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## Market Volatility Tests UBS's Pivot to the Ultrarich

Shares in the Swiss lender fall after its profit misses expectations



UBS CEO Sergio Ermotti during a panel discussion in Zurich on Jan. 18. PHOTO: ARND WIEGMANN/REUTERS

By [Brian Blackstone](#) and [Pietro Lombardi](#)

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ZURICH—UBS [UBS -0.50%](#) ▼ Group AG said Tuesday that it swung to a profit in the fourth quarter but missed analysts' expectations, as [volatile financial markets](#) weighed on its wealth-management and investment-banking units.

The results underscore the challenges Switzerland's biggest bank faces as it seeks growth when fluctuations in stock markets and geopolitical uncertainty make wealthy clients more risk averse. Meanwhile, low and negative interest rates in Europe—which show no sign of ending anytime soon—are weighing on European banks' bottom lines.

UBS reported a net profit of \$696 million for the quarter, compared with a loss of \$2.42 billion a year earlier, when it took a hit from the U.S. tax overhaul of almost \$3 billion. Operating income fell 3.3% to \$6.97 billion.

Analysts had expected the bank to post a \$729 million profit for the period, according to a consensus forecast provided by UBS. The bank's wealth-management division recorded net outflows of \$7.9 billion in the fourth quarter.

UBS shares were down 3.9% in midafternoon European trading. Its shares have fallen about one-third from one year ago.

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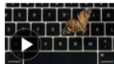




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"These are very poor results, and come as a somewhat of a negative surprise so soon after the upbeat investor day," said analysts at Citi. At UBS's investor day seminar in October, the bank outlined a strategy focusing on [managing wealth for the ultrarich](#) in the U.S. and Asia, and said it would deliver profit growth in wealth

management at the upper end of its 10%-to-15% range from 2019 to 2021.

One day after the investor update, Chief Executive Sergio Ermotti bought one million UBS shares for around 13 million Swiss francs (\$13 million).

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Full-year 2018 profit was \$4.9 billion, compared with just under \$1 billion in 2017. That year, profit was weighed down by changes to U.S. tax law that eroded the value of its deferred tax assets, which are past credits and deductions that companies can use to offset future tax payments.

“Lack of progress in resolving geopolitical tensions, rising protectionism and trade disputes along with increased volatility, which affected investor sentiment and confidence in the second half of the year and particularly in the fourth quarter of 2018, would affect client activity in the first quarter of 2019,” the bank said Tuesday.

Adjusted pretax profit for the quarter fell at UBS’s investment bank and its key wealth-management business, with the latter reporting a 22% decline from a year earlier in adjusted pretax profit. In recent years, UBS has shifted toward managing money for wealthy clients while streamlining its investment banking operations.

UBS’s investment bank reported an 84% decline in adjusted pretax profit, with the bank citing challenging market conditions.

The unit saw changes at the top last September, after UBS’s investment banking chief, Andrea Orcel, who oversaw a streamlining of the division, resigned in September to become chief executive of Spain’s [Banco Santander SA](#). Last week, Santander said it was [canceling Mr. Orcel’s appointment](#) over the costs in compensating him for deferred compensation he had accrued while at UBS.

At a press conference, Mr. Ermotti rejected any link between Mr. Orcel’s departure and last quarter’s struggles in investment banking. The division “is not one person,” he said. “This was one of the most destructive quarters that the industry saw in the last 30 to 40 years.”

UBS and Swiss banks more broadly have struggled in recent years as they have geared their businesses toward wealth management while scaling back on investment banking, which can be highly volatile but also profitable. Adding to the pressure, Swiss banks face stringent regulation and costs associated with the Swiss central bank’s negative interest-rate policy, which forces banks to pay in order to park funds with the central bank.

Mr. Ermotti said UBS is sticking with its strategy, noting that last quarter was an “extreme, almost unprecedented environment,” particularly in December when equity markets fell sharply around the world.

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