As We See It

Market Viewpoint

Economics

Employment growth reaccelerated in September with 110k non farm payroll jobs added during the month helping to ease fears that the economy is not slipping into recession. In addition August's numbers were revised significantly higher from an initial reported loss of 4k to a gain of 89k jobs, with seasonal adjustment problems for educational professionals being cited for depressing the initial figures. This data coupled with the still positive ISM business climate indices, which remain above 50 and still point to moderate growth support our view that the economy will grow close to 2% annualized in 2H07, but is unlikely to slide into a recession. However, the stronger than expected data—particularly the revisions to August's data—does raise the question if the Fed would have moved so aggressively with a 50 basis point cut last month if the real numbers had of been known at the time, suggesting they might have moved more in line with our initial 25 basis point forecast. In the coming months we will likely see weaker payroll numbers in the 50k to 75k range on average as layoffs in the financial sector following the credit market issues during the summer begin to filter through. Despite the stronger than expected data, we have not changed our view that employment growth will continue to trend lower and we forecast a gradual rise in the unemployment rate from 4.7% to 5.3% by the end of 2008.

Equities

Equity markets continue to move higher, supported by the solid economic data. The S&P 500 and other major indices have regained all the losses suffered during the summer turmoil, with the S&P and Dow again at all-time highs above 1,550 and 14,000, respectively. The biggest problem the market is grappling with is trying to assess the extent of the economic slowdown. Our view is that we will not enter a recession, and while we expect real GDP to slow to below trend 2% growth next year, in this environment we expect nominal earnings to remain positive supported by faster growing economies overseas. With payroll data for September out of the way, investors will now focus their attention on the third-quarter earnings season, which begins in earnest mid-October. Despite massive one-off write-offs from the Financial sector, we still expect positive earnings growth in the low single-digit range.

Fixed Income

Although most of the commentary before the Fed rate cut centered on the need for an easing in monetary conditions, much of the post-Fed commentary revolves around whether the Fed's bold move amounted to a bailout of unwise investors and an endorsement by Fed chair Ben Bernanke of the "Greenspan put." Market sentiment swung abruptly from fear of recession (in early September) to fear of inflation and the yield curve steepened 20 bps to a spread of 60 bps, as the yield on the 2-year Treasury note fell 15 bps and the yield on the 10-year note rose 5 bps. We believe the yield curve is poised for additional steepening, with short-term yields falling but long-term yields rising. With the yield curve likely to pivot around the 5 to 7 year area, we recommend maintaining a neutral duration exposure. With credit markets stabilizing and relatively attractive valuations, we have upgraded investment grade corporate bonds to moderate overweight from a neutral allocation.

Michael P. Ryan, CFA
Head Wealth Management Research – America

Contents | Page

US Market Viewpoint	**1**
Investment Outlook	**2**
Key Forecasts	**3**
Disclaimer	**4**

A concise overview of the US economic outlook, investment strategy and key forecasts from UBS Wealth Management Research. This bi-weekly publication is available to Online Service users from the Research home page.

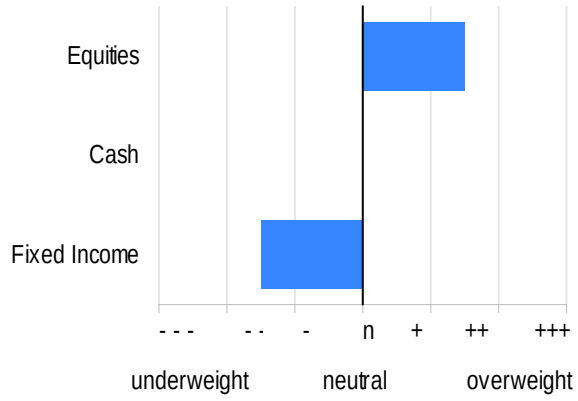
UBS Wealth Management

This report has been prepared by UBS Financial Services Inc.

