 81% have been fully vaccinated, with an average 94% protected

against hospitalization. Compared with 1,000 hospitalizations prior to vaccines, only 190 unvaccinated people would now be hospitalized (assuming the hospitalization rate among the unvaccinated is unchanged). Of the remaining 810 vaccinated people, only 49, or 6%, would end up in hospital, to give a total of 239—a 76% reduction in hospitalizations. In other words, for any given number of hospitalizations, case numbers need to be 4.2x higher than prior to the availability of vaccines.

At the peak on 18 January 2021, the UK healthcare system coped with a seven-day average of hospitalizations of around 39,000, following a peak in seven-day new case numbers of around 61,000 on 1 January. For a similar level of hospitalizations to be likely today, average daily case numbers would need to be in excess of 250,000.

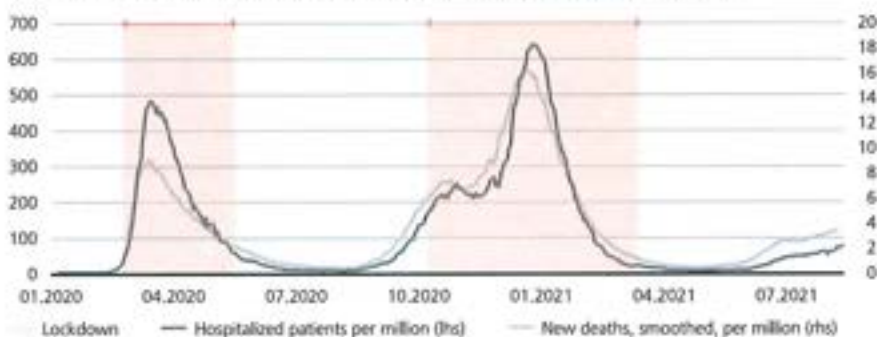
Of course, there are risks to this analysis, such as the emergence of new variants which increase the hospitalization rate, winter seasonality in the delta variant leading to a further wave of infections, and the need for booster shots, but the extent of the decline in hospitalizations achieved through vaccinations suggests that a further national lockdown is unlikely.

Figure 2

A high level of vaccinations in the UK has mitigated the impact of delta on hospitalizations and deaths

Hospitalized patients per million (lhs), new deaths, smoothed, per million (rhs).

Lockdown periods annotated, with lockdown end defined as reopening of non-essential shops in England (first lockdown: 23/03/2020 to 15/06/2020, second lockdown: 05/11/2020 to 12/04/2021).



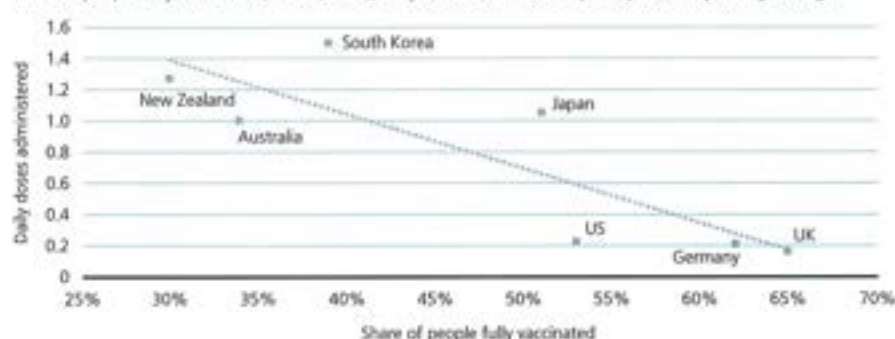
Source: Ourworldindata.org, UBS, as of September 2021

Even amid concerns about the spread of the delta variant, the global infection rate has declined.

Figure 3

Countries that lagged the vaccination efforts are catching up

Share of people fully vaccinated, in % (x-axis), daily doses administered per capita (7-day rolling average)



Source: Ourworldindata.org, UBS, as of September 2021

- Even amid concerns about the spread of the delta variant, the global infection rate has declined for the first time since June. Around 4mn new cases were reported in the week to 10 September, according to Our World in Data, down from a recent peak of 4.6mn in the week to 25 August and well below the peak of 5.8mn set in April. The trend is mirrored in the US, where the seven-day moving average of new daily cases per 100,000 people declined to 288 on 9 September from 332 as of 27 August, according to CDC data.

Politics: The impact of fiscal stimulus

Two fiscal packages are currently under consideration by the US Congress. The first, an infrastructure bill with USD 550bn in new spending, has already passed the Senate with bipartisan support. We believe the bill will pass the House of Representatives but the timing is uncertain. The second, worth up to USD 3.5tr over 10 years, is more problematic because Republicans remain opposed, Democrats are divided over its size and content, and Democratic majorities in both chambers of Congress are narrow.

With the 2022 midterm elections coming into view, a compromise is the likely outcome, and the path of least resistance is to make the package smaller. A number of Democratic legislators in both the House and Senate want to make the package fully funded, though it will be difficult to reach a compromise on tax hikes that could raise USD 3.5tr. Therefore, we expect the final package to be in the range of USD 1.5–2tr. Taking the two packages together would give an expected range of USD 2–2.5tr.

From an investment perspective, while markets are pricing in some additional spending, we do not think the stimulus package is likely to be make-or-break for equity markets.

- From a net stimulus perspective, even USD 3.5tr in additional spending over 10 years is not, in and of itself, a game-changer for US or global GDP growth. With the headline total likely to be revised down, and with offsets from tax increases, the boost to growth is expected to be marginal, in our view.
- The likely scale of tax increases should not materially affect corporate earnings. Our forecast of 10% growth in S&P 500 earnings per share in 2022 already includes a 4- to 5-percentage-point hit from higher corporate taxes (based on a tax rate of 25% and a doubling in the rate on global intangible low-taxed income [GILTI]). The current 5% long-term capital gains tax-hike proposal is unlikely to materially change investor behavior.
- The effect of fiscal policy is also likely to be mitigated by changes to the Fed's monetary policy.

From an investment perspective, while markets are pricing in some additional spending, we do not think the US stimulus package is likely to be make-or-break for equity markets.

We do not expect a repeat of 2013's "taper tantrum," when yields rose and equities fell temporarily.

Despite widespread evidence of rising input costs and sectoral supply chain disruptions, S&P 500 profit margins hit a multidecade high in the second quarter.

In our view, the important point for investors will be how the fiscal package impacts longer-term trends. Climate and green initiatives could be prominent in the reconciliation bill, encompassing policies such as energy efficiency in buildings and homes, the electrification of the federal fleet, and more. Separately, pharmaceutical and managed care companies could benefit from finally getting some certainty around drug pricing and the possible expansion of healthcare coverage. Lastly, the real estate and utilities sectors will be least impacted by potential corporate tax hikes (the majority of utilities companies are regulated and pass on all costs to their customers. The real estate investment trust (REIT) structure is typically exempt from paying corporate taxes).

Economics: Why the Fed can reduce bond purchases, while equity markets rise

The Federal Reserve has spent much of the summer preparing markets for a potential withdrawal of monetary accommodation. In his speech at the Jackson Hole symposium, Chair Jerome Powell indicated that a tapering of the Fed's USD 120bn monthly asset purchases could start by year-end.

Since then, the Fed has reassured investors that the process will be gradual, the job market still needs to improve (nonfarm payrolls expanded by just 235,000 in August, well below expectations of 750,000), and subsequent rate hikes would be subject to a "substantially more stringent test." So far, the Fed's transparent and cautious guidance has kept markets calm; despite the Fed becoming more explicit about the start of tapering, 10-year US Treasury yields remain subdued: 1.29% at the time of writing.

Nevertheless, we do think that progress toward the Fed's goals should give an upward impulse to bond yields. We forecast US 10-year yields to climb toward 1.8% by end-2021, and 2% over the subsequent months. But we do not expect a repeat of 2013's "taper tantrum," when yields rose and equities fell temporarily.

Our analysis shows that, since 1997, a three-month change in nominal yields of between 50 and 100 basis points has been accompanied by a 5.7% return in the MSCI US index and a 5.8% return in the MSCI All Country World Index. A rise in real yields of more than 50bps over three months, in contrast, would likely weigh on equity returns, particularly in emerging markets. However, such losses are often reversed in the following three months based on data since 1997.

Business studies: Why margins can stay strong despite inflation headlines

Despite widespread evidence of rising input costs and sectoral supply chain disruptions, S&P 500 profit margins hit a multidecade high in the second quarter, at close to 14%. How do we separate the signal from the noise in the data?

- *Supply chain issues are a micro rather than a macro challenge.* At a global macro level, there isn't much apparent evidence of supply chain disruption. Global manufacturing output is very close to an all-time high. Factory inventory levels are above trend in absolute terms, although inventory-to-sales ratios are low, suggesting that the issue is a surge in demand rather than a supply constraint.
- *Overall wage increases remain contained.* For most companies, wages are a far larger cost item than raw materials. As service sectors reopen, there have been headlines about difficulties in hiring, and this has been reflected in rising wages for the low-skilled, and the three-month moving average for workers paid by the hour rose 4.1% in August, according to the Atlanta Fed wage tracker. That is up from 3.1% in May. But, looked at overall, wage growth has not been worrying. The three-month moving average for August of 3.9% is within the 3–4% range prevailing since 2015.
- *Some sectors are facing supply chain issues,* which we think could persist for several more months. In the US, the semiconductor shortage has intensified, spreading from the auto sector to healthcare and some industrial equipment. Although we are likely at the point of peak shortages, a full return to normalcy could take until late 2022. Companies are also reporting shortages of apparel and housing materials, exacer-

bated by congestion at US ports resulting from the demand surge. With this in mind, higher prices of raw materials and other inputs are likely to figure in some companies' 3Q earnings results and guidance.

- *But strong revenue growth is offsetting cost pressures, supporting profits.* Overall, S&P 500 revenue grew 4.9% in 2Q compared to 1Q, and as a result profit margins either were flat or rose over the same period in all sectors. In the quarters ahead, margins will likely remain robust. Given our view that GDP growth will stay strong, we expect low-double-digit sales growth in the second half of the year. We also expect cost pressures to start to ease, especially next year, as demand growth moderates and supply and demand move back into balance.

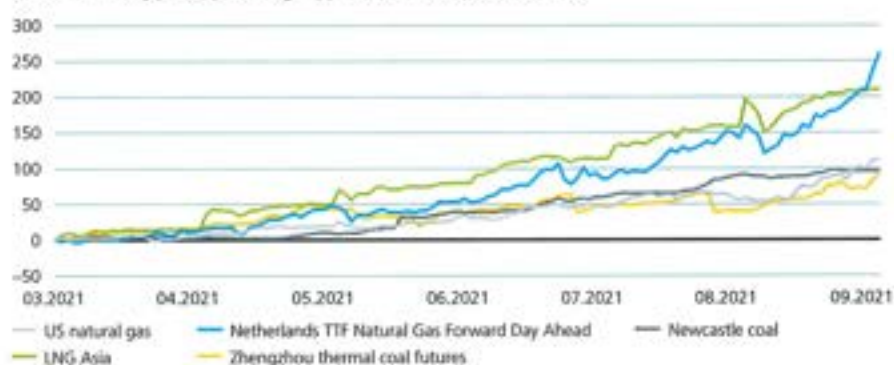
A number of specific factors have pushed energy-related commodity prices higher this year, but the rise is also indicative of the desire to reach net-zero carbon.

Ecology: Why rising commodity prices are a key part of the road to net-zero carbon

Figure 4

Powering on: Energy-related commodities have rallied sharply this year

Select commodity prices, percentage appreciation in the past six months



Source: Bloomberg, UBS, as of September 2021

Prices for key commodities used in power generation have risen substantially in 2021. Over the past month, US natural gas prices have hit a seven-year high; LNG and coal prices have now more than doubled since the start of the year; and yellowcake uranium is up by around a third so far this year, reaching its highest level since 2014.

A number of specific factors have pushed prices higher this year, but the rise is also indicative of the desire to reach net-zero carbon and the need to invest in more renewable capacity.

