7 January 2025, 09:55AM UTC
Chief Investment Office GWM
Investment Research

Tariff threats should spark volatility, not panic

UBS House View - Daily US

Solita Marcelli, GWM Chief Investment Officer Americas, UBS Financial Services Inc. (UBS FS)
Mark Haefele, Global Wealth Management Chief Investment Officer, UBS AG
Kurt Reiman, Head of Fixed Income, Americas, UBS Financial Services Inc. (UBS FS)
Jon Gordon, Strategist, UBS AG Hong Kong Branch
Vincent Heaney, Strategist, UBS AG London Branch
Daisy Tseng, Strategist, UBS AG Singapore Branch

From the studio:

Video: **CIO strategist Jon Gordon on the January effect and US equities** (2:01)

Thought of the day

Global equities rose, Treasury yields fell, and the US dollar retreated over the past 24 hours after the Washington Post reported Trump aides were considering universal tariffs "that would be applied to every country, but only cover critical imports." The report suggested that if implemented, the new approach would "pare back the most sweeping element of Trump's campaign plan."

President-elect Trump quickly denied the story via social media, and criticized the Washington Post's reporting. This helped reverse some of the pressure on the dollar and Treasury yields, though equities remained well bid, and Asian stocks broadly advanced on Tuesday even after Trump's denial.

While it is uncertain how incoming tariff policy and negotiations will play out, we do see several clear takeaways for investors:

The US negotiating stance will differ from the end outcome. President-elect Trump's denial of the report is unsurprising. He wants the threat of universal tariffs as credible leverage into bilateral trade negotiations, and taking this off the table now would obviously limit his bargaining power. We view this report as an indication of the difference between a bargaining position and policy goals. It's worth remembering Trump's late November threat to impose tariffs over non-trade issues, in which he confirmed a willingness to use tariffs as a transactional tool.

The Trump economic team understands its mandate, in our view. While media criticism may see Trump dig in on his pledge for harsher tariffs, we doubt the administration will pursue the kinds of extreme policies that would send inflation higher, create major supply disruptions, or risk broader economic fallout. There is also a political calculation here, with the Republican House majority already extremely thin. A "shock therapy" approach could significantly harm Republican chances in the 2026 midterms.

What to watch: 8 January 2025

- US December ADP employment report
- FOMC meeting minutes
- Fed Governor Christopher Waller speaks

Trump 2.0 will likely usher in renewed headline volatility. The market whiplash from Monday's tariffs agenda story and denial may offer a taste of the trading year ahead, with a return to policymaking-by-tweet suggesting a new period of heightened cross-asset volatility. The dollar move is less surprising, given over-crowded long positions. Still, big intraday moves in other tariff-sensitive assets like the Hang Seng could be a preview on market conditions for global investors.

So, while tariffs talks are worth monitoring, we think a constructive stance is still warranted on both global equities and on US stocks in particular. We expect the bull market to continue with the S&P 500 reaching 6,600 by the end of the year, primarily driven by healthy profit growth of 9%. Our base case remains for selective new tariffs under Trump 2.0, likely causing one-time price increases in the US without triggering a more damaging inflationary spiral. We see a smaller chance for a "tariff shock" bear case, in which Trump imposes large, blanket tariffs on most US imports, triggering significant retaliation from trading partners and pushing inflation higher. We suggest investors who are underallocated to US equities consider using any near-term turbulence to add exposure, including through structured strategies. Broadly, we think US dollar strength is likely to moderate, and suggest investors consider selling dollar upside against currencies like the Australian dollar or Norwegian krone. We also see merit in diversifying with alternative investments, including hedge funds and private markets.

Caught our attention

Pentagon blacklists Chinese firms. The US Department of Defense on Monday added Chinese tech giant Tencent and battery maker CATL to a list of firms it says work with China's military amid efforts to counter Beijing's military dominance. Shipping service provider Cosco Shipping and oil major CNOOC are also included. The move is the latest by Washington to highlight and restrict Chinese companies it says pose security risks as tensions between the two countries continue to simmer. Tencent shares slid 7.3% in Hong Kong on Tuesday, while others fell between 0.8% and 3.3%. Both Tencent and CATL have protested their inclusion as a mistake, adding that they have no ties to the People's Liberation Army.

