UBS House View

Investment Strategy Guide:
Tariff-ying or tariff-ic?

April 2025 | Chief Investment Office GWM | Investment research

In this report

April
CIO Monthly Livestream
3 April 2025 1:00 p.m. ET

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Dear reader

Investors are closely monitoring the state of the economy amid ongoing trade escalations and policy uncertainty. The Trump administration's tariffs have intensified beyond expectations, which have shaken markets, as well as consumer and business confidence.

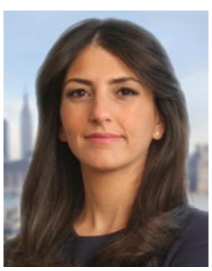
We believe 2 April is the next key milestone, with the US set to announce tariffs on major trading partners. While the Trump administration has hinted at flexibility in its reciprocal tariff plans, we believe investors should prepare for a wide range of selective tariffs and retaliatory measures. Still, while we do expect ongoing uncertainty and volatility in the near term as a result, our base case is that tariffs will not derail the economy. We expect the US economy to grow close to its 2% trend this year, though tariffs pose a risk to this outlook.

While policy matters have weighed on softer sentiment data, the hard data have held up better, demonstrating the resilience of the US economy. Consumer spending bounced back in February from a sharp decline in January, and the labor market remains solid. We also believe tariffs will result in a temporary price shock rather than lead to sustained higher inflation in the medium term. However, immigration policies are another risk to watch, as they could complicate the supply of labor, which may restrain growth and contribute to price pressures in the future.

We've revised our year-end S&P 500 target to 6,400, down from 6,600, reflecting the anticipated impact of tariffs on earnings growth. Despite this adjustment, we still foresee meaningful upside driven by positive US growth and robust AI demand. While the S&P 500 entered correction territory earlier this month, history suggests corrections within bull markets often present compelling buying opportunities. Nevertheless, we do expect equities will be choppy until tariff uncertainties begin to subside. We continue to favor information technology as our Most Attractive sector, with Attractive views on communication services, consumer discretionary, financials, utilities, and health care.

In fixed income, we suggest seeking durable income through quality bonds, as yields remain attractive. We favor investment-grade corporate bonds, agency mortgage-backed securities, and senior loans. We like the five-year part of the curve, as it offers more insulation from deficits, supply risks, and inflation concerns. As always, we encourage you to reach out to your UBS financial advisor with questions on how our views fit with your own financial situation and goals.

Solita Marcelli



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Tariff-ying or tariff-ic?

Policy uncertainty high

Markets are likely to remain volatile in the near term as investors navigate US policy and economic uncertainty. Investors can use market swings to build long-term positions.

Fundamentals solid

We believe the US economic outlook remains positive and earnings growth trends for leading AI companies are intact.

Go long longevity

We see a growth opportunity in companies that can benefit from longevity trends, including rising demand for products promoting a longer healthy lifespan.

Asset allocation

We rate US equities as Attractive and like companies exposed to AI, power and resources, and longevity. We also like government and investment grade bonds, and gold.

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From an investment perspective, 2025 has either felt "tariff-ying" or "tariff-ic," depending on your regional focus.

In the US, the Trump administration's tariffs have moved faster and gone further than expected. The S&P 500 is down 3% year to date and 7% from its February peak.

Meanwhile, both Europe and China have responded to US actions. Europe has demonstrated its willingness to increase defense spending to be less reliant on the US. China announced further policy stimulus aimed at boosting domestic consumption. Equity markets in Europe and China are up around 15% and 17% this year, respectively (MSCI EMU and MSCI China indices).

Market volatility is likely to remain elevated in the near term. President Donald Trump this week announced a 25% tariff on auto imports. We expect the US to announce further tariffs on most major trading partners on 2 April, and we believe the direct and indirect effect of tariffs will feature prominently during the first-quarter earnings season starting in mid-April.

But despite stagflation concerns, we expect news flow to become more positive toward the second half of the year. Recent comments from the Trump administration suggest some flexibility on its reciprocal tariff plans, potentially implying a willingness to find "deals" to ease tariffs. A budget reconciliation bill could refocus attention on market-positive aspects of the Trump agenda. We also expect the Federal Reserve to cut interest rates at its 18 June meeting if it sees signs of the labor market softening.

