Trump presses ahead with tariffs

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
Ulrike Hoffmann-Burchardi, Head CIO Global Equities, UBS Financial Services Inc. (UBS FS)
Kiran Ganesh, Strategist, UBS AG London Branch
Daisy Tseng, Strategist, UBS AG Singapore Branch
Christopher Swann, Strategist, UBS Switzerland AG
Jon Gordon, Strategist, UBS AG Hong Kong Branch

From the studio:

Podcast: **Jump Start: Will aggressive tariffs derail US economic growth?** (4:22)
Podcast: **Across the Pond: Trump's next truce? With CIO's Themis Themistocleous** (23:23)
Video: **CIO's Sundeep Gantori: DeepSeek & its impact on the AI value chain** (1:46)
Video: **CIO Alert – Navigating Trump's tariffs with CIO's Jon Gordon** (7:38)

Thought of the day

What happened?

The Trump administration has signed executive orders to impose an additional 25% tariff on most imports from Canada and Mexico, as well as an additional 10% duty on all imports from China, citing a national emergency over "the extraordinary threat posed by illegal aliens and drugs." Duties levied on Canadian "energy resources" will face a lower 10% tariff, although Mexican energy imports will face the full 25%. President Donald Trump also reiterated he will "definitely" hike tariffs on European Union goods "very soon," citing the "tremendous deficit" with the EU. He added that he would "eventually" put tariffs on semiconductors, steel, copper, aluminum, and pharmaceuticals.

In response, Canada's government has announced a 25% tariff on some US imports, starting with CAD 30bn worth of US goods on 4 February, to be followed by another CAD 125bn added in 21 days' time. Canada is also said to be considering several additional measures, including restrictions on critical mineral and energy exports. Mexico's President Claudia Sheinbaum has ordered retaliatory measures, and China's foreign minister has vowed to take "necessary countermeasures," though neither provided additional details. Trump later said he would hold separate calls with the leaders of Canada and Mexico on Monday.

The US dollar rallied while Asian and European equity markets declined on Monday. S&P 500 futures are down 1.5% at the time of writing, Japan's TOPIX fell 2.5%, and European markets stood 1-2% lower. Traders also reduced their positions in a range of cryptos amid weakening risk sentiment, with Ethereum falling as much as 26.5%.

What do we think?

What to watch: 3 February 2025

- The latest news on tariffs will be the key focus
- US December job openings for December
- France's December budget balance
- Alphabet and others present fourth-quarter earnings

This report has been prepared by UBS Financial Services Inc. (UBS FS), UBS AG, UBS AG London Branch, UBS AG Singapore Branch, UBS Switzerland AG, UBS AG Hong Kong Branch. **Analyst certification and required disclosures begin on page 6.**

In our *Monthly Letter: Prepare for Trump 2.0,* we said that “aggressive” tariffs by the US, including 30% effective tariffs on Chinese imports and selective tariffs against EU imports, were within our base case scenario. We also said that such tariffs would be insufficient to derail US economic growth. However, we also said that tariffs against Canada and Mexico, if sustained, have the potential to inflict a “tariff shock” to US growth and risk higher US inflation, as Mexico and Canada together account for about 30% of the US’s total trade.

In our base case, we do not expect the 25% tariffs on Canada and Mexico to be sustained for a prolonged period. The Trump administration would not want to jeopardize US economic growth or risk higher inflation by leaving the tariffs in place for a sustained period, and significant stock market volatility could lead to a change in approach. We would expect industry groups representing companies on the northern and southern borders to file court challenges and lobby for their removal. It is also possible that the tariffs against Canada and Mexico are merely a tactic to accelerate a renegotiation of the United States-Mexico-Canada Agreement (USMCA), which is a free trade pact between the countries. The significant potential economic effect of the tariffs on Mexico and Canada may ultimately lead to concessions, even if their initial response has been to announce retaliation.

At the same time, Trump's comments on Friday, which suggested that the tariffs were “purely economic,” linking them to the US’s bilateral trade deficits, are more concerning, in our view. Deficits cannot easily be "negotiated" in the same way as non-trade issues like migration and drug control. Meanwhile, we continue to believe that the US effective tariff rate in China will eventually rise to 30% (from the current 11%), even if Trump’s recent more diplomatic tone with China suggests the White House may believe it has something to gain from the more gradual approach.

In the weeks ahead, tariffs are likely to represent an overhang on markets and contribute to volatility, at least until investors gain greater clarity on the path and destination of US trade policy.

In the very near term, the period between now and implementation on Tuesday could provide a brief window for negotiation or compromise. Thereafter, we believe the US Customs and Border Protection may need some weeks to implement the tariffs (based on the experience of tariffs imposed in 2018 and 2019), providing a potential further window for negotiation. Another key date is 1 April, the deadline for federal agencies to report back their findings on persistent trade deficits and “unfair” trade policies —a report that could be a catalyst for additional tariffs. Earlier last week, the *Financial Times* reported that US Treasury Secretary Scott Bessent is proposing a gradualist approach on universal tariffs, starting at 2.5%, with a monthly step-up of 2.5 percentage points until they reach as high as 20%, while Trump had singled out tariffs on computer chips, medicine, and metal imports.