This year's move started in thermal coal, for several reasons. On the supply side, these include China's ban on Australian imports of the commodity, Indonesia's restrictions on coal exports (which are now being relaxed), Chinese mine closures for safety and environmental reasons (now also being relaxed), and problems with exports of Russian and South African coal. Higher coal prices have had a knock-on impact into higher gas prices, driven by power generators with the capacity to switch fuels.

We believe investing in traditional energy and industrial metals as well as in greentech is a diversified, realistic way to participate in the trend toward net-zero carbon.

The prospect of fresh fiscal expansion helped push the TOPIX index to a 30-year high this month, but we see further upside potential.

But the price rises are also linked to the shift toward net-zero carbon. Supply constraints in coal come on top of a well-established trend for lower investment in coal production as companies focus on shareholder returns and investors question the longevity of the industry as we transition to renewables. In the uranium market, electricity generators are competing for raw materials, with investment funds backing the view that nuclear will be an important part of the trend toward net-zero carbon. Demand for gas, which at the margin has been driven by this year's tightness in coal, is underpinned by its role as a lower-emissions fuel than coal. The interrelationship between commodities and net-zero carbon also reaches beyond fossil fuels into industrial metals, such as copper and nickel, which are essential inputs for renewable energy technology and infrastructure.

Investment in fossil fuels is being run down but is yet to be replaced by sufficient renewable capacity. Hence, we believe this year's supply-side constraints and outsize impact on commodity prices could become more common over the next few years. For example, still-warm weather in the UK in September reduced wind power generation and required mothballed coal power generation capacity to be restarted to meet electricity demand.

The global energy transition is set to continue, as are these tensions between fossil fuels and the availability of reliable renewable power. Governments, businesses, and consumers are simultaneously looking to reduce emissions while increasing capacity to produce and store renewable power, but this will not happen overnight. As such, we believe investing in traditional energy and industrial metals as well as in greentech is a diversified, realistic way to participate in this broader trend. In this context, we prefer energy producers like large integrated companies that have made credible net-zero commitments and are actively shifting toward renewables as a share of their energy mix. Carbon markets are another way investors can engage in this theme.

Contemporary history: New leadership in Germany and Japan could support regional equity markets

Japan has been the world's best-performing equity market over the past month, after the resignation of Prime Minister Yoshihide Suga raised the prospect of fresh fiscal stimulus in the country. The ruling Liberal Democratic Party will vote on a new leader on 29 September, with some candidates calling for a supplementary budget in the "tens of trillions of yen." In our view, the ruling party, under new leadership, will maintain a majority in the Lower House general election in October or November, an outcome that would likely lead to significant fiscal stimulus after the election.

The prospect of fresh fiscal expansion helped push the TOPIX index to a 30-year high this month, outperforming global stocks by 9 percentage points over the past three weeks. But we see further upside potential. In addition to potential new stimulus, we see other supportive factors. First, a broadening vaccination program should facilitate stronger domestic growth and boost investor sentiment. Second, we think companies' earnings strength has yet to be priced in. Japan is trading at a 14% discount versus the global index (MSCI ACWI) on a 12-month forward P/E basis. Third, the index is cyclical—over 40% of MSCI Japan's revenues come from abroad, and we expect global real GDP to grow 6.2% this year, then 5.1% next year. Fourth, investors' allocations to Japan appear low. Based on UBS's client fund holdings, self-directed investors have only 1.6% exposure to Japan and managed fund clients 5%, leaving scope for expansion.

Key scenarios and asset class impact

		Upside	Central	Downside
Scenarios	<i>Inflation / Central banks</i>	Inflation fears abate and/or inflation increases on the back of positive economic growth ("good inflation"). Major central banks keep rates at ultra-low levels but start reducing asset purchases on an accelerated timeline as the recovery beats expectations.	US inflation stays at elevated levels until the end of 2021 before gradually falling toward 2% by mid-2022. Central banks stay accommodative. Fed commences tapering in 2022.	Inflation rises more persistently while growth disappoints ("bad inflation"). The Fed announces tapering of asset purchases from early 2022.
	<i>Growth</i>	Growth reaccelerates.	Growth decelerates but remains above long-term trend.	Growth decelerates earlier and more sharply than expected.
	<i>Fiscal</i>	Discretionary fiscal impulse continues to support the economy.	Fiscal impulse fades as governments account for economic recovery.	Diminishing fiscal impulse unable to compensate for economic weakness.
	<i>COVID-19</i>	Most adults in key EM economies are vaccinated by end-2021. China withdraws from zero-tolerance policy.	Current vaccines offer sufficient protection against severe disease, and governments are unwilling to resort to strict lockdowns.	More resistant mutations emerge, leading to rising public fear and recurrent economic restrictions. In China, consumption slows sharply due to city lockdowns under zero-tolerance policy on COVID-19.
	<i>Geopolitics</i>	A partial rollback of existing trade tariffs raises global growth.	The US takes a more multilateral and predictable approach to trade policy.	Renewed US-China tensions over trade and/or the Taiwan issue.
Asset class impact (targets for June 2022)	Spot*			
	S&P 500	4,469 5,000	4,800	3,800
	EuroStoxx 50	4,180 4,800	4,550	3,600
	MSCI EM	1,302 1,500	1,400	1,100
	SMI	12,079 13,800	13,000	10,600
	TOPIX	2,119 2,400	2,250	1,800
	USD IG spread**	62 45bps / -1%	70bps / -1%	150bps / -2%
	USD HY spread**	305 270bps / +1.5%	300 bps / +1%	550bps / -13%
	EMBIG spread**	343 300bps / 0%	340bps / 0%	550bps / -11%
	EURUSD	1.18 1.20	1.15	1.10
	Gold	1,792 USD 1,300–1,400/oz	USD 1,600/oz	USD 1,800–1,900/oz

* Spot prices as of 14 September 2021

** During periods of market stress, credit bid-offer spreads tend to widen and result in larger ranges. Percentage changes refer to expected total return (t.r.) for the indicated spread levels

Note: Asset class targets above refer to the respective macro scenarios. Individual asset prices can be influenced by factors not reflected in the macro scenarios

Source: UBS, as of September 2021

Figure 5

Japanese equity valuations have derated despite higher earnings forecasts

Price-to-earnings ratio on 12-month EPS forecasts



Source: Factset, UBS, as of September 2021

Financial markets should brace for greater regulatory, fiscal, and political focus on making Germany smarter, greener, and more digital.

Germany also votes this month, holding its federal election on 26 September, and opinion polls are pointing to a tight contest, with the prospect of a three-party coalition for the first time in decades. All of the likely coalition combinations point to a slightly more expansive fiscal stance post-election, which at the margin should be supportive of equities. Historically, Germany's elections have not been a major concern for investors, as the electoral system favors stability and gradual evolution. This will remain the case, but financial markets should brace for greater regulatory, fiscal, and political focus on making Germany smarter, greener, and more digital. Under this scenario, we would see renewable developers and operators; automotive companies focused on electric vehicles; semiconductors; and the greentech segments of industrials as the sectors most likely to benefit.

Investment ideas

We prefer energy, financials, healthcare, US mid-caps, and companies exposed to economic reopening.

Buy the winners from global growth. We are likely past the peak in GDP growth rates, but growth should stay elevated, thanks to consumer spending, retailer restocking, and monetary and fiscal stimulus measures. As highlighted above, we believe that further national lockdowns can be avoided, that equities can continue to rally despite Fed tapering, and that profit margins are likely to stay strong despite cost pressures. This should drive ongoing robust earnings growth: We are looking for a 42% rise in global corporate earnings this year and 9% in 2022. We think this is a good environment for equities overall, and in particular for energy, financials, healthcare, and US mid-caps, as well as companies exposed to economic reopening. From a regional perspective, as discussed above, we see further upside potential for Japanese equities.

Investors looking for additional income should consider alternative means of yield generation.

Seek "unconventional" yield. The substantial fall in bond yields and the compression in credit spreads in 2021 mean that the opportunity set in public bond markets is now limited, and even "high yield" credit has only limited return potential in the US and Europe—although the outlook for Asia is still positive, in our view. Investors holding cash or traditional bonds but looking for additional income now should consider alternative means of yield generation, across private credit, senior loans, active fixed income, direct real estate, and FX, or by employing leverage or volatility-linked strategies.

Those looking to diversify sources of risk and return should consider both hedge funds and private markets.

We think the healthcare sector offers an attractive combination of defensive and long-term growth features.

The transition to net-zero carbon should continue to benefit companies developing greentech and clean air solutions.

The digital transformation of sectors ranging from transport to manufacturing and financial services continues to create opportunities.

Diversify with alternatives. With bond yields at low levels, portfolio diversification is an increasing challenge for investors. Those looking to diversify sources of risk and return should consider both hedge funds and private markets, as well as structures that can deliver alternative payoff profiles.

Seek opportunities in healthcare. We think the healthcare sector offers an appealing combination of defensive and long-term growth features, combining relatively inelastic demand and attractive long-term structural drivers. The sector tends to outperform after economic indicators peak. Pharmaceuticals are the most defensive industry within the sector, while medtech stocks are more geared to the post-COVID-19 recovery. Transformational themes such as healthtech and genetic therapies provide exposure to longer-term structural growth. We think investors should include all of them in their portfolios.

Position for net-zero carbon transition. Global markets have been hitting all-time highs, and so have global temperatures, with July the hottest ever month on record. Policymakers are taking note and the transition to net-zero carbon is continuing. As we discussed above, the transition is having an impact on commodity markets and should continue to benefit companies developing greentech and clean air solutions, as well as creating new opportunities in carbon markets. These strategies are all part of a broader shift toward sustainable investing—our preferred approach for investing globally. Our “Greentech goes global” theme highlights companies that will play a key role in the global energy transition. While carbon neutrality goals are for the long term, we see attractive investment opportunities emerging in the short to medium term.

Invest in long-term themes. Beyond healthcare and sustainability, the digital transformation of sectors ranging from transport to manufacturing and financial services continues. We see particular opportunity in smart mobility and automation; in companies benefiting from the growth in the digital asset universe; and in cybersecurity, a key enabler of automation and digitalization.



Mark Haefele
Chief Investment Officer
Global Wealth Management

Asset allocation implementation

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

Our tactical asset class preferences

+ Most preferred

- Japan equities
- US large-cap value
- US mid-cap equities
- Senior loans
- CMBS
- Commodities
- Oil

– Least preferred

- US large-cap growth equities
- US government bonds
- US investment grade corporate bonds
- Gold

Implementation guidance

The deceleration in US growth during the summer due to the rising number of delta COVID-19 cases has weighed on equities and the reflation trade, but we expect that to be temporary. The medium-term growth fundamentals remain positive and above trend, and the most recent data suggests that the summer slowdown is abating. Meanwhile, employment growth should be solid for the rest of the year and inflation has likely peaked, though it may be a few quarters before its transitory phase is fully over. These macro conditions suggest the Fed is likely to announce its tapering plans in 4Q and begin by the end of the year, but monetary policy will remain highly accommodative. The likely passage of infrastructure and budget reconciliation fiscal packages may have only a minimal impact on near-term growth, but just their resolution eliminates some lingering uncertainty for investors.

Consequently, our overall market outlook remains constructive over a six-month horizon and we keep equities as a most preferred asset class. We still think the reflation trade has more to go, with higher rates being central to that view, but we are more selective on where to position for reflation. Credit remains relatively expensive versus equities and could also be adversely impacted by a continued sharp rise in rates. Commodities have been negatively impacted by growth concerns, but should

continue to benefit from the global recovery, looming supply-demand imbalances, and still serve as a potential inflation hedge. The resiliency of risk assets despite rising investor fears of a near-term market correction is consistent with a strong "buy-the-dip" investor mindset, and should keep any pullback relatively modest and brief.

Equities

We expect equities to continue to grind higher, with a 4,800 target for the S&P 500 by June 2022 and 5,000 by the end of 2022. Our intra-US equity preferences remain—we continue to recommend a value-oriented positioning with an explicit preference for value stocks over growth. The recent growth concerns led to modest value underperformance during the past month, but we expect that to reverse as growth concerns alleviate and when interest rates start to rise later in the year. We keep mid-cap equities most preferred as they have large valuation discounts to large-cap, have strong earnings prospects in 2021 and 2022, and are not fully pricing in the economic recovery. An efficient way to express the value and size preferences is an allocation to mid-cap value equities, which should capture the expected outperformance of both attributes.

