Equity Reverse Convertibles Tactical Opportunity List

Reverse Convertible Thematic Ideas

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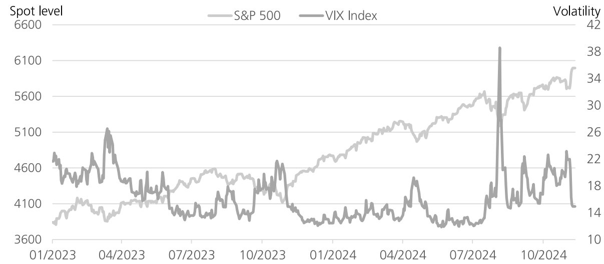
- Reverse convertibles (RCs) are structured solutions that investors can use both to produce additional income while waiting to purchase the underlying stock at lower levels, and to generate yield in equity markets.
- In this publication, we highlight stocks from Equity Radar themes that screen as attractive candidates for RCs, using our CIO RC methodology.
- US equities have risen to all-time highs and implied volatility has repriced lower following the US election.

Figure 1 - S&P 500 close to its all-time high

S&P 500 and VIX index over past months.



Source: Bloomberg, UBS, as of 11 November 2024

Introduction

Structured products such as reverse convertibles (RCs) allow investors alternative access to underlying stocks or enable them to take advantage of more tactical opportunities within markets. Investors looking to invest in equities at lower levels can use reverse convertibles to gain exposure to stocks in the case of a market correction ("buy on dips") and earn a yield while waiting. In this publication, we focus on the stocks that we believe offer the best risk-return trade-off for reverse convertibles. We highlight names across CIO equity radar themes and the corresponding message in focus (MIF). We also highlight the themes which belong to the top 5 theme selection. The stocks are selected using our CIO Reverse Convertible methodology.

Quality growth opportunities

Seek quality growth

We recommend investing in high-quality growth stocks as they usually perform better in a period of uncertain economic growth. We expect them to outperform global markets due to better earnings growth, solid balance sheets and strong profitability. Quality companies are mainly found in the information technology, communication services and healthcare sectors.

Company	Region	Sector	Currency	Tenor	Coupon p.a.	Strike
Merck & Co.	USA	Healthcare	USD	6 months	7.0%	90.0%
Meta Platforms	USA	Communication Svcs.	USD	6 months	10.5%	90.0%

Source: Bloomberg, UBS, as of 11/11/2024. Note: Pricing is for a six month reverse convertible and includes a 2% p.a. distribution fee. The values are indicative and may change over time.

Swiss credit easing beneficiaries

Position for lower rates

The upcoming credit easing cycle should boost stocks of companies with well-balanced financial leverage. While excluding companies with excessive debt, we selected companies with higher financial leverage, compelling fundamental prospects, and attractive stock valuations.

Company	Region	Sector	Currency	Tenor	Coupon p.a.	Strike
Aryzta AG	Switzerland	Consumer Staples	CHF	6 months	6.5%	95.0%
Cembra Money Bank	Switzerland	Financials	CHF	6 months	4.0%	90.0%

Source: Bloomberg, UBS, as of 11/11/2024. Note: Pricing is for a six month reverse convertible and includes a 2% p.a. distribution fee. The values are indicative and may change over time.

Tech Sector Leaders

Seize the AI opportunity

With technology stocks continuing to dominate market returns, we highlight our preferred technology opportunities. Our selection focuses on competitively advantaged, high-return businesses, with long runways, and attractive valuations. We believe a declining yield environment should be supportive of our selection, as should the selection's superior long-term earnings growth trends.

Company	Region	Sector	Currency	Tenor	Coupon p.a.	Strike
Amadeus IT Holding	Spain	Consumer Disc.	EUR	6 months	4.5%	90.0%
Meta Platforms	USA	Communication Svcs.	USD	6 months	10.5%	90.0%

Source: Bloomberg, UBS, as of 11/11/2024. Note: Pricing is for a six month reverse convertible and includes a 2% p.a. distribution fee. The values are indicative and may change over time.