From current levels, we expect US equities to outperform their European and Asian counterparts over the balance of 2025. Positioning and sentiment data suggest that the long-held "US exceptionalism" view is no longer as widely held—suggesting greater scope for positive surprises—and despite tariff risks, we are confident about US economic prospects and the earnings growth potential for leading AI companies.

Eurozone and Chinese equity markets have outperformed the US this year.

Conversely, sharp year-to-date rallies in Eurozone and Chinese stocks suggest that European fiscal stimulus, Chinese AI developments, and a more pro-business stance from the Chinese government may be priced in the near term, while tariffs remain a threat.

Investors who are underallocated can take advantage of near-term volatility by phasing into broad US equities and stocks exposed to AI. Following the recent rally, we maintain a more selective approach in Europe and Asia, with a focus on beneficiaries from European fiscal spending, the Taiwanese market, and state-owned enterprises in mainland China.

We see a growth opportunity in companies exposed to our longevity theme.

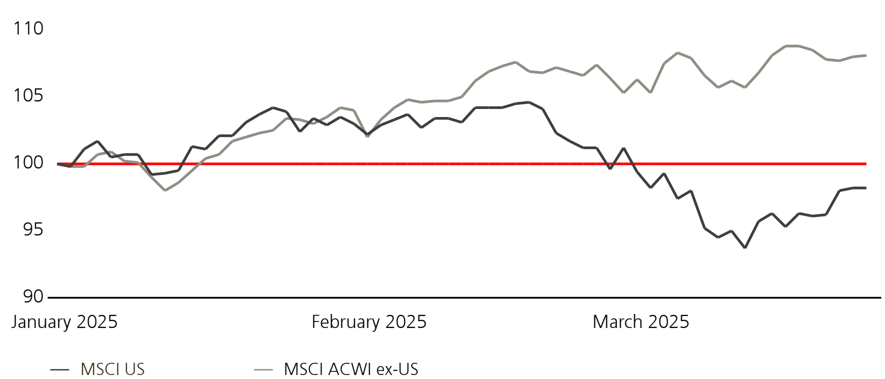
We also like companies exposed to the power and resources value chain, and have recently published a new "transformational innovation opportunity:" Longevity. This highlights products and services promoting a longer healthy lifespan that we expect will be in high demand in the years ahead.

Beyond equities, we believe investors should seek durable income in quality bonds, as yields remain relatively high. In currencies, we believe the US dollar could rally in the near term, but that its strength is likely to fade later this year. We expect the US dollar to end the year close to current levels, presenting an opportunity to "trade the range." We also believe gold remains appealing amid geopolitical uncertainty, and persistent private and institutional investor demand.

Figure 1

US equities have underperformed the rest of the world this year

MSCI US and MSCI ACWI ex-US indices, rebased



Source: Bloomberg, UBS, as of March 2025

US policy uncertainty is likely to remain high in the near term.

US

Let’s start with the bad news. Forecasting the Trump administration’s next policy moves is challenging, and we see a number of events that may drive renewed volatility for US markets over the next few weeks.

We expect the US to announce tariffs on most major trading partners on 2 April. Differing global views on the nature of “reciprocal” tariffs could lead to a cycle of tit-for-tat escalation in the weeks thereafter. US inflation data on 10 April could contribute to shifting Fed rate-cut expectations. March retail sales on 16 April are another potential source of volatility given the focus on US consumer spending. Moreover, first-quarter earnings will be released from mid-April through early May. The direct and indirect effects of tariffs and trends in AI monetization will be high on investors’ agendas and could contribute to further volatility.

Recent comments from the Trump administration suggest some flexibility in tariff plans.

Now for the good news: News flow could become more positive toward the end of the second quarter. Although the Trump administration has expressed a willingness to tolerate economic “disturbances,” recent comments also suggest some flexibility in its reciprocal tariff plans. So far, the threat of tariffs has been followed by negotiations to soften them.

Also, House and Senate Committees are working on a budget reconciliation bill that would confirm the extension of the individual personal income tax cuts and the return of some expired corporate tax breaks under the 2017 Tax Cuts and Jobs Act (TCJA). Although the actual budget may not pass until later in the year, progress in negotiations would likely boost market sentiment.

We also expect the Fed to cut interest rates at its 18 June meeting if it sees signs of the labor market softening. A resumption of monetary easing could help instill confidence that a “stagflation” scenario would be less likely, support equity markets, and reduce volatility.

We expect the S&P 500 to rise to 6,400 by the end of the year.

