

# CIO Autocallable RCNs Opportunity List

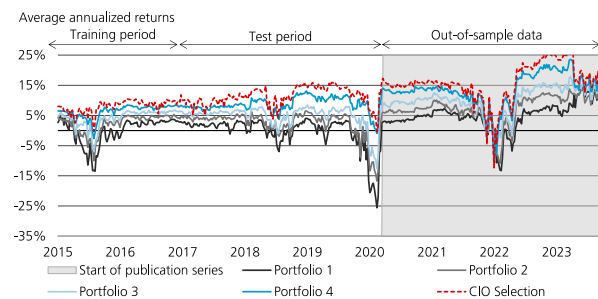
## Autocallables

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- **Focus:** Autocallable reverse convertible notes (RCNs) are structured products that pay a coupon by selling a put option on the underlying asset. If certain criteria are met, the product is called early and the notional is repaid.
- **Conclusion:** In this biweekly publication, we highlight stocks that screen favorably in our CIO methodology to select single stock underlyings for autocallable RCNs.
- **You should read this report if...** you are seeking exposure to yield enhancement instruments via autocallable RCNs on single stocks.

### CIO selection has performed well historically

The selection methodology has performed well historically; for more information, please see our yearly review report ["It's good to be called – CIO Autocallable Review 2024"](#)



Source: the BLOOMBERG PROFESSIONAL™ Service, UBS, as of June 2024. Note historical performance is not an indicator of future performance.

Structured products such as autocallable RCNs can generate positive yields across different types of market scenarios, with typically lower volatility than the underlying asset (e.g., a single stock). We have developed an approach to identify stocks that we consider attractive for structured product issuance. Investors may be exposed to downside moves of the underlying asset and to the credit risk of the product issuer. Our approach identifies stocks with above-average default and valuation metrics compared to peers within the same sector, making drawdowns less likely. Additionally, we look for relative high skewness, indicating that investors can earn a comparably attractive coupon. The methodology is described in our research note ["Introducing the CIO Autocallable Methodology"](#). The process is split into three steps:

### 1) CIO Autocallable Methodology

We use a machine learning model as a quantitative screen to identify stocks suited for autocallables. After screening, we take 25% of equities that rank best on a number of different fundamental, momentum and market factors.

### 2) Bottom-up analysis

In a next step, we use an additional filter by only including stocks that are rated Most Preferred by UBS CIO or Buy by UBS Investment Bank (IB).

### 3) Operational filters

We exclude stocks with low market capitalization, as derivatives markets for these stocks may not be liquid enough. Stocks with a low implied volatility are also excluded as they yield coupons that are not attractive after transaction costs.

The figure shows the performance of our selection in an out-of-sample backtest, meaning it uses data the model has not been trained on. It confirms that our approach can be helpful in identifying suitable stocks, as the dotted line, which represents the portfolio with the stocks we favor the most, outperforms over the full period. The following pages include our top picks