Favored European defensives

Defensive stocks offer relatively stable earnings regardless of the economic cycle and the state of global stock markets. Investors value this attribute particularly during times of rising volatility and uncertainty. We've selected our favored defensive stocks in Europe; we view all the stocks in this basket as fundamentally attractive.

Company	Region	Sector	Currency	Tenor	Coupon p.a.	Strike
Anheuser-Busch InBev	Belgium	Consumer Staples	EUR	6 months	4.5%	90.0%
Tesco	United Kingdom	Consumer Staples	GBp	6 months	5.0%	90.0%
Enel	Italy	Utilities	EUR	6 months	4.5%	90.0%

Source: Bloomberg, UBS, as of 11/11/2024. Note: Pricing is for a six month reverse convertible and includes a 2% p.a. distribution fee. The values are indicative and may change over time.

Total return top picks

Position for lower rates

Attractive dividend yields of companies with sustainable cash distributions are a particularly topical investment strategy with this year's dividend season right around the corner. Share buybacks on top of that further enhance the yield-focused investment strategy. In our view, now is the right time to focus on total returns—i.e., on stocks with potential for both price appreciation and attractive capital returns.

Company	Region	Sector	Currency	Tenor	Coupon p.a.	Strike
Vinci	France	Industrials	EUR	6 months	5.5%	90.0%
Tesco	United Kingdom	Consumer Staples	GBp	6 months	5.0%	90.0%
Intesa SanPaolo	Italy	Financials	EUR	6 months	6.5%	90.0%

Source: Bloomberg, UBS, as of 11/11/2024. Note: Pricing is for a six month reverse convertible and includes a 2% p.a. distribution fee. The values are indicative and may change over time.

Transition materials

Metals and mining stocks have a structurally bright future, in our view, as electrification drives a multi-year demand boom for select metals. Windmills require steel, solar panels need copper and aluminum, and batteries and electric motors use lithium and other metals—just to name a few. Other decarbonization measures also require investments in metals. As share prices have corrected in absolute and relative terms, we think this opens up an attractive entry point for a sector with structural growth drivers.

Company	Region	Sector	Currency	Tenor	Coupon p.a.	Strike
Freeport-McMoRan	USA	Materials	USD	6 months	11.5%	90.0%

Source: Bloomberg, UBS, as of 11/11/2024. Note: Pricing is for a six month reverse convertible and includes a 2% p.a. distribution fee. The values are indicative and may change over time.