Fundamentally, we estimate that—all else equal—the effect of tariffs would knock around 2 percentage points off 2025 S&P 500 earnings growth in our base case. We now expect 6% earnings per share growth, and we have accordingly reduced our year-end target for the index to 6,400 (from 6,600). But this also means that, in our view, there is still meaningful upside by year-end. Despite weaker economic sentiment data, we believe the US growth and earnings backdrop remains positive, and key structural drivers like AI demand are intact.

We note that previously elevated investor positioning in US stocks has now normalized. US investor sentiment has also turned bearish. At the March equity low, only 19% of respondents to the American Association of Individual Investors’ (AAII) weekly surveys were expecting stocks to be higher over the next six months—lower

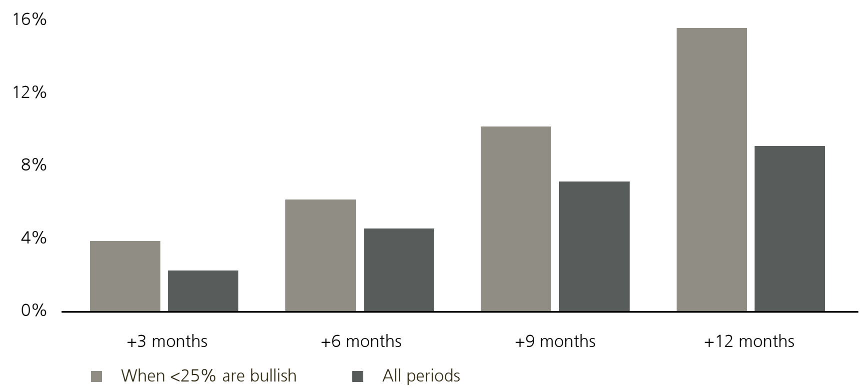
Sentiment toward US equities has turned bearish.

than 98% of all readings since the survey began in 1987. Historically, when fewer than 25% of respondents to the AAII survey are bullish, a year later US stocks are 16% higher on average (with an 85% chance of a gain, compared to a 9% increase for stocks with a 78% chance for all 12-month periods over the past 35 years).

Figure 2

Weak investor sentiment toward US equities is usually a good contrarian indicator

Average S&P 500 returns after <25% of AAII respondents are bullish and all periods



Source: Bloomberg, UBS, as of March 2025

We believe AI growth trends remain intact.

While uncertainty related to AI monetization may also have played a role in the recent market volatility, we continue to believe that low-cost models like DeepSeek's R1 will successfully coexist alongside leading frontier models and do not undermine the structural AI trend. Scale increasingly matters as large language models develop to become reasoning models. R&D intensity, measured as R&D spending divided by revenues, is higher in the US, at 13.5%, compared to 8% in China. However, this higher intensity is supported by the robust gross margins of US cloud platforms, which stand at around 70% versus 50% for their Chinese counterparts. We believe this advantage allows US companies to invest more heavily in R&D without sacrificing profitability.

We therefore recommend that investors take advantage of the current US market volatility and use the below "accumulation strategies" to build medium- and longer-term exposure to US equities and companies exposed to AI.

April accumulation strategy

We believe investors should take advantage of volatility to build longer-term exposure. It is important to remain aware that volatility and headline news, including that related to tariffs, budget discussions, and economic and earnings developments may introduce additional uncertainty to market entry. Although market timing is challenging, our current assessment of select risks can provide a structured framework for systematically increasing exposure:

S&P 500 level:
5,000-5,250: Strong upside to year-end target and "tariff shock" scenario fully priced. Provided no recession forecast: **Buy the dip.**

5,250-5,500: High upside to year-end target and "tariff shock" scenario largely priced. Provided no recession forecast: **Accelerated phase in.**

5,500-6,000: Upside to year-end target, though market may face near-term swings. **Gradual phase in/yield-generating strategies.**

6,000+: Moderate upside to year-end target. Downside scenario only partially priced, market vulnerable to near-term downside. **Consider pausing or capital preservation strategies.**

Germany is on the verge of a major increase in fiscal spending.

Europe
The threat of geopolitical crises, a change of government in Germany, and the Trump administration's aggressive stance on tariffs have spurred European leaders into action, with the German parliament approving plans to ease the country's fiscal restraints and exempt defense spending exceeding 1% of GDP from the country's "debt brake." While the funds will take time to come through, if Germany were to lift defense spending beyond 3% of GDP, we estimate the additional government expenditure could exceed EUR 1 trillion cumulatively over the next decade.