We continue to prefer Japanese equities within developed markets. They're up 9% over the past month, benefiting from the pending change in political leadership, which is expected to result in additional fiscal spending. Japanese equities are also levered to the global cycle, which should accelerate later in 2H, while the domestic environment has improved with rising vaccination rates and declining COVID cases. Japanese equities also have the benefit of typically doing well when US interest rates are rising. We downgraded emerging market (EM) value equities from most preferred to neutral, and expect them to perform in line with the broader MSCI EM benchmark.

Among US equity sectors, we continue to have a value and cyclical tilt. Our most preferred sectors include financials (improving fundamentals, below-average valuations, and benefiting from rising long-end rates), energy (cheap valuations, rising oil prices, and companies using excess cash to pay down debt or return to shareholders), healthcare (a mix of defensive and quality stocks, which should benefit from the lifting of regulatory uncertainty) and consumer discretionary (reopening and pent-up demand support a return to growth). Our least preferred sectors are

utilities (a defensive sector likely to lag as the recovery continues and rates rise) and consumer staples (profit growth is likely to lag this year and as investors pivot away from defensive stocks).

Fixed income

US Treasury yields have traded in a narrow range the past two months, with the 10-year yield ranging from roughly 1.2% to 1.4%. We think this will continue for the time being until there is more clarity on the start of Fed tapering and the resolution of the fiscal packages and debt ceiling. After those uncertainties have passed, likely by November, we expect yields to move higher into year-end, as the trading range gradually shifts upward, with the 10-year yield reaching 1.8% around year-end. As the recovery progresses the bigger move in rates should occur around the 5-year point, as the market pulls forward future rate hikes and the Fed responds accordingly.

Credit spreads have stayed tight and remain near post-pandemic lows, offering limited further spread compression in our base case. Thus, we have a relatively neutral view on credit overall. But with rates likely to continue to drift higher, we keep US investment grade (IG) corporate bonds as least preferred given their minimal spread cushion. We maintain a most preferred view on senior loans as they are floating-rate instruments that will not be adversely affected by rising interest rates.

Real assets

We keep commodities and oil as most preferred because the global growth outlook suggests demand will continue to improve, supporting various commodity prices. Oil prices have become more volatile lately due to renewed COVID-19 concerns and increased mobility restrictions such as those recently imposed in China. But we still see further upside as global oil demand continues to recover in 2H21. While OPEC+ is likely to increase production each month from September to December, we expect the oil market to remain undersupplied this year. We expect Brent to trade at USD 75/bbl by year-end. We also expect the supply-demand balance for base metals to remain tight, which should favor higher prices in the coming months.

Gold remains least preferred as we expect rates to rise and the demand for safe havens to decline as the global economic recovery gains a more stable foothold. Our year-end 2021 target for gold is USD 1,700/oz.

Our preferences

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

Note: See explanations about asset classes in the Appendix.

Bull Market Monitor

Equity markets have hit new record highs. Sustaining the rally from this point will be difficult without positive trends in the economy.



Current status

The economy is in midcycle. Economic growth is strong, helped by extremely loose fiscal and monetary policy. GDP exceeded its pre-pandemic level in 2Q21. Inflation is far above normal amid supply-side constraints and strong demand.



What's new?

Economic data for August showed slower growth as elevated COVID case counts weighed on service sectors that are sensitive to the pandemic. Tracking estimates for 3Q21 GDP growth have moved lower. The ISM Services Index fell from July's record high reading while the Manufacturing PMI edged higher. Nonfarm payrolls were much weaker than expected, increasing by just 235,000. Shortages of materials and labor continue to constrain activity and create inflationary pressure. However, there are some signs of easing and core CPI was up just 0.1% in August.

Democrats are attempting to finalize the economic package they hope to pass using reconciliation. Treasury Secretary Janet Yellen said that the government will run out of room to maneuver under the debt ceiling by the end of October. Public comments from FOMC members suggest that the Fed will announce tapering of its asset purchases later this year.

Financial conditions remain extremely easy. The yield curve was slightly steeper over the past month. Spreads on high yield corporate debt fell and are below their pre-pandemic levels. Some mobility indicators have deteriorated, especially in areas being hit hardest by the pandemic.



What are we watching?

We are carefully monitoring the spread of the delta variant and its impact on the economy. We remain focused on supply-side bottlenecks. Unless these are resolved soon, it will be difficult to maintain strong economic growth rates and inflation risks will escalate. In particular, businesses are reporting that they are struggling to find workers, and job openings are at record highs. We will therefore watch for signs that more workers are returning to the labor market as enhanced unemployment benefits end. We continue to watch the process of passing the fiscal packages through Congress. We will watch public comments from FOMC members for signs that concerns over inflation could trigger earlier-than-expected policy moves.



What are the investment implications?

We favor investments that should benefit from strong global growth. Within US equities we favor value over growth and prefer mid-caps. We have a positive view on Japanese stocks, as well as commodities.

Key cycle indicators

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

▼ Current ▼ Previous

Economic indicators

Growth (relative to potential)



Labor market



Mobility (relative to normal)



Inflation (relative to 2%)



Financial indicators

Monetary policy



Yield curve



Credit conditions



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

Positioning for the taper



Laura Kane, CFA, CPA
Head Thematic Research Americas



Michelle Laliberte, CFA
Thematic Investment Associate

Taper tantrum fears are back, but we do not anticipate a repeat of the 2013 market action. The magnitude of monetary accommodation the market has received since March of 2020 has contributed to concerns that a tantrum-like scenario could materialize, as the Federal Reserve starts draining the punchbowl in response to better economic conditions. However, the forward guidance offered by the Fed has already allowed the markets to digest the likelihood that a taper may begin either late this year or early next year. The Fed's transparency significantly lowers the probability that taper tantrum fears will be realized as asset purchases are wound down.

Fixed income investors continue to battle historically low nominal yields and negative real yields (nominal yields adjusted for inflation). Given our base case outlook of strong economic fundamentals, we expect the 10-year yield to drift higher toward 1.7% or 1.8% by year-end, but we also expect the lower-for-longer backdrop to persist for some time. Currently, the market is pricing in the first rate hike in 2023, and three rate hikes by the end of that year. With the Fed on hold for the near future, market participants will continue their quest for yield. In this complex environment, we recommend investors hunting for yield to look for fixed income investments with low interest rate risk, or look outside of traditional fixed income opportunities such as US dollar-denominated sovereign debt in select pockets of emerging markets. Within our thematic universe, "Senior loans" and "Yield opportunities in Latin America" look well-positioned to capture further outperformance.

Senior loans

Senior loans have several characteristics that should benefit from the environment we've described above. Outside of strong credit fundamentals and low default risk, senior loans are floating-rate assets with

one of the highest yields relative to other traditional fixed income investments. Although loan prices have recovered to pre-pandemic levels, we still favor senior loans given the interest rate and inflation protection they provide. The asset class has seen the strongest year-to-date inflows across fixed income when measured as a percentage of their assets under management. We expect flows to continue in the weeks ahead as interest rates rise, supporting demand for floating-rate assets. In our view, the inflation hedge provided by TIPS remains vulnerable to underperformance given the historically negative real yield environment. Therefore, we seek inflation protection via the senior loan market instead.

Yield opportunities in Latin America

Over the last 15 years, USD-denominated emerging market (EM) bonds have been one of the best-performing fixed income asset classes globally. Within emerging markets, we prefer select opportunities in Latin America. With interest rates low globally, the region offers relatively attractive yields. We recognize the challenge that exists in selecting bonds within emerging markets, and for this reason our theme includes a carefully curated list of our highest conviction ideas. The issuers are eligible for purchase by US-domiciled investors, and in our view exhibit very low probabilities of default. Given our expectations for continued accommodative global policy, we believe the theme can continue to outperform its benchmark, the ICE BofA Corporate IG index, over the next six to 12 months.

Navigating the fixed income space in a time of global economic uncertainty, rising interest rates, and rising inflation can be challenging, but the thematic opportunities we describe above offer attractive yields without sacrificing quality. For investors looking to maintain passive income in a world of historically low rates, we believe senior loans and select EM opportunities offer some reprieve.

Themes universe

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

Technology

Automation and robotics

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

Digital data

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

E-commerce

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

Enabling technologies

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

Fintech

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

Healthtech

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

Medical devices

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

Oncology

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

Security and safety

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

Smart mobility

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

Space

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

Resources

Agricultural yield

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

Clean air and carbon reduction

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

Energy efficiency

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

Energy transition

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

Food revolution

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

Waste management and recycling

Low waste treatment rates in emerging markets offer big catch-up potential that could lead to extraordinary growth rates.

Water scarcity

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

Society

Aging in comfort

A larger population of seniors and evolving social trends are creating opportunities in products and services geared toward older generations.

Diversity and equality

Increasing regulation and stakeholder scrutiny, paired with growing evidence of the benefits of diversity, are driving a number of related investment opportunities.

Education services

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

Emerging market healthcare

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

Emerging market infrastructure

Growing urbanization and high economic growth rates will drive demand for infrastructure investment in emerging markets.

Genetic therapies

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

Obesity

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

Fixed income

Beyond benchmark

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

MLP bonds

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

Yield opportunities in Latin America

This theme is constructed around a basket of Latin American bonds that have the potential to outperform the ICE BofA Corporate IG index on a six- to 12-month horizon.

Taxable munis

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

US senior loans

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

Enhancing liquidity strategy return potential with MLCDs

Market-linked certificates of deposit (MLCDs) can offer some limited upside exposure to stocks, while providing a "floor" to prevent capital losses if they are held to maturity. We believe that MLCDs should be considered as a part of a bond ladder, particularly in the liquidity strategy, where assets are earmarked for spending in the next three to five years.

Equity

5G infrastructure

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

Business Spending Rebound

The US looks poised to see a capex rebound as we emerge from the pandemic, and we've put together a list of companies we expect to benefit from an increase in business spending.

EM Value: the next leg of the rally

Looking ahead, we believe emerging market value stocks have good catch-up potential and less concentration risk relative to the broader EM equity universe.

POTUS 46

We've put together a list of companies that we expect to perform well under a Biden administration.

Pricing power standouts

Companies with pricing power should be better able to offset any potential increase in input prices.

Reopening America

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

Sustainable value creation in EM

Incorporating ESG considerations into EM equity investment decisions may provide a competitive edge.

Alternatives

Event-driven strategies

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

Opportunities in dislocated credit markets

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

KEY

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

Global economic outlook

The COVID-19 pandemic continues to constrain economic activity, with some countries imposing new lockdowns. Supply-side bottlenecks and strong demand are leading to goods shortages, and global inflation is likely to be the highest since 2011. US case counts remain high, but few social distancing restrictions have been imposed. Some central banks have started to normalize policy, either reducing QE asset purchases or hiking interest rates. We expect the Fed to announce tapering by year-end.

Global growth in 2021 expected to be **6.2%**

	Real GDP growth in %			Inflation in %		
	2020F	2021F	2022F	2020F	2021F	2022F
US	-3.4	6.2	5.7	1.2	4.4	3.0
Canada	-5.4	7.6	5.2	0.7	2.3	1.9
Brazil	-4.1	5.5	2.1	3.2	7.8	5.5
Japan	-4.7	2.5	3.0	0.0	-0.1	0.3
Australia	-2.4	4.0	2.7	0.8	2.7	2.3
China	2.3	8.2	5.8	2.5	1.0	2.2
India	-7.3	8.9	6.5	6.2	5.5	4.5
Eurozone	-6.7	5.1	5.3	0.3	2.2	1.4
Germany	-5.1	3.7	4.9	0.4	2.9	1.6
France	-8.0	6.0	4.7	0.5	1.9	0.9
Italy	-8.9	5.0	4.7	-0.1	1.5	0.7
Spain	-10.8	5.9	6.6	-0.3	2.4	1.1
UK	-9.8	7.0	5.8	0.9	2.3	2.6
Switzerland	-2.5	3.3	3.0	-0.7	0.5	0.4
Russia	-3.0	4.5	3.3	3.4	6.1	4.8
World	-3.2	6.2	5.1	2.5	3.7	3.3

Source: Reuters EcoWin, IMF, UBS, as of 17 September 2021

Note: In developing the CIO economic forecasts, CIO economists work in collaboration with economists employed by UBS Investment Research. Forecasts and estimates are current only as of the date of this publication and may change without notice.