Our view: While the Pentagon list carries reputational risks for those designated as companies linked to China's military, it has no direct legal ramifications and does not result in sanctions, unlike the export controls on advanced chips and chipmaking equipment. Restrictions on the US defense department purchasing from these companies will only take effect after June 2026, and the scope of prohibitions appears limited at this stage. However, with Donald Trump readying for his second presidential term and potential tariffs, we expect market volatility to pick up amid strained relations between Washington and Beijing. Without taking any single-name views, we recommend a more defensive positioning within Chinese equities. We prefer exposure to high-yielding value sectors including financials, utilities, energy, and telecoms, and companies that operate mostly within the domestic ecosystem.

Market update

07.01.2025

Percent change. For volatility indices, net change in points. For valuation, change in price to earnings per share. For yields, net change in bps

	Current (*)	1D	5D	1M	YTD
VIX Index	16.3	+0	-1	+4	-1
MOVE Index	98	+5	-1	+15	-1
S&P 500	5975	+0.6%	+0.1%	-1.9%	+1.6%
S&P 500 trailing P/E (**)	24.5x		-0.8x	-0.9x	+2.7x
S&P 500 forward P/E (**)	21.4x		-0.7x	-0.8x	+1.9x
S&P 500 forward P/E ex-Mag 7 (**)	18.8x		-0.5x	-1.2x	+1.2x
Russell 2000	2267	-0.1%	+1.0%	-5.9%	+1.6%
Euro Stoxx 600	513	+0.1%	+1.7%	-1.4%	+1.1%
Shanghai Composite	3230	+0.7%	-5.2%	-5.1%	-3.6%
US 10-year Treasury	4.63	+0	+6	+48	+6
US 2-year Treasury	4.27	-1	+3	+16	+3
Germany's 10-year Bund	2.46	+1	+10	+35	+10
Germany's 2-year Bund	2.19	+0	+12	+20	+12
EURUSD	1.043	+0.4%	+0.8%	-1.3%	+0.8%
EURCHF	0.94	+0.3%	+0.2%	+1.3%	+1.4%
USDCHF	0.90	-0.1%	-0.6%	+2.8%	-0.6%
USDJPY	157	-0.1%	+0.0%	+4.0%	+0.0%
Brent crude, USD/bbl	76	-0.4%	+2.2%	+6.9%	+1.8%
Gold, USD/oz	2652	+0.2%	+1.3%	+0.5%	+0.4%

(*) or last close if not available, (**) weekly update

Source: Bloomberg, Factset, UBS

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 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 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

UBS Chief Investment Office's ("CIO") investment views are prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland) or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. Additional disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.

The investment views have been prepared in accordance with legal requirements designed to promote the **independence of investment research**.

Generic investment research – Risk information:

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 does not constitute a personal recommendation or take into account the particular investment objectives, investment strategies, financial situation and needs of any specific recipient. It 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 and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS). All information and opinions as well as any forecasts, estimates and market prices indicated are current as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria.

In no circumstances may this document or any of the information (including any forecast, value, index or other calculated amount ("Values")) be used for any of the following purposes (i) valuation or accounting purposes; (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or (iii) to measure the performance of any financial instrument including, without limitation, for the purpose of tracking the return or performance of any Value or of defining the asset allocation of portfolio or of computing performance fees. By receiving this document and the information you will be deemed to represent and warrant to UBS that you will not use this document or otherwise rely on any of the information for any of the above purposes. UBS and any of its directors or employees may be entitled at any time to hold long or short positions in investment instruments referred to herein, carry out transactions involving relevant investment instruments in the capacity of principal or agent, or provide any other services or have officers, who serve as directors, either to/for the issuer, the investment instrument itself or to/for any company commercially or financially affiliated to such issuers. At any time, investment decisions (including whether to buy, sell or hold securities) made by UBS and its employees may differ from or be contrary to the opinions expressed in UBS research publications. Some investments may not be readily realizable 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, divisions or affiliates of UBS. Futures and options trading is not suitable for every investor as there is a substantial risk of loss, and losses in excess of an initial investment may occur. Past performance of an investment is no guarantee for its future performance. Additional information will be made available upon request. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information.