As we consider how investors should respond, we believe it is important to separate the short term from the longer term:

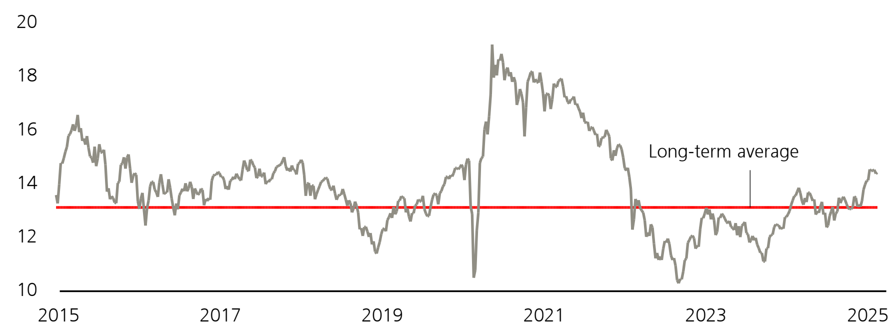
Looser fiscal policy in Germany, higher EU defense spending, and a potential Russia/Ukraine ceasefire are positive factors for European equities. Longer term, they can raise Europe's trend growth, drive innovation, and potentially lower energy costs. We raised our index targets in February to reflect the emergence of these positives, and we forecast solid earnings growth of 5% in 2025 and 8% in 2026.

Near term, however, we believe it's important to stay measured about a market (Stoxx 600) that has delivered as much performance in the year to date—around 8%—as it did in the previous 13 months. With drivers like greater fiscal spending now well known, we believe their ability to spur further gains for broad European equity markets may prove limited in the near term. The MSCI EMU currently trades on a 14.4x forward price-to-earnings multiple, above its historical average of 13.4x, though in our view valuations are supported by a decent fundamental outlook for the region.

Figure 3

Eurozone equity valuations are above their historical average

MSCI EMU, 12-month forward P/E (x) and historical average



Source: Bloomberg, UBS, as of March 2025

Tariffs are a near-term risk for European equities.

Meanwhile, tariffs are a near-term risk for European equities. All else equal, we estimate a low-single-digit drag on earnings caused by first-order effects if a 25% tariff is levied on Europe. But the bigger impact could come from the hit to global GDP growth, as we estimate that every 1% reduction knocks off about 7% from European earnings.

In aggregate, we maintain our Neutral stance on Eurozone equities, and prefer selective exposure to the region. First, our "Six ways to invest in Europe" theme focuses on a selection of stocks exposed to positive European drivers (like pro-growth reforms in Germany or rising security investments), while also seeking to minimize exposure to tariff risks. Our current stock selection tilts toward the industrials, materials, real estate, and utilities sectors.

We favor Eurozone small- and mid-cap stocks.

Second, we like Eurozone small- and mid-cap equities given their significant price-to-earnings discount compared to large caps, the largest in over 20 years. Small- and mid-cap companies have a higher exposure to the improved domestic growth outlook, and also offer exposure to structural growth drivers (including defense) owing to their high industrials weight.

While we retain a selective approach to European equities given near-term risks, a more favorable outcome on tariffs than we expect or a market pullback could create an opportunity for underallocated investors to build up their exposure to a more positive long-term story.

Recent developments have highlighted China's AI capabilities.

China

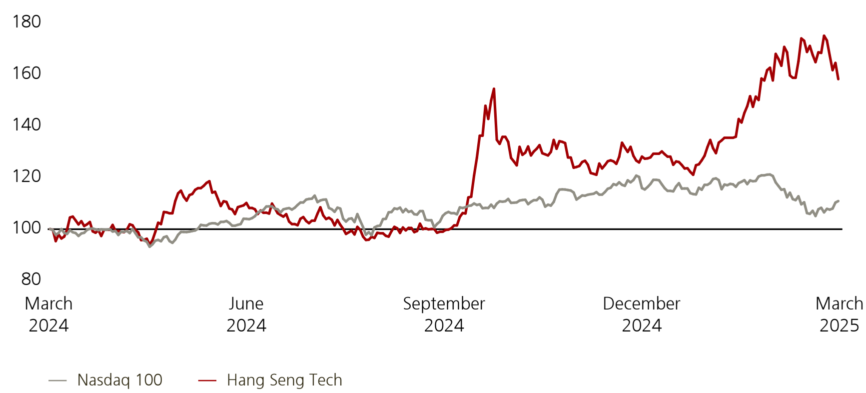
There are some exciting developments taking place in China right now. The release of low-cost, high-performance AI models—including DeepSeek R1, Qwen, and others—underlines China's AI capabilities, and the recent National People's Congress highlighted the importance of private tech innovation. Electric-vehicle maker BYD also announced battery charging and driver assistance advances.