Market & Volatility Snapshot

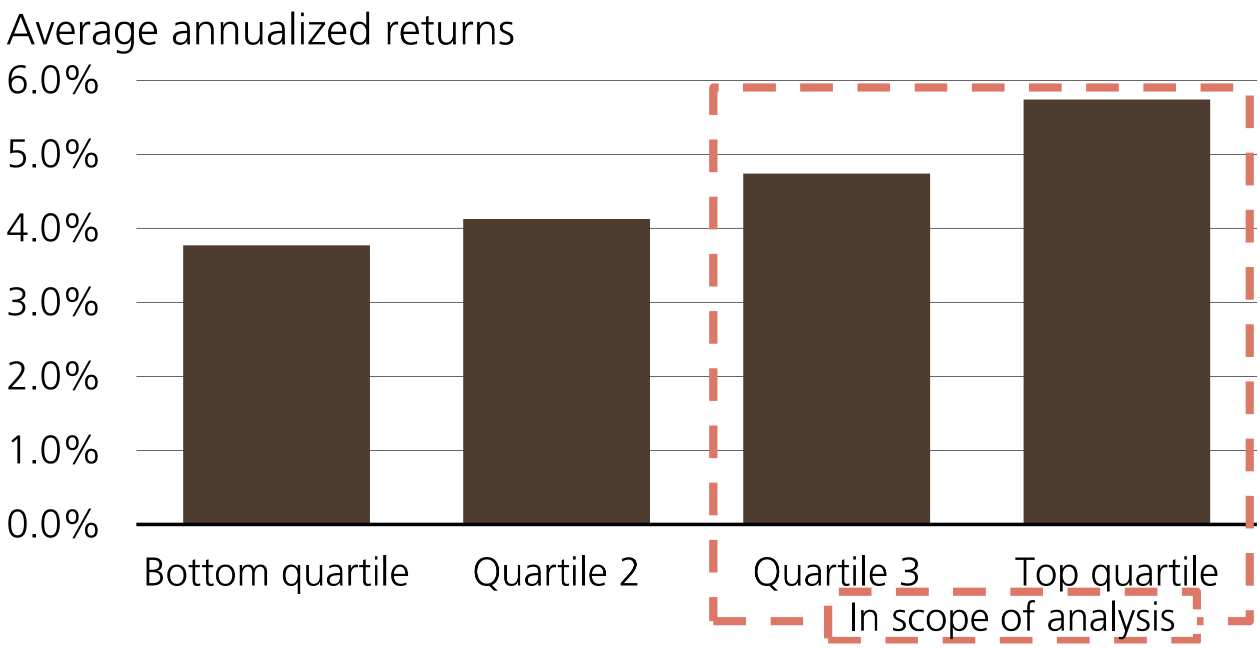
	Price		52 Week range		UBS Global Research				Volatility	
Company	Last price	YTD return	Low	High	Rating	Target Price	Upside	Last Update	Percentile	Richness
Amadeus IT Holding	68.0	4.8%	54.4	68.5	Neutral	67.0	-1%	07/11/2024	3.7	2.9%
Anheuser-Busch InBev	53.3	-8.8%	52.7	62.1	Buy	72.0	35%	01/11/2024	33.3	2.2%
Aryzta AG	1.5	-1.9%	1.5	1.8	Buy	2.1	38%	21/10/2024	3.7	2.9%
Cembra Money Bank	80.6	22.9%	61.5	80.6	Neutral	74.0	-8%	13/09/2024	38.9	1.8%
Enel	6.7	-0.8%	5.7	7.3	Buy	8.3	24%	06/11/2024	72.2	2.2%
Freeport-McMoRan	46.4	8.9%	33.2	54.9	Buy	55.0	19%	22/10/2024	83.3	2.5%
Intesa SanPaolo	3.8	45.1%	2.5	4.1	Buy	5.0	29%	01/11/2024	59.3	0.1%
Merck & Co.	102.9	-5.6%	100.2	133.0	Buy	125.0	21%	31/10/2024	79.6	3.4%
Meta Platforms	589.3	66.5%	315.8	595.9	Buy	719.0	22%	31/10/2024	3.7	4.1%
Tesco	345.2	18.8%	273.5	370.6	Buy	410.0	19%	01/11/2024	38.9	3.0%
Vinci	100.3	-11.8%	98.1	120.1	Buy	132.0	32%	30/10/2024	66.7	0.8%

Source: Bloomberg, UBS, as of 11 November 2024. Note: Percentile refers to the percentile of current implied volatility (three months, at-the-money) compared to its past one-year range. Richness refers to the difference between current six-month implied volatility and realized volatility for the past six months. Last update refers to last change of UBS Investment Bank price target. UBS CIO GWM does not have any influence on UBS IB ratings or their changes. The rating and/or target price may change after the publication of this document. Please consult https://research.ibb.ubs.com for the latest ratings. For further information regarding third-party research and disclosures under the EU Market Abuse Regulation (MAR) please consult ubs-cio-wm@ubs.com or your client advisor. Please also consider further disclosures at the end of this report.

Stock selection approach

Our approach builds on a quantitative model that incorporates fundamental data (such as liquidity and default risk) and market-based predictors (such as implied volatility and momentum). Using a machine learning model, we assign a score to each stock within our equity universe. Highly rated stocks typically have relatively elevated levels of volatility compared both with their own recent history, and with their peers. They also typically have lower risk metrics and positive momentum. This approach has performed well historically and has typically selected stocks that were relatively more attractive for reverse convertibles. Our report "Selecting stocks for reverse convertibles" discusses our approach in more detail. The selection has performed well in 2023, discussed in our report "The CIO reverse convertible selection in 2023".