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Region: **US Listed**

Company Name	CIO Most Preferred	UBS IB Rating	Target Price	Upside to Target Price	Implied Volatility	Volatility Percentile	Reuters Instr. Code
<b>Communication Services</b>							
Alphabet Inc	Yes	Neutral	192.0	10%	26.9%	<b>50.9</b>	GOOG.O
ServiceNow	Yes	Buy	1055.0	4%	32.1%	<b>58.5</b>	NOW
Spotify Technology		Buy	485.0	6%	35.5%	<b>1.9</b>	SPOT.K
<b>Consumer Discretionary</b>							
Amazon.com	Yes	Buy	230.0	14%	30.8%	<b>64.2</b>	AMZN.O
AutoZone Inc.		Buy	3500.0	13%	25.7%	<b>88.7</b>	AZO
Booking Hldg Rg		Buy	5550.0	12%	25.3%	<b>24.5</b>	BKNG.O
Chipotle Mexican Grill		Buy	70.0	19%	29.4%	<b>60.4</b>	CMG
Ferrari NV	Yes	Buy	513.0	19%	25.6%	<b>58.5</b>	RACE.K
Hilton Worldwide		Buy	274.0	10%	22.0%	<b>56.6</b>	HLT
Home Depot Inc.	Yes	Buy	475.0	16%	20.9%	<b>43.4</b>	HD
Lowe's Companies	Yes	Buy	290.0	8%	25.1%	<b>86.8</b>	LOW
Netflix Inc	Yes	Buy	825.0	0%	30.9%	<b>9.4</b>	NFLX.O
The TJX Companies	Yes	Buy	148.0	23%	24.6%	<b>98.1</b>	TJX
<b>Consumer Staples</b>							
PepsiCo Inc.		Buy	193.0	22%	20.2%	<b>98.1</b>	PEP.O
<b>Energy</b>							
ConocoPhillips	Yes	Buy	140.0	25%	25.7%	<b>66.0</b>	COP
Diamondback Energy	Yes	Buy	235.0	33%	30.5%	<b>86.8</b>	FANG.O
EOG Resources		Buy	164.0	22%	24.2%	<b>35.8</b>	EOG
ExxonMobil Corp.	Yes	Buy	149.0	25%	21.6%	<b>45.3</b>	XOM
Hess Corp.		Buy	173.0	19%	24.9%	<b>28.3</b>	HES
SLB	Yes	Buy	54.0	25%	31.7%	<b>83.0</b>	SLB
Williams Cos Inc.	Yes	Buy	55.0	-3%	22.6%	<b>86.8</b>	WMB
<b>Financials</b>							
Ameriprise Financial	Yes	Buy	580.0	3%	21.6%	<b>49.1</b>	AMP
Arch Capital Group Ltd.		Buy	131.0	29%	26.1%	<b>86.8</b>	ACGL.O
Ares Management Corp		Buy	194.0	16%	27.2%	<b>49.1</b>	ARES.K
Intercontinental Exchange	Yes	Buy	185.0	19%	20.6%	<b>94.3</b>	ICE
MSCI Inc.		Buy	680.0	15%	23.7%	<b>17.0</b>	MSCI.K
S&P Global		Buy	610.0	21%	20.3%	<b>54.7</b>	SPGI.K

Source: the BLOOMBERG PROFESSIONAL™ service, Reuters, UBS, as of 4 November 2024. Target price refers to 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](mailto:ubs-cio-wm@ubs.com) or your client advisor. Please also consider further disclosures at the end of this report.