However, like with Europe, we believe investors should stay measured about buying into a market after such a strong rally, especially given near-term tariff risks. The Hang Seng tech index is up roughly 25% year to date and has outperformed the US Nasdaq 100 index by around 57 percentage points since mid-September. The MSCI China index has rallied 17% year to date, yet we note that consensus earnings per share estimates for 2025 for the index have risen by only 0.3%.

Figure 4

The Hang Seng Tech index has outperformed the US Nasdaq 100 over the past six months

Nasdaq 100 vs. Hang Seng Tech index, rebased



Source: Bloomberg, UBS, as of March 2025

We keep a selective approach within Chinese equities and favor state-owned enterprises.

While US tariffs on China have long been expected, the new round of tariffs could come with a relatively high headline number to serve as a bargaining tool. Overall, we believe greater tariff pressure may trigger stronger policy support to help keep China's 2025 economic growth target of roughly 5% achievable. Nevertheless, given near-term tariff risks and the extent of the rally this year, we keep a more selective approach within Chinese equities and favor defensive strategies centered on state-owned enterprises.

In Asia overall, we believe the best current opportunities lie in Taiwan. We expect Taiwanese equities to benefit from an acceleration in AI capital spending by US megacap technology companies (the IT sector accounts for close to 80% of the MSCI Taiwan index by market cap).

We recommend using volatility to build exposure to US equities and AI.

Investment ideas
While the near-term path is uncertain, we expect meaningful upside by year-end for US equities. We therefore recommend using volatility in the second quarter to build exposure to US equities and AI. We also like companies exposed to power and resources, and believe that Longevity will prove to be a transformational innovation opportunity over the coming years. As demand for products to extend healthy lifespans increases, select companies in the health care, medical devices, consumer goods, and real estate sectors are well positioned to benefit, in our view.

After notable rallies in European and Chinese markets, we are conscious that tariffs could prove a headwind in the months ahead. We therefore prefer a more selective approach in Europe and Asia, focused on the beneficiaries of higher European fiscal spending, Taiwan, and state-owned enterprises in mainland China.

Messages in Focus

Take advantage of US volatility
Volatility is likely to be elevated in the weeks ahead, but we believe that US equities will deliver meaningful returns and outperform other markets over the balance of the year owing to stronger structural growth drivers, less exposure to economic downside from tariffs, and still-solid earnings growth. Investors should take advantage of market dips to buy into broad US equities and companies exposed to AI.

Go long longevity
We foresee a vast future market for our new Longevity theme. Recent market declines have, in our view, created an opportunity to invest, particularly in the US health care sector. In the short term, we expect clearer policies and positive developments, such as updates to government health care programs, to bolster growth. And as people live longer, wealthier, and healthier lives, we anticipate a growing demand for products that extend healthy lifespans.

Be selective in Europe and Asia
European and Asian markets began the year on a strong note. However, tariffs and heightened geopolitical risks may affect growth. We recommend selectivity, favoring beneficiaries of increased fiscal spending and small- to mid-cap stocks in Europe. In Asia, we favor Taiwan for its structural growth market and recommend defensive strategies centered on mainland China's state-owned enterprises. Additionally, we believe structural growth opportunities in sectors such as power and resources, with exposure beyond the US, should yield solid returns.

Seek durable income
Downside risks to growth have risen, yet bond yields remain elevated, which we believe creates an opportunity for investors to seek durable portfolio income and optimize cash returns. High grade and investment grade bonds offer attractive risk-reward, in our view, and we like diversified fixed income strategies (including senior loans, private credit, and equity income strategies).

Trade the range in currencies
We expect the US dollar to trade in a range against its major currency peers in the months ahead. The risks of weaker European currencies are fading amid ongoing uncertainty over US growth and inflation. Equally, with the near-term benefit from fiscal expansion in Germany priced in and tariffs looming, we wouldn't chase the euro higher. We focus on trading the range in EURUSD, USDCHF, and GBPUSD.