Economic outlook summary

Brian Rose, PhD
Senior Economist Americas

CIO view

Probability: 60%*

Economic recovery, with some interruptions

- Consumers are continuing to spend accumulated savings, leading to abnormally strong demand for goods. In some countries several months of spending means that the stock of savings has fallen and the associated spending has moderated. Consumption is continuing to shift into demand for services as restrictions ease. Although several economies have rising COVID-19 cases, the fear of the virus (which matters economically) is less than in the past—either because people have become used to the threat, or because vaccination has raised confidence.
- Global manufacturing and global trade stay above pre-pandemic levels—global manufacturing output is near an all-time high. But supply has tended to be overwhelmed by the short-term surge in demand. Some sectors are experiencing supply disruptions.
- Policymakers remain consistent in communicating a stable monetary policy. Economic growth and reduced demand for liquidity push central banks toward reduced bond buying.

➤ Positive scenario

Probability: 15%*

Stronger bounce-back

Consumer spending continues to rise as savings are put to work, and a more rapid recovery in the labor market leads to a faster improvement in household incomes.

➤ Negative scenario

Probability: 25%*

Fear creates a new downturn

Constraints on economic activity coming from periodic lockdowns (in response to the pandemic) or other supply shortages create disruption, weakening growth. Contentious issues mean that localized labor shortages (geographically or by sector) constrain production.

*Scenario probabilities are based on qualitative assessment.

Equities

David Lefkowitz, CFA; Nadia Lovell; Matt Tormey

Global equity performance has further room to run, in our view, driven by a rise in forward earnings growth forecasts, an expected fall in COVID-19 cases, and still-strong economic activity. Valuations are still elevated in absolute terms, but an improving earnings outlook should pave the way for further gains. Upcoming tapering by major central banks could bring some volatility to the market, but should not derail the overall trend in our view. Japan remains a most preferred market in our global asset class preferences.

Eurozone

Neutral

Eurozone equities are continuing to show strong earnings momentum. Performance has been positive over the past month, hitting several all-time highs in the process. We expect further upside by year-end and in the first half of next year. Based on the 12-month forward P/E, valuation for the MSCI EMU index remains elevated, with a P/E premium of 21% compared to the 10-year average.

EURO STOXX 50 (index points, current: 4,170) June 2022 target	
House view	4,550
Positive scenario	4,800
Negative scenario	3,600

Japan

Most preferred

Japanese equities are most preferred in our global asset class universe. They have shown a strong performance over the past month, outperforming global equities by nearly 5%. After showing a rebound in late August, Japanese stocks gained further upward momentum after Prime Minister Yoshihide Suga announce on 2 September that he would not run in the LDP leadership race. We believe this recent outperformance will continue driven by a catch-up in Japan's vaccination rate with other developed countries and solid earnings in the coming quarters.

TOPIX (index points, current: 2,090) June 2022 target	
House view	2,250
Positive scenario	2,400
Negative scenario	1,800

Emerging markets

Neutral

Emerging market equities have performed roughly in line with global equities over the past month. The MSCI EM 12-month forward P/E stands at 13.4x. We still expect lingering policy uncertainty in China to be a potential drag on performance. Also, the prospect of a Fed tapering in the near future poses a challenge and will likely keep near-term volatility elevated.

MSCI EM (index points, current: 1,277) June 2022 target	
House view	1,400
Positive scenario	1,500
Negative scenario	1,100

UK

Neutral

UK equities have underperformed global equities over the past month. Despite the strong rebound in earnings, which we anticipate to rebound by 68% for the FTSE 100 in 2021, the UK stock market continues to trade at a large discount to global equities. We now expect the oil price to recover to USD 80/bbl by September, which bodes well for UK earnings growth given that the energy sector accounts for 10% of the market cap of the MSCI UK index.

FTSE 100 (index points, current: 7,027) June 2022 target	
House view	7,700
Positive scenario	8,100
Negative scenario	6,200

Note: All current values as of 17 September 2021

US Equities

Recent economic data has been mixed, but we expect further equity market gains over the next 6–12 months. Global COVID-19 cases appear to be peaking, supply bottlenecks should ease, consumer finances are very strong, jobs are plentiful, businesses have a large backlog of activity, and the Fed will likely remain accommodative for some time. We expect the S&P 500 to end the year at 4,600, hit 4,800 in June 2022, and 5,000 in December 2022.

US equities overview

Neutral

Cyclical segments have underperformed in recent months. This weakness seems to reflect: 1) fears about COVID-19 variants; 2) concerns that fiscal and monetary policy will be less accommodative; and 3) worries that supply chain disruptions will hold back economic growth. In our view, these drivers of recent underperformance are overdone. Daily COVID-19 cases are starting to roll over and the Fed has been transparent that the withdrawal of monetary accommodation will be gradual. Lastly, very strong demand and shortages of labor have pressured supply chains, but these headwinds should ease as the pandemic ebbs.

US equities – sectors

We maintain a cyclical bias in our sector positioning. A broadening economic recovery and strong consumer balance sheets should benefit consumer discretionary. Our outlook for higher interest rates bodes well for solid earnings growth for financials. Relative to oil prices, the energy sector looks cheap. Healthcare, our preferred defensive sector, is the fastest growing and most risks

	Least preferred	Neutral	Most preferred
US Equities			
Communication services		Neutral	
Consumer discretionary			Most preferred
Consumer staples	Least preferred		
Energy			Most preferred
Financials			Most preferred
Healthcare			Most preferred
Industrials		Neutral	
Information technology		Neutral	
Materials		Neutral	
Real estate		Neutral	
Utilities	Least preferred		

*Note: This month, we changed the way we express our sector preferences. Previously, we used three notches (a combination of + and – signs) to express conviction of our Least Preferred and Most Preferred views. Going forward, we will only assign one of three ratings to each sector: Least Preferred, Neutral, or Most Preferred. Source: UBS, as of 16 September 2021

around drug pricing reform appear to be reflected in share prices. We maintain our cautious views on consumer staples and utilities which tend to lag when earnings revisions are positive.

US equities – size

We maintain our preference for mid-caps over large-caps. The economic recovery remains healthy and supportive of cyclical segments. Relative to small-caps, mid-caps are higher quality and could see greater potential for outperformance as the business cycle matures. Over the past few years, there has been a high correlation between mid-caps and the yield curve. If the yield curve steepens from current levels, this should drive outperformance. Lastly, earnings growth and relative valuations both remain attractive.

US equities – style

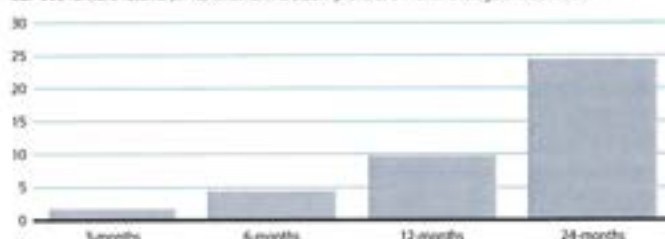
We continue to have a preference for value over growth. Recent value underperformance reflects delta variant fears, but the situation should improve from here. Our preference for value stocks is based on two key pillars: the outlook for long-term interest rates and earnings growth. Value stocks should outperform if interest rates move higher, as our fixed income team expects. In addition, value company earnings should grow at a faster pace than growth company earnings—a common occurrence during periods of above-average GDP growth. Finally, value's valuation discount to growth is at its post dotcom bubble low.

S&P 500 (index points, current: 4,360)	June 2022 target
House view	4,800
Positive scenario	5,000
Negative scenario	3,800

Note: All current values as of 17 September 2021.

No reason to fear high and falling ISM

S&P 500 forward returns (in %) when ISM is below previous 3-month average and above 55



Source: Bloomberg, UBS, as of 15 September 2021

Bonds

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

US Treasuries are among our least preferred bond segments. We view the current market sentiment of slower growth prospects as witnessed by the historically negative real yields, as a bit too extreme. We continue to anticipate interest rates to rise into year-end alongside strengthening fundamentals.

Government bonds

Least preferred

Ten-year US Treasury rates have remained in a tight range since the Jackson Hole economic symposium. We remain bearish on interest rates with the expectations that yields will rise into the end of the year.

US 10-YEAR YIELD (current: 1.3%)	June 2022 target
House view	2.2%
Positive scenario	1.1%
Negative scenario	2.5%

US high yield corporate bonds

Neutral

We maintain our neutral stance toward HY bonds. We believe the fundamental credit view remains favorable, despite concerns over the delta variant, as supported by companies' ability to access the capital markets at historically low borrowing rates, improving earnings, and credit upgrades outpacing downgrades. We favor higher-quality segments at this stage in the credit cycle. Default rates continue to decline, with the US HY issuer-weighted default rate falling to 3.8% in August from 9.5% in December 2020. This positive fundamental view, however, is balanced by tight valuations and exposure to potentially rising interest rates. We continue to hold a preferred allocation to senior loans due to their comparable yield, secured status (higher recoveries), and floating-rate coupon.

USD HY SPREAD (current: 309bps)	June 2022 target
House view	300bps
Positive scenario	270bps
Negative scenario	550bps

US investment grade corporate bonds

Least preferred

Despite the strong fundamental backdrop, the historically tight level of credit spreads has reduced the risk-reward attractiveness of the asset class. IG remains vulnerable to higher long-end interest rates and is therefore one of our least preferred fixed income segments. We favor the shorter end of the IG curve as a way to manage interest rate risk. As a result of the economic recovery, we prefer to move down the rating scale in BBBs as a means of capturing higher coupon income (i.e., carry). We also prefer the securitized areas of agency and non-agency CMBS over excessive IG duration exposure.

US IG SPREAD (current: 90bps)	June 2022 target
House view	100bps
Positive scenario	90bps
Negative scenario	225bps

Data based on ICE BofA IG Corporate Index

Emerging market bonds

Neutral

EM bonds remained well behaved despite sizable swings in US Treasury rates this year. Near-term uncertainties around the pandemic, including the emergence of new variants, are of concern, but in our baseline scenario we expect the disease to be brought under control, including an acceleration of vaccine rollout. We expect spreads to trend sideways around current levels over the coming months, and therefore maintain a neutral outlook on USD-denominated EM bonds. However, the asset class should continue to attract yield-hungry global investors, though fiscal vulnerabilities due to the pandemic and the potential for higher long-term interest rates may present a headwind to total returns.

EMBIG DIV. / CEMBI DIV. SPREAD (current: 344bps / 295bps)	June 2022 target
House view	340bps / 300bps
Positive scenario	300bps / 280bps
Negative scenario	550bps / 500bps

Note: Current values as of 17 September 2021

Municipal bonds

Neutral

Year-to-date, investment grade tax-exempt municipal bonds are up by 1.6%. At the same time, lower-rated high yield munis witnessed larger price gains (+7.3%). By contrast, US Treasury securities have lost 1.2% thus far in 2021. The technical strength supporting the muni market over the summer has now softened. That said, the prospect of higher income taxes for individuals and corporations represents an important tailwind for tax-exempt paper. Credit quality spreads remain tight. Current AAA 10-year muni-to-Treasury yield ratio: 71% (last month: 69%).

Additional US taxable fixed income (TFI) segments

Agency bonds

Since the Jackson Hole summit, US interest rates have been range-bound, as have agency debt. With volatility lower, agency securities are now +2bps over the 5-year versus +4bps last month. We continue to see very little value in the sector, and with interest rates likely to rise into the end of the year, combined with the revitalization of procyclical allocations, we continue to prefer higher yielding sectors.