Figure 2 - CIO's selection has performed well historically



Source: Bloomberg, UBS, as of July 2021. For more information please refer to our report "Selecting stocks for reverse convertibles" or to the paragraph "Stock selection approach".

What is a reverse convertible?

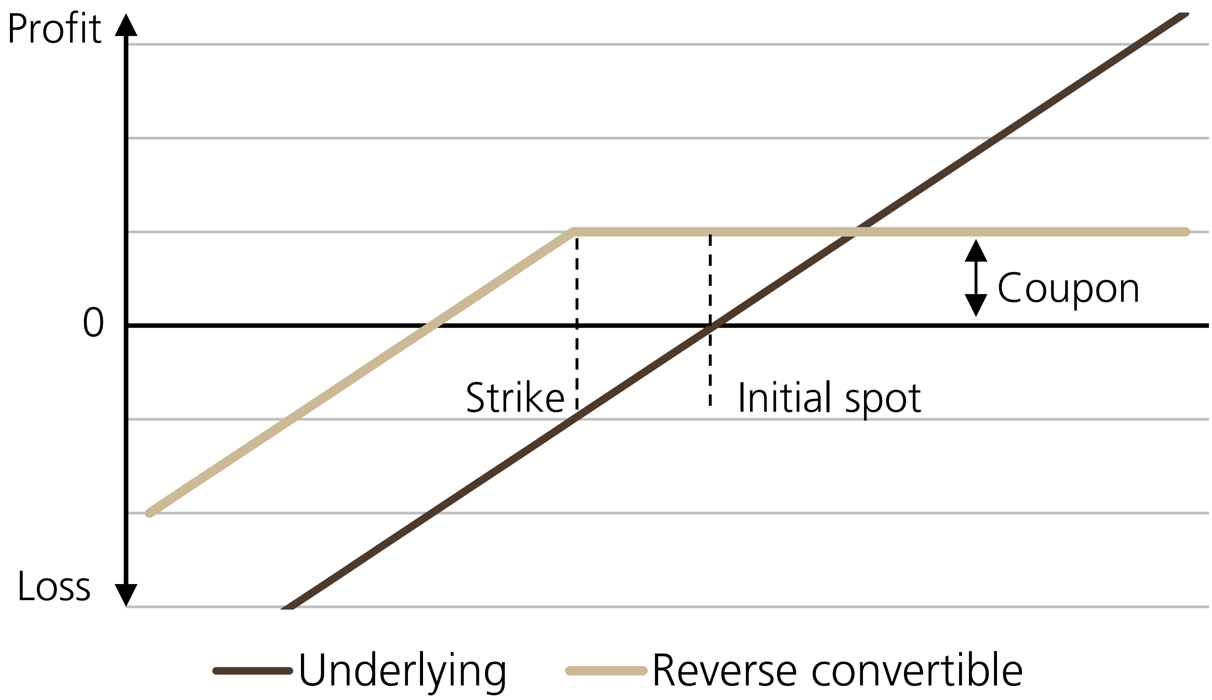
Reverse convertible notes are structured investment products that are linked to a reference asset (e.g., individual stock, share index, or equity basket) and may offer above-market yield. They generally consist of two components:

- a coupon-paying bond;
- a put option that gives the issuer of the note the right to sell the underlying asset to the investor at a predetermined price (strike).

The payoff of a reverse convertible can be summarized as follows (Fig. 3). At the product's maturity, if the price of the underlying asset is equal to or greater than the strike, the investor gets a cash payment equivalent to the invested capital. If the price of the underlying asset falls below the strike at maturity, the investor receives either a physical delivery of the underlying asset or the then-applicable value of the asset in cash. So the coupon compensates the investor both for being exposed to the downside risk of the underlying asset and for giving up the upside participation of the asset above the strike level.

Figure 3 - Payoff profile of a reverse convertible compared with the underlying asset at expiry

In this example, the strike level is set below the initial price of the underlying asset



Source: UBS.