Different areas, groups, and personnel within UBS Group may produce and distribute separate research products **independently of each other**. For example, research publications from **CIO** are produced by UBS Global Wealth Management. **UBS Global Research** is produced by UBS Investment Bank. **Research methodologies and rating systems of each separate research organization may differ**, for example, in terms of investment recommendations, investment horizon, model assumptions, and valuation methods. As a consequence, except for certain economic forecasts (for which UBS CIO and UBS Global Research may collaborate), investment recommendations, ratings, price targets, and valuations provided by each of the separate research organizations may be different, or inconsistent. You should refer to each relevant research product for the details as to their methodologies and rating system. Not all clients may have access to all products from every organization. Each research product is subject to the policies and procedures of the organization that produces it.

The compensation of the analyst(s) who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking, sales and trading or principal trading revenues, however, compensation may relate to the revenues of UBS Group as a whole, of which investment banking, sales and trading and principal trading are a part.

Tax treatment depends on the individual circumstances and may be subject to change in the future. UBS does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon both in general or with reference to specific client's circumstances and needs. 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.

This material may not be reproduced or copies circulated without prior authority of UBS. Unless otherwise agreed in writing UBS expressly prohibits the distribution and transfer of this material to third parties for any reason. UBS accepts no liability whatsoever for any claims or lawsuits from any third parties arising from the use or distribution of this material. This report is for distribution only under such circumstances as may be permitted by applicable law. For information on the ways in which CIO manages conflicts and maintains independence of its investment views and publication offering, and research and rating methodologies, please visit www.ubs.com/research-methodology. Additional information on the relevant authors of this publication and other CIO publication(s) referenced in this report; and copies of any past reports on this topic; are available upon request from your client advisor.

Important Information About Sustainable Investing Strategies: Sustainable investing strategies aim to consider and incorporate environmental, social and governance (ESG) factors into investment process and portfolio construction. Strategies across geographies approach ESG analysis and incorporate the findings in a variety of ways. Incorporating ESG factors or Sustainable Investing considerations may inhibit UBS's ability to participate in or to advise on certain investment opportunities that otherwise would be consistent with the Client's investment objectives. The returns on a portfolio incorporating ESG factors or Sustainable Investing considerations may be lower or higher than portfolios where ESG factors, exclusions, or other sustainability issues are not considered by UBS, and the investment opportunities available to such portfolios may differ.

External Asset Managers / External Financial Consultants: In case this research or publication is provided to an External Asset Manager or an External Financial Consultant, UBS expressly prohibits that it is redistributed by the External Asset Manager or the External Financial Consultant and is made available to their clients and/or third parties.

USA: Distributed to US persons only by UBS Financial Services Inc. or UBS Securities LLC, subsidiaries of UBS AG. UBS Switzerland AG, UBS Europe SE, UBS Bank, S.A., UBS Brasil Administradora de Valores Mobiliarios Ltda, UBS Asesores Mexico, S.A. de C.V., UBS SuMi TRUST Wealth Management Co., Ltd., UBS Wealth Management Israel Ltd and UBS Menkul Degerler AS are affiliates of UBS AG. **UBS Financial Services Inc. accepts responsibility for the content of a report prepared by a non-US affiliate when it distributes reports to US persons. All transactions by a US person in the securities mentioned in this report should be effected through a US-registered broker dealer affiliated with UBS, and not through a non-US affiliate. The contents of this report have not been and will not be approved by any securities or investment authority in the United States or elsewhere. UBS Financial Services Inc. is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule.**

For country information, please visit ubs.com/cio-country-disclaimer-gr or ask your client advisor for the full disclaimer.

Additional Disclaimer relevant to Credit Suisse Wealth Management

You receive this document in your capacity as a client of Credit Suisse Wealth Management. Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website https://www.credit-suisse.com. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.

Except as otherwise specified herein and/or depending on the local Credit Suisse entity from which you are receiving this report, this report is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

Version D/2024. CIO82652744