Current spread is +2bps to the 5-year (versus +4bps last month)

Mortgage-backed securities (MBS)

The agency MBS current coupon has been in a 70–77bps range to Treasury since the end of July. With the Fed tapering more than likely to be announced over the next several months, the market awaits the pace of the tapering and the impact on MBS supply over the next several months. While declining volatility and a recent drop in prepayment activity are a benefit to the MBS sector, the unknown from the Fed is currently dampening any potential tightening until a clearer path is communicated. Until then, we remain neutral and look to adjust allocation between 60bps and 80/90bps for the current coupon sector.

Current spread is +73bps to the 5-year and 10-year Treasury blend (versus +76bps last publication)

Figure 1

UBS CIO interest rate forecast

In %

UST	Current	Dec-21	Mar-22	Jun-22	Sep-22
2-year	0.2	0.2	0.4	0.6	0.6
5-year	0.8	1.1	1.2	1.3	1.4
10-year	1.3	1.8	1.9	2.0	2.0
30-year	1.9	2.4	2.5	2.5	2.5

Source: Bloomberg, UBS, as of 15 September 2021

Non-US developed fixed income

Neutral

Over the past month, bond yields in non-US developed markets moved mostly higher, hurting returns. On foreign exchange markets, the dollar was little changed against most other major currencies. This left the asset class with modest losses for the month. With yields extremely low on many bonds, non-US developed market fixed income remains unattractive. We do not recommend a strategic asset allocation position on the asset class.

Preferred securities

Rates were more subdued in the second quarter than in the first and were even supportive in June and July. This helped drive yield spreads to historic lows. But rates began trending higher in August and are likely to maintain an upward bias from here, yet there is less absorption capacity in spreads. For the remainder of the year, our base case is for the sector's coupon (i.e., carry) to act as the primary contributor to returns. However, episodes of rapid rate moves may pressure spreads wider and could result in more sustained losses. Overall, we expect just flat to modest returns in 2021, although we could see a more meaningful pullback in the months ahead. We recommend legging into the market with averaging-in purchase strategies.

Treasury Inflation-Protected Securities (TIPS)

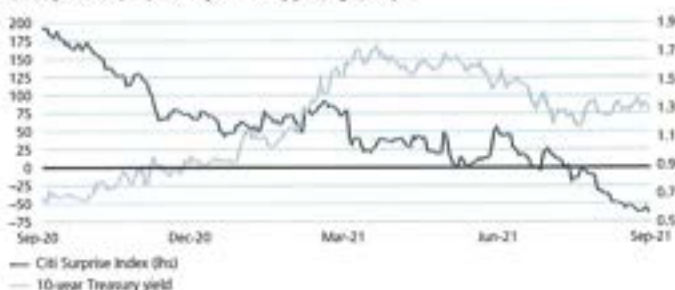
We remain neutral on TIPS, but our outlook is continuously more cautious. With real yields at or close to their historic lows, we find little value in the sector. With interest rates poised to increase, and the breakeven inflation rate range bound as the market is pricing in an above target inflation rate. We find the 1-to-5-year area the richest part of the TIPS curve.

Current 10-year breakeven inflation rate of 2.35% (2.29% last publication)

Figure 2

Treasury yields decouple with the surprise index

Citi surprise index, left, and 10-year Treasury yield, right, in bps



Source: Bloomberg, UBS, as of 14 September 2021

Commodities and other asset classes

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

Broadly diversified commodity indexes are up 24–27% this year, one of the strongest year-to-date returns on record. Given the magnitude of these returns—apart from precious metals—our forecasted return expectations for commodities have less room to run. That said, we still see mid-single-digit upside over the coming months. Peaking global PMIs signal a slowing of—but not a halt to—the upward trend for commodity prices; we expect prices to peak in 1H22. Hence, we maintain our most preferred guidance on commodities overall, including crude oil. Gold remains least preferred.

Commodities

➕ Most preferred

Precious metals: Our views on US interest rates and the US dollar still points toward a weaker environment for gold over the rest of 2021 and next year. No doubt, in the short term, market participants will likely focus on the risks to growth from the delta variant and any signs of setbacks in the labor market. But with 10-year government bond yields low-balling our estimates of fair value, inflation appearing to be past its peak, and positioning broadly neutral, we remain confident that real yields will rise into 2022. Hence, we maintain our view that gold prices should fall to USD 1,700/oz by year-end, and then decline further in 2022 as tapering begins. We maintain our guidance that investors should hedge their gold positions or reduce their tactical long holdings (but not their strategic positions).

GOLD (current: USD 1,754/oz)	June 2022 target
⊖ Least preferred	
House view	USD 1,600/oz
➔ Positive scenario	USD 1,800–1,900/oz
➔ Negative scenario	USD 1,300–1,400/oz

Crude oil: Despite OPEC+ having added nearly 2.7mbpd of supply between April and August, oil inventories have continued to decline in recent months, suggesting the market is still in deficit. Better fundamentals are the result of non-OPEC+ supply growing only moderately and oil demand continuing to increase, though unevenly across regions and oil products. The strong demand recovery is now also visible in the largest oil consumer. According to the Energy Information Administration, US oil demand in June was just 0.6% below that for June 2019. With our expectation that oil demand will exceed 99mbpd later this year and that oil inventories will decline further, we see Brent prices again reaching USD 75/bbl this year.

BRENT (current: USD 75.67/bbl)	June 2022 target
➕ Most preferred	
House view	USD 75/bbl
➔ Positive scenario	USD 80–95/bbl
➔ Negative scenario	USD 40–55/bbl

Note: Current values as of 17 September 2021

Base metals: Most market dynamics continue to point to a tight market backdrop, particularly in the US. Broadly, base metal inventories at exchanges remain low. Aluminum inventories are now around 11% lower versus the end of June. Copper, nickel, and zinc inventories also fell 9%, 7%, and 3% m/m respectively in July, while lead inventories bucked the trend, rising 15% m/m. We expect further pressure on inventories in the coming months as seasonal demand picks up across Europe and the US. We also think that policy support will drive a pickup in demand in China toward year-end. Investors should not underestimate supply-side challenges.

Agriculture: Agricultural markets have been battered by climate extremes this year. This summer has seen drought and widespread fires in California; unprecedented heatwaves in the US Pacific Northwest and Canada; and record rainfall in China's Henan province and Germany. The impact on agricultural producers from extreme weather events is already taking its toll on global output. Also, La Niña is now predicted to return in 2021–22. We think price risks in grains are still skewed to the upside. Argentinian winter wheat production looks dicey, and soil conditions ahead of Brazil's soybean planting period will be closely scrutinized from September. In soft commodities, cuts to US cotton production and uncertainties in Brazil coffee and sugar should keep prices elevated. That said, we've shifted the sector to neutral after reaching our price targets. In livestock, we expect the drought-driven liquidation of cattle to kick off a period of undersupply. So live cattle is preferred over lean hogs.

Other asset classes

Listed real estate: The valuation of listed real estate is unattractively expensive following recent strong outperformance, and the upside is very limited. The value-trade-driven market rebound and the ample liquidity chasing listed real estate are the reasons for the high valuations. Portfolio reshuffling and the recognition of value impairments following the 2020 market divergences have been largely priced in. We continue to recommend exposure to direct or private real estate based on overall robust incomes and more attractive return expectations.

RUGL Index (current: USD 6,456)	September 2022 target
House view	USD 6,850
➔ Positive scenario	USD 7,400
➔ Negative scenario	USD 6,900

Note: Current values as of 17 September 2021

Foreign exchange

Thomas Flury, Strategist

Among G10 currencies, we remain neutral on the US dollar and the euro. The US economic recovery is underway. Still, the Fed has little incentive to speed up tapering plans. EURUSD is largely in balance as the euro remains supported by the global recovery. Next year, the trends are likely to turn more in favor of the greenback when markets start to price in Fed tightening. The Swiss franc lost the gains it achieved this summer, when risk aversion hit financial markets. Once the Fed's hiking path is clearer, we think the CHF, the JPY, and the EUR will become attractive funding currencies relative to the USD.

In the G10 space, we also favor currencies backed by central banks that are about to unwind stimulus measures. Here, besides the USD, we are likely to see the British pound, the Canadian dollar, the Norwegian krone, and the New Zealand dollar at the forefront. Relative to them, negative-yielding currencies will likely suffer as the cycle progresses this year and next. With vaccinations making headway, coupled with stronger global GDP growth, we expect the safe-haven demand for the Japanese yen to ebb, making it a good funding currency versus commodity producers and other currencies with hawkish central bank biases. In Asia, the Singapore dollar should outperform its regional peers, as the Monetary Authority of Singapore is likely to adopt a policy of gradual currency appreciation in April next year.

A more hawkish Fed preparing to tighten monetary policy, the peaking of Chinese growth momentum, and persistent issues concerning the pandemic all point to a more challenging backdrop for EM currencies over the coming months. However, there could be intermittent episodes of strength, given the still above-average global growth outlook, higher carry in emerging markets, and our expectation of supportive commodity prices. Over a six-month horizon, though, we recommend being very selective when investing in emerging market currencies with USD funding. We don't see an appealing risk-reward for most (with the exception of the Russian ruble), even when accounting for the interest rate carry.

FX strategy

	Least preferred	Neutral	Most preferred
USD		⊖	
EUR		⊖	
JPY	⊖		
GBP			⊕
CHF		⊖	

FX forecasts

	Current	Dec-2021	Mar-2022	Jun-2022	Sep-2022
EURUSD	1.18	1.20	1.18	1.15	1.13
USDJPY	109	113	114	115	116
GBPUSD	1.38	1.43	1.42	1.39	1.36
USDCHF	0.92	0.92	0.93	0.96	0.97
USDCAD	1.26	1.21	1.20	1.20	1.20
AUDUSD	0.73	0.76	0.74	0.72	0.70
NZDUSD	0.71	0.73	0.72	0.71	0.70
USDSEK	8.57	8.33	8.39	8.61	8.76
USDNOK	8.58	8.17	8.22	8.35	8.50

Sources: SIX Financial Information, UBS, as of 17 September 2021.

Investment committee

Global Investment Process and Committee description

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

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

Global Investment Committee composition

The GIC comprises top market and investment expertise from across all divisions of UBS:

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

US Investment Strategy Committee description

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

US Investment Strategy Committee:

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

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

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Explanations about asset classes

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Our preferences do not assure profits or prevent against losses from an investment portfolio or accounts in a declining market.

Statement of risk

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

Fixed income - Bond market returns are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions and other important variables. Corporate bonds are subject to a number of risks, including credit risk, interest rate risk, liquidity risk, and event risk. Though historical default rates are low on investment grade corporate bonds, perceived adverse changes in the credit quality of an issuer may negatively affect the market value of securities. As interest rates rise, the value of a fixed coupon security will likely decline. Bonds are subject to market value fluctuations, given changes in the level of risk-free interest rates. Not all bonds can be sold quickly or easily on the open market. Prospective investors should consult their tax advisors concerning the federal, state, local, and non-U.S. tax consequences of owning any securities referenced in this report.

Preferred securities - Prospective investors should consult their tax advisors concerning the federal, state, local, and non-U.S. tax consequences of owning preferred stocks. Preferred stocks are subject to market value fluctuations, given changes in the level of interest rates. For example, if interest rates rise, the value of these securities could decline. If preferred stocks are sold prior to maturity, price and yield may vary. Adverse changes in the credit quality of the issuer may negatively affect the market value of the securities. Most preferred securities may be redeemed at par after five years. If this occurs, holders of the securities may be faced with a reinvestment decision at lower future rates. Preferred stocks are also subject to other risks, including illiquidity and certain special redemption provisions.

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Appendix

Emerging Market Investments

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

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

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

Nontraditional Assets

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

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution,

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

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

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

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

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

Foreign Exchange/Currency Risk: Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in US dollars, changes in the exchange rate between the US 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 US investor.