Navigate political risks
We expect gold, now above USD 3,000/oz, to continue serving as a hedge against geopolitical and inflation risks. We forecast oil at USD 80/bbl by the year-end, expecting markets to remain undersupplied despite reported surpluses, and rate it Attractive. Elsewhere, capital preservation strategies can help limit losses while maintaining exposure to gains, although rising volatility may increase costs.

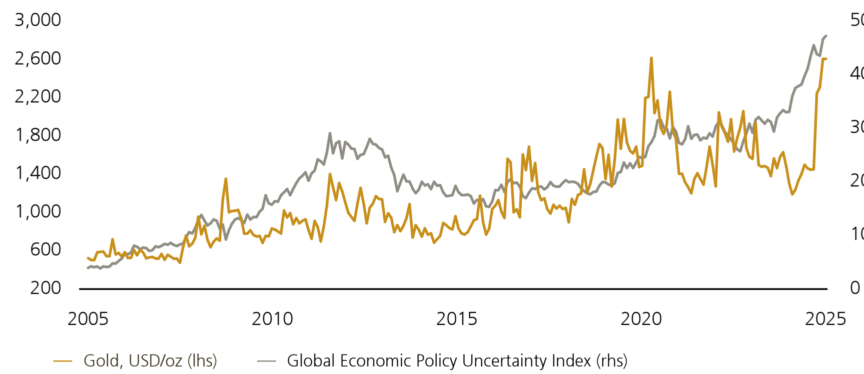
We see appealing risk-reward for high grade and investment grade bonds.

Beyond equities, we believe investors should seek durable portfolio income. High grade and investment grade bonds offer attractive risk-reward, in our view. We also see other opportunities for seeking durable portfolio income, including through diversified fixed income strategies, senior loans, private credit, and equity income strategies. In currencies, we believe the US dollar could rally in the near term, but that its strength is likely to fade later this year. We expect the dollar to end the year close to current levels against most major peers, so we like strategies to trade the range in the months ahead.

Figure 5

Gold prices tend to rise during times of economic uncertainty

Gold, USD/oz (lhs) vs. Global Economic Policy Uncertainty Index (rhs)



Source: Bloomberg, UBS, as of March 2025

Gold remains a valuable portfolio hedge, in our view.

Geopolitical and economic uncertainty has spurred demand for gold in the first quarter, pushing its price to record highs. We expect further, albeit more limited, gains for the metal, forecasting the price to reach USD 3,200/oz this year. Gold remains a valuable portfolio hedge, in our view.

Mark Haefele
Chief Investment Officer
Global Wealth Management

Global forecasts

Economy

Real GDP y/y, in %

	2024E	2025E	2026E
US	2.8	2.0	1.8
Canada	1.2	2.0	2.0
Japan	0.1	1.2	0.7
Eurozone	0.7	0.9	1.1
UK	0.9	1.1	1.3
Switzerland	1.3	1.2	2.0
Australia	1.0	2.1	2.1
China	5.0	4.0	3.0
India	6.5	6.3	6.5
EM	4.4	3.9	3.6
World	3.3	2.9	2.7

Inflation (average CPI), y/y, in %

	2024E	2025E	2026E
US	3.0	2.7	2.5
Canada	2.4	2.2	2.1
Japan	2.7	3.1	1.8
Eurozone	2.4	2.3	2.0
UK	2.5	3.0	2.1
Switzerland	1.1	0.5	0.7
Australia	3.2	2.5	2.6
China	0.2	-0.3	0.0
India	4.7	4.2	4.3
EM	8.0	3.9	3.1
World	5.7	3.3	2.7

Source: Bloomberg, UBS, as of 27 March 2025. Latest forecasts available in the *Global forecasts* publication, published weekly.