Investment Outlook

Global Core Asset Allocation

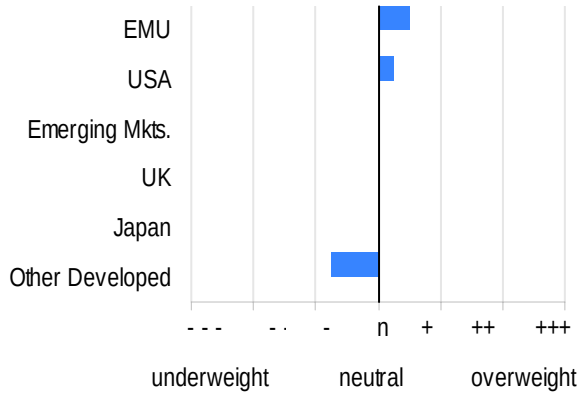
Deviation from Benchmark



Labels: + = moderate overweight, ++ = overweight, +++ = strong overweight, n = neutral, - = moderate underweight, -- = underweight, --- = strong underweight, n.a. = not applicable. Source: UBS WMR

Regional Equity Strategy

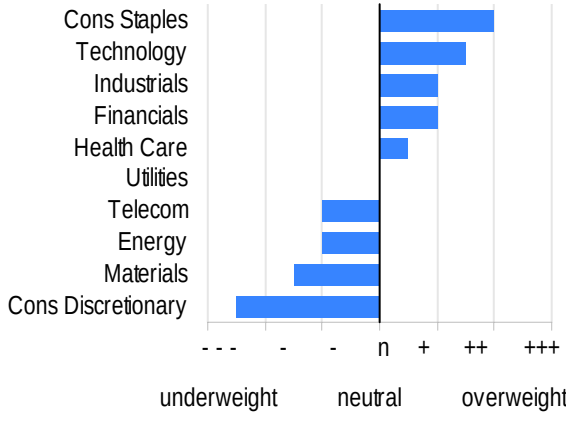
Deviation from Benchmark (not currency hedged)



Labels: + = moderate overweight, ++ = overweight, +++ = strong overweight, n = neutral, - = moderate underweight, -- = underweight, --- = strong underweight, n.a. = not applicable. Source: UBS WMR

US Equity Sector Strategy

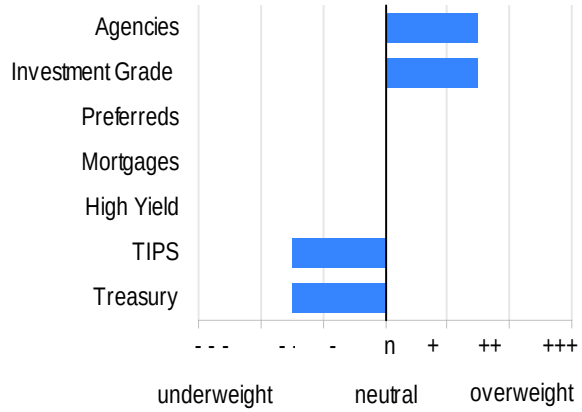
Deviation from Benchmark



Labels: + = moderate overweight, ++ = overweight, +++ = strong overweight, n = neutral, - = moderate underweight, -- = underweight, --- = strong underweight, n.a. = not applicable. Source: UBS WMR

US Fixed Income Strategy

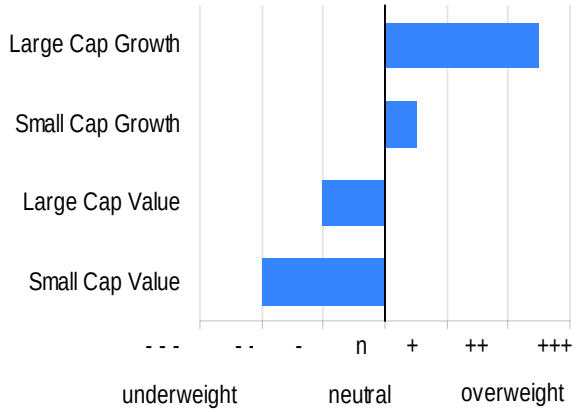
Deviation from Benchmark



Labels: + = moderate overweight, ++ = overweight, +++ = strong overweight, n = neutral, - = moderate underweight, -- = underweight, --- = strong underweight, n.a. = not applicable. Source: UBS WMR