How to invest?

Navigate political risks. More volatile markets require an increased focus on portfolio diversification and hedging approaches. In equities, capital preservation strategies can potentially help limit portfolio losses. As volatility and skew are low relative to current levels of uncertainty, mean-reversion strategies can also be an effective way to harness higher volatility. We like high grade and investment grade bonds, as they offer some insulation against uncertainty and can help diversify portfolios. Separately, we believe being long USDCNY could be an effective hedge against trade risks, while CAD and MXN long exposure should be hedged or avoided in the near term. Gold also remains an effective hedge against geopolitical and inflation risks, in our view. For investors willing and able to manage risks inherent in alternatives, we also think certain hedge fund strategies are well-positioned to offer attractive risk-adjusted returns and portfolio resilience during market volatility.

More to go in equities. Although we will continue to monitor trade policy closely, our base case remains for the S&P 500 to rise to 6,600 by year-end. Tariffs on Canada and Mexico are unlikely to be sustained, resilient US economic growth should support stocks, and we continue to believe that AI presents a powerful structural tailwind for earnings and equity markets. We believe that the recent development of DeepSeek, a lower-cost AI model, will ultimately lead to even broader proliferation of AI, enhancing growth and productivity. We also like quality bonds. Aside from the attractive yield, this asset class has the potential to act as a diversifier in periods of equity volatility.

Harvest currency volatility. Changes to trade policy are likely to be keenly felt in currency markets, providing investors an opportunity to use volatility spikes to boost portfolio income. Over the next one to three months, and while trade uncertainty remains particularly elevated, we like picking up yield by selling the risks of a rally in EURUSD and of a fall in USDCHF. Over the next six months, we like selling the risks of gains in the CHFJPY, the EURGBP, and the EURAUD exchange rates, and selling the risk of declines in the GBPUSD, the GBPCHF, and the AUDUSD crosses. While the US dollar has room to strengthen in the near term, we expect it to give up its gains over the balance of 2025.

Caught our attention

December PCE rises in line with expectations. The Federal Reserve's preferred inflation gauge, the core personal consumption expenditures (PCE) price index, rose 0.2% in December, matching consensus estimates and holding steady versus the prior month. Core PCE increased 2.8% on an annual basis, also unchanged from November. Notably, on a three-month annualized basis, core PCE eased to 2.2%, the slowest pace since July. Core goods prices declined 0.24%, marking the largest drop in a year, while core services prices, excluding housing and energy, increased 0.3%, consistent with prior months.

Our view: While US inflation remains above the Fed's target, the latest data show progress, particularly with both the cooling in the core goods prices and the three-month annualized core PCE figure. As seen in the latest consumer price index (CPI) data, shelter inflation remains sticky, but it should ease as the lagged effect of slowing rental increases feeds through. Additionally, Fed Chair Powell said at last week's Federal Open Market Committee (FOMC) meeting that he expected shelter to contribute to disinflation in the coming months, which should help bring overall inflation down, in our view. With rates still in restrictive territory, we expect the Fed to cut rates twice by 25 basis points in 2025, starting in June. Against this backdrop, we continue to favor US equities and high-quality fixed income.

Market update

03.02.2025

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	20.1	+4	+2	+4	+3
MOVE Index	92	+1	-3	-2	-7
S&P 500	6041	-0.5%	-1.0%	+1.7%	+2.7%
S&P 500 trailing P/E (**)	25.3x		+0.6x	+0.3x	+3.5x
S&P 500 forward P/E (**)	22x		+0.5x	+0.1x	+2.5x
S&P 500 forward P/E ex-Mag 7 (**)	19.6x		+0.4x	+0.5x	+2.0x
Russell 2000	2288	-0.9%	-0.9%	+0.8%	+2.6%
Euro Stoxx 600	533	-1.2%	+0.6%	+4.9%	+5.0%
Shanghai Composite	3251	-0.1%	+0.2%	+1.2%	-3.0%
US 10-year Treasury	4.55	+1	+1	-5	-2
US 2-year Treasury	4.28	+8	+8	-0	+3
Germany's 10-year Bund	2.42	-3	-11	+0	+6
Germany's 2-year Bund	2.05	-6	-19	-10	-2
EURUSD	1.025	-1.1%	-2.3%	-0.6%	-1.0%
EURCHF	0.94	+0.6%	-0.8%	-0.1%	+1.1%
USDCHF	0.92	+0.6%	+1.6%	+0.9%	+1.0%
USDJPY	155	+0.1%	+0.6%	-1.2%	-1.2%
Brent crude, USD/bbl	77	+1.3%	-0.5%	+0.2%	+2.7%
Gold, USD/oz	2797	-0.5%	+2.1%	+5.4%	+5.9%

(*) 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