Asset classes

	Spot	June-25	Dec-25
Equities			
S&P 500	5,712	6,000	6,400
Eurostoxx 50	5,412	5,500	5,700
FTSE 100	8,690	8,700	9,000
SMI	12,954	13,000	13,200
MSCI Asia ex-Japan	734	748	780
MSCI China	76	78	80
Topix	2,813	2,810	2,850
MSCI EM	1,132	1,150	1,190
MSCI AC World	1,026	1,060	1,120
Currencies			
EURUSD	1.08	1.06	1.10
GBPUSD	1.29	1.26	1.31
USDCHF	0.88	0.90	0.86
USDCAD	1.43	1.46	1.42
AUDUSD	0.63	0.65	0.67
EURCHF	0.95	0.95	0.95
NZDUSD	0.57	0.56	0.58
USDJPY	151	148	145
USDCNY	7.26	7.40	7.30

	Spot	June-25	Dec-25
Yields, in %			
USD 2y Treasury	4.02	4.00	3.75
USD 10 year Treasury	4.35	4.25	4.00
CHF 2y Eidg.	0.17	0.20	0.20
CHF 10y Eidg.	0.63	0.50	0.50
EUR 2y Bund	2.12	2.00	2.00
EUR 10y Bund	2.80	2.50	2.50
GBP 2y Gilt	4.29	3.75	3.50
GBP 10y Gilt	4.73	4.00	4.00
JPY 2y JGB	0.89	0.80	1.00
JPY 10y JGB	1.59	1.50	1.50
Commodities			
Brent crude, USD/bbl	73.8	80	80
Gold, USD/oz	3,020	3,200	3,200

Source: Bloomberg, UBS, as of 27 March 2025. Latest forecasts available in the Global forecasts publication, published weekly.

Messages in Focus

The Messages in Focus (MIFs) are a set of high-conviction investment narratives from CIO. These narratives combine our top views across asset class preferences, short-, medium-, and longer-term themes, and alternatives.

MIFs	Elevator pitch	Investment ideas
Take advantage of US volatility	Volatility is likely to be elevated in the weeks ahead, but we believe that US equities will deliver meaningful returns and outperform other markets over the balance of the year. The outperformance should be supported by stronger structural growth drivers, less exposure to economic downside from tariffs, and still-solid earnings growth. Investors should take advantage of market dips to buy into broad US equities and companies exposed to AI.	• Phasing in on US equities • Phasing in on AI
Navigate political risks	Investors should prepare for volatility and potential policy surprises, especially with respect to trade. We recommend using capital-protected equity strategies to reduce downside risks and put cash to work. Oil and gold remain effective hedges against geopolitical and inflation risks, in our view.	• Capital protected equity strategies • Gold • Oil
Seek durable income	High-quality fixed income should offer compelling opportunities over the next 12 months. Our preferred duration is in the four- to five-year part of the curve. Investors should diversify fixed income allocations and consider intermediate duration Treasuries, Agency MBS, municipals, IG, sustainable bonds and private credit strategies.	• US intermediate duration Treasuries, investment grade bonds, municipals • Diversify portfolio income (diversified fixed income strategies, Agency MBS, senior loans, private credit, sustainable bonds, equity income strategies)
Go long longevity	We foresee a vast future market for our new Longevity theme. Recent market declines have, in our view, created an opportunity to invest, particularly in the US health care sector. In the short term, we expect clearer policies and positive developments, such as updates to government health care programs, to bolster growth. And as people live longer, wealthier, and healthier lives, we anticipate a growing demand for products that extend healthy lifespans.	• Select pharma, medical devices, health care services • Select consumer and financial services • Select real estate

MIFs	Elevator pitch	Investment ideas
Be selective in Europe and Asia	European and Asian markets began the year on a strong note. However, tariffs and heightened geopolitical risks may affect economic growth. We recommend selectivity, favoring beneficiaries of increased fiscal spending and small- and mid-cap stocks in Europe. In Asia, we favor Taiwan for its structural growth market and recommend defensive strategies centered on mainland China's state-owned enterprises. Additionally, we believe structural growth opportunities in sectors such as power and resources, with exposure beyond the US, should yield solid returns.	• Six ways to invest in Europe, Eurozone small- and mid-caps • Taiwan • State-owned enterprises in mainland China • Power and resources
Trade the range in currencies	We expect the US dollar to trade in a range against its major currency peers in the months ahead. The risks of European currencies are fading amid ongoing uncertainty over US growth and inflation. Equally, with the near-term benefit from fiscal expansion in Germany priced in and tariffs looming, we wouldn't chase the euro higher. We are focused on trading the range in EURUSD, USDCHF, and GBPUSD.	• Trade the range in EURUSD between 1.05 and 1.12 • Buy dips in EURUSD below 1.05 • Generating yield by selling volatility in CHF

Asset allocation implementation

The UBS House View is our current assessment of the global economy and financial markets, with corresponding investment recommendations. The asset allocation implementation of this view can vary based on the portfolio types and objectives.