Key features of investing in reverse convertibles:

- **Buy at a discount:** If the product is physically settled, an investor can use it to build up exposure to the reference asset. In such a case, the investor should set the strike level below the inception spot price at which he would like to purchase the asset (e.g., to 90% of spot). Acquiring a reverse convertible enables the investor to "buy the dip."
- **Position defensively:** An investor who is looking to add exposure, but expects the price of the underlying asset to be relatively moderate (i.e., flat return expectation), may look to reverse convertibles for a return rather than buy the asset itself.
- **Get a stable cash flow:** The coupon provides a stable and predictable income source. Investors who add reverse convertibles to their portfolios can therefore optimize the total yield, particularly when interest rates are low.

- **Sell volatility:** Investors who want to profit from high volatility and cautiously add exposure can invest in reverse convertibles and take advantage of the fact that higher coupons mean higher volatility.

Risks associated with reverse convertibles
Investors must understand the risks associated with the structured products that they intend to purchase. These include:

- **Loss of invested capital:** Investors that buy a reverse convertible are selling a put option, which involves the possibility of losing part of their invested capital should the underlying asset fall significantly below the strike level at expiry.
- **Liquidity:** Risk of limited liquidity in the secondary market could complicate the daily pricing of the product, so investors should be prepared to hold a reverse convertible until maturity to avoid incurring additional costs or losses.
- **Default risk:** Investors in reverse convertibles are exposed to the default risk of the product issuer.
- **Limited return potential:** The return potential is limited to the coupon payment. Investors forgo potential dividend payments or capital appreciation of the underlying stock.

Price transparency can be a problem with certain types of structured products. In our view, this is less the case for reverse convertibles, given their relatively plain payoff. Furthermore, in the case of reverse convertibles, demand and supply for protection (i.e., volatility) may change over time and hence impact return characteristics. For more information on reverse convertibles please see our report "CIO explains: Reverse Convertibles."

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Sell	FSR is > 6% below the MRA.	8%	33%
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Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2024.
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Equity selection system

UBS CIO GWM equity selection system
We provide two equity selections: Most Preferred (MP) and Least Preferred (LP).

Most preferred
We expect the stock to outperform the benchmark in the next 12 months.
Least preferred
We expect the stock to underperform the benchmark in the next 12 months.
Suspended
Sometimes legal, regulatory, contractual or best-business-practice obligations restrict us from issuing research on a company. This situation normally stems from UBS Investment Bank's involvement in an investment banking transaction associated with that company.

Global asset class preferences definitions
The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid, commonly known stock indexes, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

1. Most attractive – We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
2. Attractive – We consider this asset class to be attractive. Consider opportunities in this asset class.
3. Neutral – We do not expect outsized returns or losses. Hold longer-term exposure.
4. Unattractive – We consider this asset class to be unattractive. Consider alternative opportunities.
5. Least attractive – We consider this asset class to be among the least attractive. Seek more favorable alternative opportunities

Equity selection: An assessment relative to a benchmark
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Our selection is based on an assessment of the company's fundamental outlook and valuation, the risks owning the stock entails, including material sustainability risks and the diversification benefits it provides in an investment portfolio, among many other factors. UBS GWM CIO's selection methodology enables wealth management clients to invest in a specific investment theme or focus on a sector/industry or country/region.
The lead strategist is responsible for the CIO view on a stock, while the EPL owner(s) is/are responsible for the stock selection within an EPL. Stocks can be selected for multiple EPLs. For consistency's sake, a stock can only be selected as either Most Preferred or Least Preferred, not both simultaneously. As EPL benchmarks differ, stocks do not need to be included on every list to which they could theoretically be added.
Only stock views prepared by UBS Financial Services Inc. (UBS FS) which are compatible with the above equity selection system are provided. A stock cannot be selected as Most Preferred if it is rated Sell by UBS Investment Bank, while a Buy-rated stock by UBS Investment Bank cannot be selected as Least Preferred.
For more information about our present and past recommendations, please contact ubs-cio-wm@ubs.com

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.

Current UBS CIO global rating distribution (as of last month-end)

Least Preferred	1%
Most Preferred	99%

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