Region: **US Listed**

Company Name	CIO Most Preferred	UBS IB Rating	Target Price	Upside to Target Price	Implied Volatility	Volatility Percentile	Reuters Instr. Code
<b>Healthcare</b>							
AbbVie	Yes	Neutral	181.0	10%	23.6%	<b>90.6</b>	ABBV.K
Abbott Laboratories	Yes	Buy	146.0	26%	20.6%	<b>71.7</b>	ABT
Alnylam Pharma		Buy	310.0	32%	39.4%	<b>22.6</b>	ALNY.O
Boston Scientific Corp.	Yes	Buy	102.0	17%	24.2%	<b>90.6</b>	BSX
Danaher Corporation	Yes	Buy	305.0	32%	25.2%	<b>81.1</b>	DHR
Eli Lilly & Co.	Yes	Buy	1100.0	47%	36.8%	<b>98.1</b>	LLY
Intuitive Surgical	Yes	Neutral	500.0	-5%	26.6%	<b>15.1</b>	ISRG.O
Merck & Co.	Yes	Buy	125.0	30%	25.0%	<b>96.2</b>	MRK
Stryker Corporation	Yes	Neutral	370.0	-5%	20.6%	<b>45.3</b>	SYK
Thermo Fisher Scientific	Yes	Buy	700.0	36%	23.0%	<b>60.4</b>	TMO
<b>Industrials</b>							
3M Company		Buy	184.0	42%	26.1%	<b>75.5</b>	MMM
Eaton Corp.	Yes	Buy	431.0	20%	25.5%	<b>43.4</b>	ETN
GE Aerospace		Buy	230.0	30%	31.5%	<b>88.7</b>	GE
Johnson Controls	Yes	Neutral	90.0	7%	25.8%	<b>69.8</b>	JCI
Northrop Grumman		Buy	643.0	30%	20.4%	<b>77.4</b>	NOC
PACCAR Inc		Buy	124.0	10%	25.5%	<b>64.2</b>	PCAR.O
<b>Information Technology</b>							
Accenture PLC	Yes	Buy	445.0	26%	25.0%	<b>84.9</b>	ACN
Adobe Systems Inc.	Yes	Neutral	550.0	9%	35.2%	<b>88.7</b>	ADBE.O
Advanced Micro Devices	Yes	Buy	205.0	52%	43.1%	<b>26.4</b>	AMD.O
Apple Inc.	Yes	Neutral	236.0	5%	22.8%	<b>56.6</b>	AAPL.O
Arista Networks Inc	Yes	Neutral	425.0	14%	40.0%	<b>34.0</b>	ANET.K
Broadcom Inc.	Yes	Buy	200.0	21%	42.9%	<b>86.8</b>	AVGO.O
KLA Corporation	Yes	Neutral	765.0	24%	39.0%	<b>73.6</b>	KLAC.O
LAM Research	Yes	Buy	105.0	50%	41.7%	<b>75.5</b>	LRCX.O
Microsoft Corp.	Yes	Buy	500.0	20%	24.0%	<b>75.5</b>	MSFT.O
Palo Alto Networks	Yes	Neutral	355.0	-8%	43.1%	<b>94.3</b>	PANW.K
Salesforce.com	Yes	Neutral	275.0	-15%	33.1%	<b>88.7</b>	CRM
Texas Instruments Inc.	Yes	Buy	250.0	24%	27.9%	<b>75.5</b>	TXN.O
Workday	Yes	Neutral	270.0	4%	39.1%	<b>92.5</b>	WDAY.O
<b>Materials</b>							
Sherwin-Williams Co.		Buy	457.0	21%	21.1%	<b>26.4</b>	SHW
<b>Utilities</b>							
Nextera Energy Inc.	Yes	Buy	96.0	26%	26.8%	<b>45.3</b>	NEE

Source: the BLOOMBERG PROFESSIONAL<sup>TM</sup> service, Reuters, UBS, as of 4 November 2024. Target price refers to 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](mailto:ubs-cio-wm@ubs.com) or your client advisor. Please also consider further disclosures at the end of this report.

Region: **European Listed**

Company Name	CIO Most Preferred	UBS IB Rating	Target Price	Upside to Target Price	Implied Volatility	Volatility Percentile	Reuters Instr. Code
<b>Communication Services</b>							
Publicis Groupe SA		Buy	116.0	17%	23.1%	<b>81.1</b>	PUBP.PA
<b>Consumer Discretionary</b>							
Hermès International	Yes	Buy	2515.0	25%	26.9%	<b>86.8</b>	HRMS.PA
Inditex SA	Yes	Neutral	48.0	-6%	23.3%	<b>66.0</b>	ITX.MC
LVMH	Yes	Neutral	629.0	7%	27.5%	<b>96.2</b>	LVMH.PA
Moncler	Yes	Neutral	53.0	11%	29.8%	<b>75.5</b>	MONC.MI
<b>Healthcare</b>							
UCB		Buy	200.0	20%	37.5%	<b>98.1</b>	UCB.BR
<b>Industrials</b>							
Safran SA	Yes	Neutral	220.0	2%	26.8%	<b>90.6</b>	SAF.PA
Schneider Electric	Yes	Buy	270.0	12%	26.3%	<b>79.2</b>	SCHN.PA
Wartsila		Buy	22.0	23%	29.4%	<b>86.8</b>	WRT1V.HE
<b>Information Technology</b>							
ASML	Yes	Neutral	710.0	14%	35.4%	<b>71.7</b>	ASML.AS
Adyen NV		Buy	1700.0	36%	35.9%	<b>7.5</b>	ADYEN.AS
Amadeus IT Holding	Yes	Neutral	67.0	0%	20.4%	<b>7.5</b>	AMA.MC
SAP AG	Yes	Buy	237.0	9%	23.4%	<b>62.3</b>	SAPG.F

Source: the BLOOMBERG PROFESSIONAL™ service, Reuters, UBS, as of 4 November 2024. Target price refers to 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](mailto:ubs-cio-wm@ubs.com) or your client advisor. Please also consider further disclosures at the end of this report.