US Equity Size and Style

Deviation from Benchmark



Labels: + = moderate overweight, ++ = overweight, +++ = strong overweight, n = neutral, - = moderate underweight, -- = underweight, --- = strong underweight, n.a. = not applicable. Source: UBS WMR

Key Forecasts

US Economics						
in %	2003	2004	2005	2006	2007F	2008F
Real GDP (y/y)	2.5	3.6	3.1	2.9	2.0	2.0
CPI (y/y)	2.3	2.7	3.4	3.2	2.9	2.9
Core CPI (y/y)	1.5	1.8	2.2	2.5	2.4	2.6
Unemployment rate*	6.0	5.5	5.1	4.6	4.7	5.3
10-year yield*	4.27	4.24	4.39	4.70	4.50	N/A
Fed funds rate*	1.00	2.25	4.25	5.25	4.25	4.25

*Year-end level. Sources: Datastream, UBS WMR

USD FX Forecasts					
	10/5/2007	3 m	6 m	12 m	Equilibrium*
EURUSD	1.41	1.40	1.33	1.30	1.18
USDJPY	117.15	115.0	115.0	112.0	94.2
USDCHF	1.18	1.17	1.20	1.20	1.23

*Estimates of equilibrium exchange rates based on Purchasing Price Parity calculation. Sources: Bloomberg, UBS WMR

Commodity Price Forecasts					
	2003	2004	2005	2006	2007F
WTI Crude Oil $/bbl	34.00	41.50	58.00	66.10	63.80
Gold $/oz	364	410	443	604	690
Silver $/oz	4.88	6.66	7.20	11.6	14.1
Copper $/mt*	1780	2868	3577	6725	6964
Aluminum $/mt*	1431	1717	1875	2480	2850
Zinc $/mt*	828	1048	1350	3275	3715

Note: All prices are yearly averages. *mt=metric ton. Sources: Datastream, UBS WMR

Technical Levels				
	S&P 500	DJIA	NASDAQ	10-Yr. Treasury
Support	1490-1505	13400-13500	2625-2635	4.3%-4.4%
	1460-1470	13000-13100	2540-2560	4.0%-3.8%
Resistance	1556	14000-14100	2725-2750	4.7%-4.9%
	1585-1600	14500-14600	2900-3120	5.2%-5.3%

Source: UBS WMR

Global Disclaimer

This report has been prepared by Wealth Management Research, the Financial Analysis Group of Global Wealth Management & Business Banking, a Business Group of UBS AG (UBS). In certain countries UBS AG is referred to as UBS SA. This publication is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis. Although all information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, no representation or warranty, express or implied, is made as to its accuracy or completeness. All information and opinions as well as any prices indicated are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. At any time UBS AG and other companies in the UBS group (or employees thereof) may have a long or short position, or deal as principal or agent, in relevant securities or provide advisory or other services to the issuer of relevant securities or to a company connected with an issuer. Some investments may not be readily realisable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS. Futures and options trading is considered risky. Past performance of an investment is no guarantee for its future performance. Some investments may be subject to sudden and large falls in value and on realisation you may receive back less than you invested or may be required to pay more. Changes in FX rates may have an adverse effect on the price, value or income of an investment. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein.

For structured financial instruments and funds the sales prospectus is legally binding. If you are interested you may attain a copy via UBS or a subsidiary of UBS.

This document may not be reproduced or copies circulated without prior authority of UBS or a subsidiary of UBS. UBS expressly prohibits the distribution and transfer of this document to third parties for any reason. UBS will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document. This report is for distribution only under such circumstances as may be permitted by applicable law.

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