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Oakland University

June 30, 2021

Treasury Solutions Quarterly Investment Report

commonfund

Table of Contents

PORTFOLIO HIGHLIGHTS	1
ECONOMIC COMMENTARY	2
CAPITAL MARKETS	3
INVESTMENT REPORT	5
IMPORTANT NOTES	8

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About Commonfund

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Quarterly Investment Report

Portfolio Highlights

- The Oakland University Treasury Solutions portfolio returned 2.64 percent for the quarter ending June 30, 2021 and 8.98 percent fiscal 2021 year-to-date. The final value of the portfolio was \$264,732,251.76. As we close out the fiscal year, the markets overall appear healthy. Equity indices, domestic and global, are near all-time highs, corporate and high-yield spreads are approaching historic lows, and after a bout of indigestion in the first quarter of 2021, the risk-free interest rate markets have held steady. Corporate earnings are accelerating and will likely exceed the lofty levels of the first quarter at mid-year. While fiscal policy remains expansionary, as repairing America's infrastructure remains a goal of both parties, ideological disagreements remain in terms of content, size, and funding. Ultimately, the U.S. economy is rebounding at a pace that is swift enough to support risk-based investing but not so quick as to force the accommodative hands of the global central banks.
- For the quarter, the Contingent Asset Portfolio and Intermediate Term Fund outperformed the ICE BAML 1-3-year index. The Intermediate Term Fund returned 0.21 percent while its benchmark, the ICE BAML 1-3 Year Treasury Index, returned -0.03 percent. The Contingent Asset Portfolio, LLC returned 0.08 percent. The funds maintained a slight underweight to duration during the quarter relative to the benchmark, which aided return as short and intermediate yields increased. Also, the allocations to high coupon residential mortgages benefited return due to security selection despite the broad mortgage index underperforming duration-adjusted Treasuries. The High-Quality Bond Fund was up 2.15 percent for the quarter outperforming the Bloomberg Barclays Capital U.S. Aggregate Bond Index, which returned 1.83 percent. Exposure to spread sectors helped returns on the back of spread tightening in the corporate and securitized sectors during the quarter. Credit spreads continue to grind tighter in a market awash in fiscal and monetary support. Within securitized, CMBS and ABS overweights benefited performance, as did security selection in the dedicated mortgage allocation.
- In the core allocation, the Core Equity Fund returned 8.51 percent for the quarter underperforming the 8.55 percent return of the S&P 500 Index. The active manager in the fund, Wellington Large Cap Research Strategy, a sectorized, fundamental multi-manager, posted a return of 8.90. Outperformance in the quarter was driven by security selection, while sector allocation detracted. The Strategic Solutions Equity Fund (low volatility equities) returned 7.87 percent for the quarter. Overall, the strategy's diversified approach to sector exposure helped contain the negative impact from emphasizing lower risk sectors in the second quarter. Stock selection within sectors was additive, driven by positive performance within the industrials, consumer discretionary and health care sectors.
- Uncertainty is a constant companion in the financial markets, as the potential for changing tax policy and increased regulation loom in President Biden's economic plans. Though Democrats have control of the executive and legislative branches of government, the formulation and implementation of new policies

Past performance is not indicative of future results.

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

is not a quick process. We are encouraged that, collectively, the government understands the need to invest in American infrastructure. However, historic deficits and continued large debt issuance make the funding of any new infrastructure projects a more difficult process. This will remain an area of interest and concern for investors for the months to come.

- In the 2nd quarter, on the heels of a strong, growth dominated June, domestic equities outperformed other developed markets and the emerging markets. Global equity markets, as measured by the MSCI ACWI, were up 7.4 percent in 2Q2021 bringing fiscal year-to-date gains to 39.3 percent. Except for Japan, the sub-component returns were also positive: Europe (MSCI Europe 7.4 percent), the United States (MSCI U.S. 8.8 percent), Japan (MSCI Japan -0.3 percent) and the emerging markets (MSCI EMF 5.1 percent). Even with inflation accelerating more quickly, growth and corporate earnings are accelerating as well, which is a positive for both equities and credit. Earnings reports for the second quarter are expected to continue this trajectory before calming in the 2nd half of the year. The robust growth in corporate earnings has led to the highest upward revisions in earnings expectations since the 2017 corporate tax cuts. The benefits are two-fold: not only are corporations healthier and able to boost capital expenditures, but equity valuations, even at these higher index levels, are being supported by cash flows and not inflated expectations.

Economic Commentary

- Domestic economic data for the first six months of 2021 has maintained a positive trend, confirmed by first quarter U.S. GDP at 6.4 percent but, looking to the future, the economic "lift" may get heavier as the task of recovery transitions to generating consistent future growth while avoiding the negative short-term consequences of higher debt, deficits, and inflation. We expect strong GDP growth to continue through the 2nd and 3rd quarters of 2021 after which we believe the economy will enter a more moderately paced recovery. In general, investors seem to be comfortable with the consistently positive economic data, even if some readings are below expectations. The employment picture continues to improve but remains 6.7 million jobs below pre-pandemic levels. With the unemployment rate at 5.9 percent and an average of 543,000 newly employed per month, there is still a long way to go to reach full employment generally considered to be around 4.5 percent. Encouragingly, the sectors hardest hit by economic shutdowns are showing a resurgence in hiring, particularly in the service-oriented leisure and hospitality sector.

Economic Indicators

Economic Indicators	3/31/2021	6/30/2021
Gross Domestic Product	4.3% (4Q20)	6.4% (1Q21)
Unemployment Rate	6.0%	5.9%
Consumer Price Index (yoy)	2.6%	5.4%
CPI excl Food and Energy (yoy)	1.6%	4.5%
Real Personal Consumption Expenditures	2.3% (4Q20)	11.4% (1Q21)

Source: Bloomberg

Past performance is not indicative of future results.

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

Capital Markets

- The fixed income markets were positive in the 2Q2021. The Bloomberg Barclays Aggregate Index returned 1.83 percent for the three months ending June; however, this wasn't enough to push the benchmark index positive for the fiscal year 2021. Fiscal year-to-date performance for the index was -0.33 percent mostly due the considerable volatility in the U.S. Treasury markets in the first quarter of 2021. The inflation debate has not gone unnoticed by the Federal Open Market Committee (FOMC). They recognize that risks to the reflation trade apply in both directions, including higher inflation and behind-the-curve central banks to the upside or more hawkish-than-expected monetary policy stifling the recovery. The most recent "Dot Plot" from the Fed shows that FOMC officials have projected potential interest rate hikes beginning sooner than previously expected - potentially in early 2023. But we do not believe that the Fed will start tapering asset purchases, or that there will be a material shift in the FOMC's strategy in the near term. As such, the Fed remains in line with its international counterparts in Europe and Japan.
- The Bloomberg Barclays U.S. Treasury Index returned 1.75 percent for the quarter, while the Bloomberg Barclays U.S. Inflation-Linked Index returned 3.46 percent. The U.S. Treasury yield curve flattened, as the 5-year yield decreased by 5 basis point, the 10-year decreased by 27 basis points and the long bond decreased by 32 basis points. Investment grade corporates outperformed duration-matched U.S. Treasuries, generating excess return of 110 basis point for the quarter. From sector perspective, industrials, utilities, and financials led the outperformance. High yield corporates also outperformed duration-matched U.S. Treasuries, generating excess return of 201 basis points. Within the securitized sector, agency fixed-rate pass-throughs, a substantial component of the sector, underperformed duration-matched U.S. Treasuries by 60 basis points. In other subsectors, CMBS outperformed by 81 basis points, while ABS outperformed by 23 basis points.

Other Markets

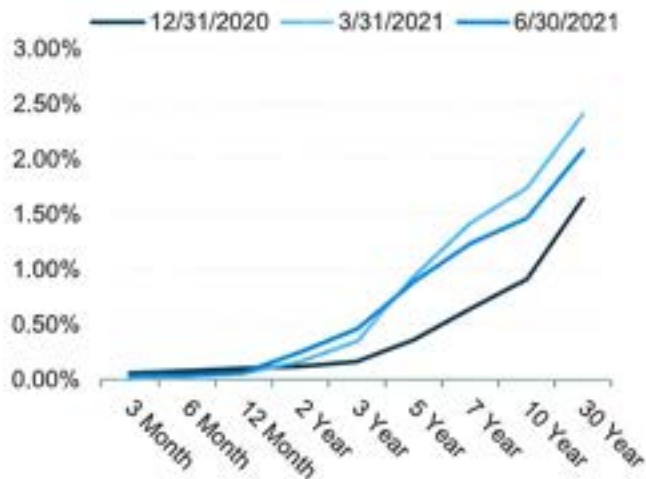
Other Markets	12/31/2020	3/31/2021	6/30/2021
S&P 500 Index	3756	3973	4298
WTI Lt Crude (\$/barrel)	\$48.52	\$59.16	\$73.47
US Dollar Index	89.94	93.23	92.44
BAML High Yield Credit Index	1498.421	1511.97	1553.91
Volatility Index	22.8	19.4	15.8

Source: Bloomberg

Past performance is not indicative of future results.

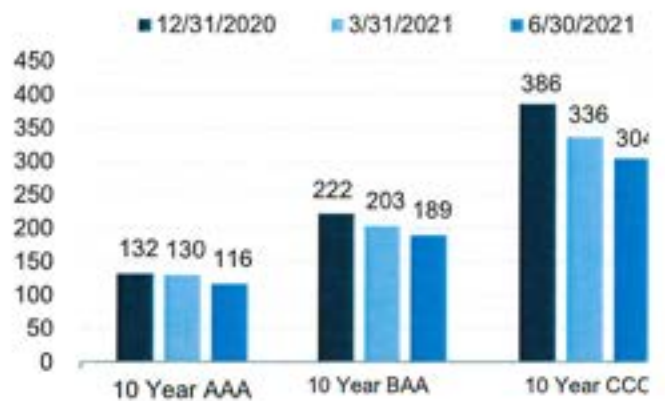
Returns are depicted net of fees. Please see Important Notes | Market Commentary, Benchmarks and Performance.

U.S. TREASURY YIELD CURVE



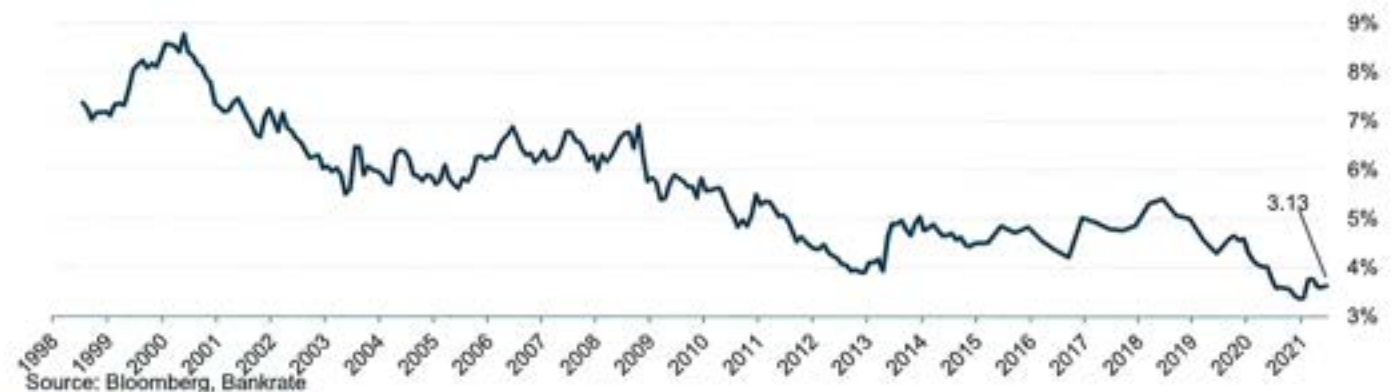
Source: Bloomberg

COMPOSITE CREDIT SPREADS



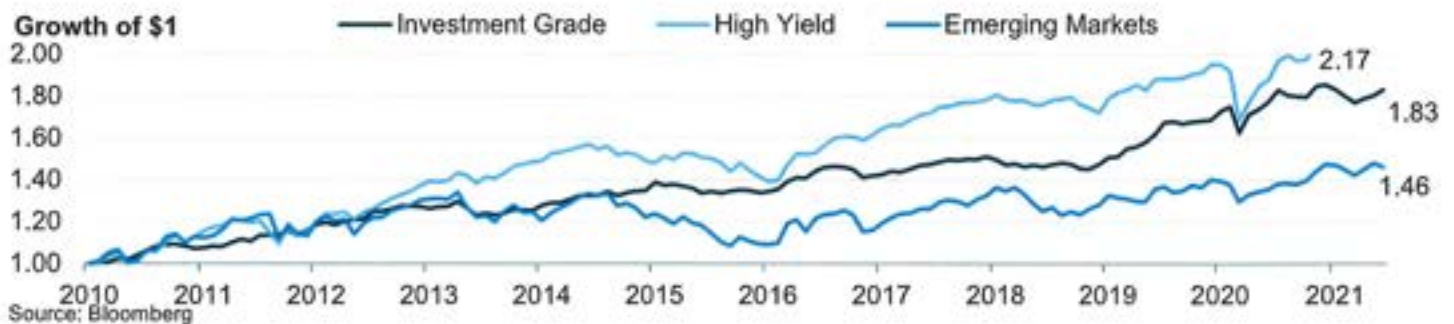
Source: Bloomberg, Moody's

30-YEAR FIXED MORTGAGE RATE



Source: Bloomberg, Bankrate

BLOOMBERG CREDIT INDICES



Source: Bloomberg

Past performance is not indicative of future results.