## Additional comments

<b>Sector:</b>	Sector classification as determined by the Global Industry Classification Standard (GICS).
<b>UBS GR Rating:</b>	Rating as determined by UBS Global Research. Note that rating is as of publication date and may change afterwards.
<b>Target Price:</b>	12-month target price target price is sourced from UBS Global Research. Note that it is as of publication date and may change afterwards.
<b>Upside to Target Price:</b>	Difference between target price and spot price as of publication date. A positive upside indicates that the stock price is trading below its target price and vice versa.
<b>Implied volatility:</b>	Market implied volatility for three month at-the-money put options. High implied volatility indicates that the market expects that the stock price will fluctuate a lot. Hence, an Autocallable RCN on such a stock typically pays a higher coupon, compared to the same stock with lower implied volatility.
<b>Volatility percentile:</b>	Shows current volatility compared to observations over the past year. Note that a high percentile indicates that volatility is relatively high compared to observations over the past year.

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### Global Equity 12-Month Rating Definitions

**Buy:** FSR is > 6% above the MRA. **Neutral:** FSR is between -6% and 6% of the MRA. **Sell:** FSR is > 6% below the MRA.

### Key Definitions

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk pre-mium).

**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

### Exceptions and Special Cases

**Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified the Companies Mentioned or Company Dis-closure table in the relevant research piece.

**UBS Global Research: Global Equity Rating Definitions**

<b>12-Month Rating</b>	<b>Definition</b>	<b>Coverage<sup>1</sup></b>	<b>IB Services<sup>2</sup></b>
<b>Buy</b>	FSR is > 6% above the MRA.	54%	41%
<b>Neutral</b>	FSR is between -6% and 6% of the MRA.	37%	43%
<b>Sell</b>	FSR is > 6% below the MRA.	9%	36%
<b>Short-Term Rating</b>	<b>Definition</b>	<b>Coverage<sup>3</sup></b>	<b>IB Services<sup>4</sup></b>
<b>Buy</b>	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
<b>Sell</b>	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 30 June 2023.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.



## UBS CIO risk views

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### Credit risk flags

CIO attaches a credit risk flag to the instruments under its coverage. Credit risk is assessed based on the remaining tenor and / or instrument type. The flag indicates the likelihood that a holder of the instrument will not receive a coupon or principal payment when it comes due. For subordinated and hybrid instruments, which are usually callable and have a remote or no fixed maturity date, we apply one uniform credit risk flag per issuer and instrument type. The idea is to reflect the possibility of contractual trigger events or regulatory intervention occurring. Either can impose losses on bondholders regardless of the remaining term of the instrument or a specific issuer default event. Credit risk flags only indicate our view of the riskiness of a particular instrument. Credit risk flags should not be seen as recommendations to buy, hold or sell. In fact, any combination of risk flags and relative value recommendations is possible.

#### Very low credit risk



We believe that the probability of debt payments not being made when they come due is very low (cumulative probability of less than 2%).

#### Medium credit risk



We believe that the probability of debt payments not being made when they come due is low to medium (cumulative probability of non-payment between 2% and less than 20%).

#### High credit risk



We believe that the probability of debt payments not being made when they come due is at least one in five cumulatively.

### UBS credit rating

The UBS credit rating reflects our view of the creditworthiness of a company (consistent with our risk flags) and represents a long-term (senior) debt rating. The symbols are similar to those of rating agencies but UBS credit ratings solely reflect UBS's opinion, and are distinct from evaluations assigned by rating agencies. The UBS credit rating is not a recommendation to buy, hold or sell a particular bond, nor is it reflective of market pricing and/or market sentiment. All combinations of a credit rating and relative valuation recommendations are possible.

### Issuer credit outlook

We complement the instrument-specific risk information of the credit risk flags by indicating our outlook for the credit quality of an issuer over the next 12 months. Depending on instrument pricing, all combinations of an issuer credit outlook and relative valuation recommendations are possible.

**Improving:** We expect the credit profile of the issuer to improve, to an extent that may result in upgrades by rating agencies.

**Stable:** We do not expect the credit profile of the issuer to change meaningfully.

**Deteriorating:** We expect the credit profile of the issuer to deteriorate, to an extent that may result in downgrades by rating agencies.

Note that the credit views in this report are those of UBS Financial Services and may differ from those of other parts of UBS regarding the same issuer.

## UBS CIO valuation views

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### Relative value bond recommendations

Our relative value bond recommendations are based on an average investment horizon of six to 12 months. They reflect our assessment of a bond's attractiveness relative to comparable instruments under CIO coverage. Comparable instruments typically exhibit similar credit quality, are denominated in the same currency, and belong to the same segment of the bond market.

Views on a particular instrument can change within the six- to 12-month time frame, and those that apply to one instrument do not necessarily apply to others of the same issuer. Views on a particular instrument may be withdrawn if it does not have a sizeable basket of comparable instruments under CIO coverage.

**Attractive** Bonds seen as "attractive" are expected to generate a total return exceeding the average return of comparable instruments. Our recommendation can stem from a positive view on the issuer's credit profile not fully reflected in



the price, unduly high risk premiums, our take on an instrument's call probability, the risk of coupon deferrals, and external factors including regulatory intervention.

**Fair** Bonds seen as "fair" are expected to produce a total return broadly in line with the average return of comparable instruments.

**Expensive** Bonds seen as "expensive" are expected to earn a total return that is less than the average return of comparable instruments. Our recommendation can stem from a negative view on the issuer's credit profile not fully reflected in the price, unduly tight risk premiums, our take on an instrument's call probability, the risk of coupon deferrals, and external factors including regulatory intervention.

## Sell recommendations

**Sell** A Sell recommendation is assigned when the risk of an adverse outcome for an instrument exceeds what is reflected in its current valuation. Such situations can include those in which the instrument appears likely to post negative total returns until redemption, either due to a highly negative yield to maturity or an imminent call at a price below market valuations.

## For Credit Suisse clients

Please note that Credit Suisse channels might temporarily display a different rating terminology when referencing UBS CIO bond recommendations.

While terminology might differ due to technical limitations, the definitions of the UBS valuation methodology apply.

UBS bond recommendation	Credit Suisse channels
Attractive	Buy
Fair	Neutral
Expensive	<i>no equivalent in CS channels</i>
Sell	Sell

For more information about our present and past recommendations, please contact [ubs-cio-wm@ubs.com](mailto:ubs-cio-wm@ubs.com).

### Issuer valuation views

In addition to the relative value bond recommendations, CIO provides issuer valuation views for selected issuers from developed countries. Large, frequent issuers often provide a relatively consistent bond curve in their main issuing currencies. A general valuation view on them provides useful guidance when constructing a bond portfolio or assessing new issues. Issuer valuation views cannot simply be broken down to the instrument level. Any combination of our credit risk flags and issuer valuation views is generally possible. Issuer views do not restrict CIO from having different valuation views on individual bonds.

**Preferred list:** Bonds of issuers on our Preferred list are generally expected to offer a more attractive relative valuation than those of similarly rated peers.

**Core list:** Bonds of issuers on our Core list are generally expected to generate total returns in line with those of similarly rated peers. Core issuers offer relatively liquid bond curves and comparatively stable credit profiles.

**Avoid list:** Bonds of issuers on our Avoid list are generally expected to offer a less attractive relative valuation than those of similarly rated peers. The decision to include an issuer on the Avoid list reflects, in most cases, relative value considerations, which can but do not have to be based on an expected deterioration in credit quality. As long as we have not issued a Sell recommendation existing positions may be held.

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For details please see "Understanding bonds: A guide to CIO's credit offering", published 16 April 2021.

### Statement of Risk

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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

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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

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Least Preferred	1%
Most Preferred	99%

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