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

Investment Report

PERFORMANCE – TREASURY SOLUTIONS

As of June 30, 2021

Performance Item	MTD	QTD	CYTD	FYTD	3 Years	5 Years	Since: 7/31/2014	10 Years
State Street Inst US Govt Money Mkt Fund	0.00	0.00	0.00	0.02	1.18	1.04		
ICE BofA ML 3-Month US T-Bill Index	0.00	0.01	0.02	0.08	1.27	1.11		
Total Liquidity Funds	0.00	0.00	0.00	0.02	1.18	1.04	0.79	
Intermediate Term Fund	-0.12	0.21	0.13	0.81	3.04	1.92	1.79	
ICE BofA Merrill Lynch (ML) 1-3 Yr Treasury	-0.15	-0.03	-0.08	0.07	2.69	1.60	1.48	
Income Research & Management	-0.11	0.16	0.09	1.00	3.23	2.10	1.92	
MetLife Investment Management, LLC	-0.09	0.20	0.21	0.97	2.90	2.03	1.90	
Sit Investment Associates	-0.09	0.52	0.48	1.12	3.80	2.28		
CF Contingent Asset Portfolio, LLC	-0.09	0.08	0.08	0.65	2.31	1.50		
ICE BofA Merrill Lynch (ML) 1-3 Yr Treasury	-0.15	-0.03	-0.08	0.07	2.69	1.60		
Sit Investment Associates	-0.11	0.24	0.22	0.97	3.34	2.17		
MetLife Investment Management, LLC	0.02	0.12	0.20	0.72	2.02			
MD Sass Investors Services	-0.02	0.20	0.36	1.32	2.60			
High Quality Bond Fund	0.89	2.15	-1.10	1.70	5.84	3.79	3.90	4.16
Bloomberg Barclays US Aggregate Bond Index	0.70	1.83	-1.60	-0.33	5.34	3.03	3.36	3.39
Rimrock Capital Management	0.88	2.14	0.49	3.74	5.35	4.08	4.11	4.63
Income Research & Management	0.81	2.01	-1.14	0.99	6.00	3.60	3.81	4.07
Western Asset Management Company	1.05	2.48	-1.74	1.85	6.51	4.41	4.48	4.65
Total Contingency	0.18	0.72	-0.25	0.99	3.72	2.44	2.49	2.95
Core Equity Fund	2.38	8.51	14.89	39.54	17.02	16.40	12.94	
S&P 500 Index	2.33	8.55	15.25	40.79	18.67	17.65	14.51	
CF Direct Management Core Equity	2.25	8.36	15.11	47.15				
Wellington Management Company LLP	2.63	8.90	14.85	42.23				
CF Strategic Solutions Equity Fund, LLC	1.93	7.87	10.86	28.18	13.77	12.43		
S&P 500 Index	2.33	8.55	15.25	40.79	18.67	17.65		
Martingale Asset Management	1.97	7.99	11.09	28.74	14.22	12.84		
Total Core	2.12	8.14	12.54	32.75	15.15	14.09	12.52	
Time Weighted Return	0.72	2.64	3.34	8.98	6.85	5.84	5.45	5.05
Traditional Benchmark	0.13	0.40	0.80	1.57	2.71	2.63	2.35	
Policy Benchmark	0.63	2.37	3.40	9.22	6.90	5.75	4.94	

Traditional Benchmark: 7/1/2014 to 6/30/2021 100.0% 3 Month bill + 150

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

Composite Scopes and Weightings:

Policy Benchmark: 7/1/2014 to 6/30/2021 35.0% ICE BofA Merrill Lynch (ML) 1-3 Yr Treasury; 25.0% S&P 500 Index; 25.0% 3 Month Tbill; 15.0% Bloomberg Barclays US Aggregate Bond Index

Traditional Benchmark: 7/1/2014 to 6/30/2021 100.0% 3 Month Tbill + 150

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

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

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

Past performance is not indicative of future results.

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

FUND ALLOCATION – TREASURY SOLUTIONS

As of June 30, 2021

	Target Allocation %	6/30/2021 Allocation %	6/30/2021 Market Value (\$)
Total Liquidity Funds	25.00	20.43	\$ 54,089,176
Fifth Third Bank	25.00	10.23	\$ 27,081,832
Comerica Bank		0.00	\$ 6,086
Dexia Credit		0.37	\$ 970,000
JPM Cash – MMA Account		1.92	\$ 5,070,786
State Street Inst US Govt Money Mkt Fund		7.92	\$ 20,960,472
Total Contingency	50.00	55.48	\$ 146,875,690
Intermediate Term Fund	20.00	22.95	\$ 60,760,704
CF Contingent Asset Portfolio, LLC	15.00	16.72	\$ 44,258,036
High Quality Bond Fund	15.00	15.81	\$ 41,856,951
Total Core	25.00	24.09	\$ 63,767,386
Core Equity Fund	10.00	9.64	\$ 25,527,908
CF Strategic Solutions Equity Fund, LLC	15.00	14.45	\$ 38,239,478
Total Portfolio	100.00	100.00	\$ 264,732,252

Source: Commonfund Client Reporting Portal

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

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

MANAGER ALLOCATION AND PERFORMANCE – TREASURY SOLUTIONS

As of June 30, 2021

	Fund Breakdown	AUM	Bucket % AUM	Fund % AUM	Fund % of Sub	Mgr. % AUM	QTD June-21
Liquidity Funds		\$54,089,176	20.4%				
State Street US Govt Money Market		\$20,960,472		7.9%	38.8%	7.9%	0.00%
JP Morgan MMKT		\$5,070,786		1.9%	9.4%	1.9%	0.01%
Comerica Bank		\$6,086		0.0%	0.0%	0.0%	0.00%
Dexia Credit		\$970,000		0.4%	1.8%	0.4%	0.02%
Fifth Third Bank		\$27,081,832		10.2%	50.1%	10.2%	0.06%
Contingency Funds		\$146,875,690	55.5%				
Intermediate Term Fund		\$60,760,704		23.0%	41.4%		0.21%
Income Research & Management	40%	\$24,304,282				9.2%	0.16%
MetLife Investment Management, LLC	34%	\$20,658,639				7.8%	0.20%
Sit Investment Associates	25%	\$15,190,176				5.7%	0.52%
High Quality Bond Fund		\$41,856,951		15.8%	28.5%		2.15%
Income Research & Management	42%	\$17,579,919				6.6%	2.01%
Rimrock Capital Management	20%	\$8,371,390				3.2%	2.14%
Western Asset Management Company	37%	\$15,487,072				5.9%	2.48%
Contingent Asset Portfolio		\$44,258,036		16.7%	30.1%		0.08%
MetLife Investment Management, LLC	33%	\$14,605,152				5.5%	0.12%
MD Sass Investors Services	33%	\$14,605,152				5.5%	0.20%
Sit Investment Associates	33%	\$14,605,152				5.5%	0.24%
Core Funds		\$63,767,386	24.1%				
Strategic Solutions Equity Fund		\$38,239,478		14.4%	60.0%		7.87%
Martingale Asset Management	100%	\$38,239,478				14.4%	7.99%
Core Equity Fund		\$25,527,908		9.6%	40.0%		8.51%
CF Direct Management Core Equity	59%	\$15,061,466				5.7%	8.36%
Wellington Management Company LLP	41%	\$10,466,442				4.0%	8.90%
Total Assets		\$264,732,252					

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

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

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

MANAGER ALLOCATION AND PERFORMANCE – TREASURY SOLUTIONS

As of August 31, 2021

	Fund Breakdown	AUM	Bucket % AUM	Fund % AUM	Fund % of Sub	Mgr. % AUM	QTD - August 2021
Liquidity Funds		\$98,232,591	29.9%				
State Street US Govt Money Market		\$25,961,574		7.9%	26.4%	7.9%	0.00%
JP Morgan MMKT		\$5,070,871		1.5%	5.2%	1.5%	0.01%
Comerica Bank		\$3,632		0.0%	0.0%	0.0%	0.00%
Dexia Credit		\$1,290,000		0.4%	1.3%	0.4%	0.02%
Fifth Third Bank		\$65,906,513		20.1%	67.1%	20.1%	0.04%
Contingency Funds		\$159,396,767	48.6%				
Intermediate Term Fund		\$64,849,426		19.7%	40.7%		0.15%
Income Research & Management	40%	\$25,939,771				7.9%	0.15%
MetLife Investment Management, LLC	34%	\$22,048,805				6.7%	0.18%
Sit Investment Associates	25%	\$16,212,357				4.9%	0.24%
High Quality Bond Fund		\$46,252,956		14.1%	29.0%		0.95%
Income Research & Management	42%	\$19,426,241				5.9%	0.89%
Rimrock Capital Management	20%	\$9,250,591				2.8%	0.90%
Western Asset Management Company	37%	\$17,113,594				5.2%	1.12%
Contingent Asset Portfolio		\$48,294,385		14.7%	30.3%		0.08%
MetLife Investment Management, LLC	33%	\$15,937,147				4.9%	0.05%
MD Sass Investors Services	33%	\$15,937,147				4.9%	0.12%
Sit Investment Associates	33%	\$15,937,147				4.9%	0.21%
Core Funds		\$70,728,550	21.5%				
Strategic Solutions Equity Fund		\$42,348,512		12.9%	59.9%		6.82%
Martingale Asset Management	100%	\$42,348,512				12.9%	6.89%
Core Equity Fund		\$28,380,038		8.6%	40.1%		5.30%
CF Direct Management Core Equity	60%	\$17,028,023				5.2%	5.47%
Wellington Management Company LLP	40%	\$11,352,015				3.5%	5.18%
Total Assets		\$328,357,907					

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

Note: Manager Performance depicted is net of the sub-advisor's management fees and expenses, and gross of Commonfund Fund fees and expenses. The Fund periodically makes changes to its managers. There can be no assurance that the Fund will continue to invest with any of the listed managers. Third party managers' investment approach and portfolio construction are subject to change and are governed by the Fund's Offering Documents or Investment Management Agreement.

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

Important Notes

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PERFORMANCE | OPEN-END INVESTMENT PRODUCTS

Unless otherwise indicated, performance of open-end investment Products shown is unaudited, net of applicable management, performance and other fees and expenses, presumes reinvestment of earnings and excludes

investor specific sales and other charges. Fees may be modified or waived for certain investors. Please refer to an Investment Product's Prospectus or the Investment Manager's Form ADV Part 2A for more information regarding the Investment Product's fees, charges and expenses. An investor's actual performance and actual fees may differ from the performance information shown due to, among other factors, capital contributions and withdrawals or redemptions, different share classes and eligibility to participate in "new issues."

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HYPOTHETICAL PORTFOLIOS AND HYPOTHETICAL RESULTS | GENERALLY

Certain asset-allocation framework depicted in this presentation is hypothetical and does not represent the investment performance or the actual accounts of any or investors ("Hypothetical Portfolio").

Performance of Hypothetical Portfolios and other composite performance results (based on sector attribution and other dissections and combinations of actual Investment Product performance) should be considered hypothetical results (collectively, "Hypothetical Results"). Hypothetical Portfolios and Hypothetical Results do not reflect actual trading or performance by an Investment Product or an investor, or a recommendation on the part of an Investment Manager or CSI to any particular investor; nor should they be considered as indicative of the skills of the Investment Adviser. Hypothetical Portfolios and Hypothetical Results are provided for illustrative purposes only and do not guarantee past or future investment results. Hypothetical Results are based on assumptions, and do not reflect the impact that economic and market factors may have on investment decisions for an Investment Manager. Differences between the hypothetical assumptions and an actual investment are material and decrease substantially the illustration value of any Hypothetical Results. Hypothetical Portfolios may not take into account the goals, risk tolerance and circumstances of each investor. An investment decision should not be based on Hypothetical Results.

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

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**Oakland University
Capital Debt Report
September 30, 2021**

	<u>Amount</u>	<u>Rate of Interest</u>	<u>Interest Type</u>	<u>FY 22 Debt Service</u>	<u>Expires</u>	<u>Bond Rating</u>	<u>Purpose</u>	<u>Underwriter</u>
Bonded Indebtedness:								
Variable Rate Demand Bonds, Series 1998	\$ 3,720,000	0.060%	Variable	\$ 3,385	2023	Aa2	Sharf Golf Course	Comerica
General Revenue Refunding Bonds, Series 2008	37,860,000 ⁽²⁾	3.373%	Variable/Hedged	3,165,797	2031	Aa2	AVN, Pawley, OC Expansion, Elec. Upgrade, Parking Deck I	Lehman
General Revenue Bonds, Series 2012	37,830,000	4.075%	Fixed	2,951,500	2042	A1	Engineering Center	Barclay's, 5/3rd
Unamortized Premium	2,468,128							
General Revenue Bonds, Series 2013A	50,920,000	4.028%	Fixed	3,891,000	2043	A1	Oakview, Parking Deck II, Upper Play Fields	BOAML, 5/3rd
Unamortized Premium	3,730,331							
General Revenue Refunding Bonds, Series 2013B	10,390,000	2.995%	Fixed	2,301,561	2026	A1	Recreation and Athletics Center	5/3rd, BOAML
General Revenue Refunding Bonds, Series 2014	23,005,000	3.562%	Fixed	1,965,250	2039	A1	HHB, Infrastructure Projects	JPM Chase
Unamortized Premium	2,294,114							
General Revenue Refunding Bonds, Series 2016	107,410,000	3.656%	Fixed	7,470,500	2047	A1	Hillcrest, Oakland Center, Other Capital Projects	Citigroup, PNC, 5/3rd, Stifel
Unamortized Premium	15,033,591							
General Revenue Bonds, Series 2019	79,205,000	3.307%	Fixed	3,305,125	2050	A1	South Foundation, Varner, Dodge, Lepley, CHP, Research	BOAML, PNC
Unamortized Premium	17,095,814							
Other Capital Debt:								
2005 ESA II Loan	7,240,310	3.785%	Fixed	1,302,687	2027		Energy Services Agreement II	
2014 Central Heating Co-Gen	12,083,750	3.880%	Fixed	1,323,750	2031	A1	Combined Heat and Power Co-Generation System	
Unamortized Premium	934,170							
	<u>\$ 411,220,208</u>	<u>3.596%</u> ⁽¹⁾		<u>\$ 27,680,556</u>				

⁽¹⁾ Weighted Average Cost of Capital

⁽²⁾ The 3.373% interest rate is the synthetic fixed interest rate paid to the swap counterparty. The variable interest rate for the bonds resets weekly and is hedged with a LIBOR based rate.

Debt covenant compliance:

The University has a general revenue covenant in many of its borrowing agreements including bonded debt and other capital debt.

These covenants are consistent in all University debt agreements and commit the University to maintain "General Revenues" to exceed the sum of twice the annual debt service on senior debt and one times annual debt service on subordinate debt each fiscal year. The University is in compliance with its debt service covenant ratio requirements.

	<u>Counterparty</u>	<u>Current Notional Amount</u>	<u>Termination Present Value</u>	<u>Expires</u>	<u>Counterparty Rating</u>	<u>Purpose/Comment</u>
Debt-Based Derivative:						
Interest Rate Swap - Synthetically Fix 2008 Bonds	Dexia Credit Local	37,860,000	\$ (5,903,753)	2031	Baa3	Current low variable rates = High termination costs.

The Constant Maturity Swap, CMS was terminated April 26, 2021. The extinguishment value of \$1,069,000 was received bringing the total CMS proceeds to over \$6 million.

The Interest Rate Swap fixes the interest rate paid to the counterparty on the 2008 bond issue at 3.373% for the life of the bond issue (and the swap agreement).

The Termination Present Value is dynamic, changing daily depending on interest rates and eventually becoming zero at the end of the swap agreement.

Bond Ratings:

The rating on the variable rate bonds reflects the current rating of the letter of credit provider, JP Morgan Chase Bank.

The rating on the fixed rate bonds reflects the University's underlying credit rating at the time the bonds were issued.

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

Oakland University
CONSTRUCTION REPORT
9/30/2021

Item	Projects in Progress - over \$500,000	JCOS Approval/Notification Required		Original Budget	Revised Project Budget	Actual Expenditures to Date	Forecast of Final Cost	Source of Funding
1	Oakland Center Expansion Fund Number: 70232 Status: Completed; closeout in process Board of Trustees Approved: February 22, 2016 Projected Completion Date: October 2021	Yes	6/30/2016	\$ 3,281,000	\$ 47,326,974	\$ 47,090,299	\$ 47,326,974	\$ 40,000,000 - #70228 2016 General Revenue Bonds \$ 6,058,874 - #70215 Chartwells \$ 615,695 - #14520 FY17 Excess Debt Service \$ 519,305 - #24350 Capital Projects Supplement \$ 133,100 - OU Credit Union
2	VAR-2019 Renovation Fund Number: 70023 Status: Construction in progress Board of Trustees Approved: December 7, 2020 Projected Completion Date: August 2023	Yes	12/31/2020	\$ 14,800	\$ 45,000,000	\$ 2,355,370	\$ 45,000,000	\$ 45,000,000 - #70046 2019 General Revenue Bonds
3	SFH Renovation and Expansion Fund Number: 70009 Status: Final State approval received Board of Trustees Approved: April 8, 2019 Projected Completion Date: August 2023	Yes	6/30/2019	\$ 40,000,000	\$ 40,000,000	\$ 1,703,069	\$ 40,000,000	\$ 30,000,000 - State of MI Capital Outlay Appropriation \$ 10,000,000 - #70046 2019 General Revenue Bonds
4	WH Renovation & Expansion (Project S.U.C.C.E.S.S.) Fund Number: 70285 Status: Construction in progress - 50% complete Board of Trustees Approved: February 7, 2019 Projected Completion Date: August 2022	Yes	6/30/2019	\$ 833,710	\$ 20,535,000	\$ 8,944,019	\$ 20,535,000	\$ 5,760,000 - #70228 2016 General Revenue Bonds \$ 14,775,000 - #70046 2019 General Revenue Bonds
5	OU Research Facility Fund Number: 70058 Status: Purchase complete; construction documents in process Board of Trustees Approved: June 21, 2021 Projected Completion Date: September 2022	Yes	12/31/2020	\$ 75,000	\$ 18,215,800	\$ 4,252,026	\$ 18,215,800	\$ 9,690,800 - #24350 Capital Projects Supplement - Renovation \$ 4,809,200 - #70046 2019 General Revenue Bonds - Renovation \$ 3,715,800 - #70046 2019 General Revenue Bonds - Purchase
6	CHP-HTHW Replace to Hill House Fund Number: 70053 Status: Construction in progress Board of Trustees Approved: August 3, 2020 Projected Completion Date: September 2023	Yes	6/30/2020	\$ 488,840	\$ 5,000,000	\$ 3,217,894	\$ 5,000,000	\$ 5,000,000 - #70046 2019 General Revenue Bonds
7	Fitzgerald / Anibal House Renovation Fund Number: 70061 Status: Completed; Closeout in process Board of Trustee Approved: April 6, 2020 Projected Completion Date: October 2021	Yes	6/30/2020	\$ 2,000,000	\$ 3,700,000	\$ 3,559,371	\$ 3,700,000	\$ 3,700,000 - #70046 2019 General Revenue Bonds
8	DH-2019 Renovation Fund Number: 70050 Status: Construction in progress - 98% complete Board of Trustee Approved: August 12, 2019 Projected Completion Date: October 2021	Yes	12/31/2019	\$ 3,000,000	\$ 3,000,000	\$ 2,645,240	\$ 3,000,000	\$ 3,000,000 - #70046 2019 General Revenue Bonds
9	Business School Expansion Fund Number: 70233 Status: On Hold Board of Trustee Approved: Design only February 22, 2016 Projected Completion Date: TBD	Yes	6/30/2016	\$ 1,968,500	\$ 1,968,500	\$ 1,034,519	\$ 1,968,500	\$ 1,968,500 - # TBD

Oakland University
CONSTRUCTION REPORT
9/30/2021

Item	Projects in Progress - over \$500,000	JCOS Approval/Notification Required	Original Budget	Revised Project Budget	Actual Expenditures to Date	Forecast of Final Cost	Source of Funding
10	Main Campus Buildings Dampers Replacement Fund Number: 70044 Status: Construction in progress Projected Completion Date: December 2021	No	\$ 970,000	\$ 970,000	\$ 17,717	\$ 970,000	\$ 970,000 - #35571 CARES / HEERF Grant
11	Sharf Patio Expansion Fund Number: 70090 Status: Construction in progress Projected Completion Date: October 2021	No	\$ 250,000	\$ 940,000	\$ 78,979	\$ 940,000	\$ 940,000 - #44254 - Steve Sharf Clubhouse
12	HAM-HVAC Unit Replacement Fund Number: 70100 Status: Construction in progress - 85% complete Projected Completion Date: December 2021	No	\$ 389,400	\$ 874,000	\$ 588,830	\$ 874,000	\$ 874,000 - #35571 CARES / HEERF Grant
13	HTHW Tunnel Piping Repair Fund Number: 70263 Status: Completed; Closeout in process Projected Completion Date: December 2021	No	\$ 200,000	\$ 865,000	\$ 842,977	\$ 865,000	\$ 865,000 - #24810 Plant Renewal Supplement
14	RAC Energy Saving Fund Number: 70250 Status: 92% Complete Projected Completion Date: December 2021	No	\$ 364,305	\$ 859,541	\$ 720,395	\$ 859,541	\$ 859,541 - #14685 FY17 Excess Debt Service
15	Main Campus Bldgs Exhaust Fan Replacement Fund Number: 70081 Status: Design phase in progress Projected Completion Date: December 2021	No	\$ 776,000	\$ 776,000	\$ 18,063	\$ 776,000	\$ 776,000 - #35571 CARES / HEERF Grant
16	Housing-Network Upgrades Fund Number: 70060 Status: Work in progress Projected Completion Date: December 2021	No	\$ 175,000	\$ 655,000	\$ 372,238	\$ 655,000	\$ 655,000 - #35571 CARES / HEERF Grant
17	MSC-LED Lighting Fund Number: 70067 Status: Bidding phase in progress Projected Completion Date: June 2022	No	\$ 386,945	\$ 524,975	\$ 24,532	\$ 524,975	\$ 386,945 - #24350 Capital Projects Supplement \$ 138,030 - #14982 Purchased Utilities
18	Replace Water Main Phase II Fund Number: 71005 Status: Design phase in progress Projected Completion Date: December 2022	No	\$ 510,000	\$ 510,000	\$ -	\$ 510,000	\$ 510,000 - #24810 Plant Renewal Supplement
TOTAL PROJECTS IN PROGRESS			\$ 55,883,500	\$ 191,720,790	\$ 77,465,538	\$ 191,720,790	

Notes:

- A. Revised Project Budget equals the Original Budget plus all approved changes to the budget.
B. Projects are added to the report when a funding source has been identified, a plant fund is authorized for the project, and the project is proceeding.
C. The project status will be reported as CLOSED when the Actual Expenditures to Date equals the Forecast of Final Costs, work order system ties to Banner, and no additional expenditures or work are anticipated on the project.
D. A project whose status has been reported as CLOSED to the Board will be removed from the report for the next Board meeting.