Jason Draho, PhD, Head of Asset Allocation Americas; **Michael Gourd,** Asset Allocation Strategist; **Danny Kessler,** Asset Allocation Strategist

Our tactical asset class preferences

Attractive

- Intermediate duration US
- Treasuries
- US Agency MBS
- US investment grade corporate bonds
- Senior Loans
- Global equity
- US equity
- US Large cap equity
- US growth equity
- US value equity
- Oil
- Gold

Implementation guidance

Concerns about the US economic outlook are rising, as evident by sharply declining consumer and business sentiment, but actual economic activity in Q1 has remained resilient. The labor market has softened around the edges but has shown no signs of cracking, and while consumer spending has cooled in Q1, this follows an unsustainable pace in 4Q24. Nevertheless, downside risks to growth have increased, stemming primarily from larger-than-expected tariffs and the possibility of an escalating trade war.

Extremely high policy uncertainty is also weighing on the economy, but it should start to gradually dissipate in the coming months. Details on reciprocal tariffs on major US trading partners are set to be announced on 2 April. While this could lead to a tit-for-tat escalation in tariffs, our base case is that subsequent negotiations will result in lower effective tariff rates than initially announced. Nonetheless, the net result is that GDP growth in 2025 is likely to be a little below the trend rate of 2%, and higher inflation that should be short-lived. We expect the Fed to look through the inflation increase and focus on slowing growth as the justification for cutting rates in June and September. Progress in Congress on passing a budget reconciliation bill that extends personal tax cuts and returns expired corporate tax breaks suggests it could pass by early summer. The growth impact in 2025 of such an outcome is minimal, but it would reduce uncertainty and would allow investors to refocus on market-positive aspects of the administration's policy priorities.

This period of heightened policy uncertainty is leading to market volatility, but we remain constructive on risk assets because growth is likely to remain resilient and policy should become more supportive in the second half of the year. However, we did lower our S&P 500 2025 price target to 6,400 from 6,600 based on more aggressive tariff implementation than we had previously expected. While tariffs are a clear headwind for equities, we think the US market will be relatively more insulated from negative impacts than other markets, and as such we keep our Attractive view on US equities versus other regions. Given the constructive outlook through year-end, we recommend investors **take advantage of US volatility** by putting money to work in US equities broadly and AI names specifically on market pullbacks.

Within US equities, we remain Neutral on value versus growth and make no changes to our sector preferences. We maintain our Attractive view on financials, communication services, health care, consumer discretionary, and information technology. Financials should benefit from lower funding costs, cooling regulatory pressures, and a pickup in capital market activity. Communication services is Attractive owing to solid digital advertising trends and investor enthusiasm around AI. Health care should benefit from improved policy clarity, attractive valuations, and potential earnings upside. Consumer discretionary should benefit from Fed rate cuts that will help drive improvement in housing and automotive segments. Artificial intelligence will to be a key driver of equity market returns over the coming years. Given such, it is important that investors hold sufficient long-term exposure to the theme. We currently see the best opportunities in the enabling layer of the value chain, which is benefitting from significant investments. We also like vertically integrated mega-caps, which are well positioned across the value chain. Within a portfolio context, we also like utilities, as they are defensive and should do well in the event of weaker economic activity.

While US equity performance so far in 2025 is disappointing, the opposite applies to markets abroad. Major indices in Asia and Europe are up mid- and high-single digits, respectively. We view this strength as markets having mostly priced positive news flow and think further meaningful gains from here are going to be harder to come by. Therefore, we recommend investors **be selective in Europe and Asia**. In European markets we identify specific equity drivers from important catalysts in the near term: A pro-growth shift in German government; potential Russia/Ukraine ceasefire; improved manufacturing outlook; and tariff negotiations with the US spurring greater defense spending. In Asia we continue to like selective markets with structural growth stories like India and Taiwan.

Bond yields have declined in response to growth risks, and they could rise if those risks recede, but there are still attractive opportunities for investors to **seek durable income**. High-quality fixed income assets offer compelling risk-reward over the next 12 months. Specifically, we like the five-year part of the Treasury curve and also see value in investment grade bonds, agency MBS, municipals, senior loans, sustainable bonds, and private credit.

Lastly, recent volatility inducing political pronouncements remind us that investors need to **navigate political risks**. Investors should consider leveraging capital preservation strategies to put capital to work while reducing market-timing risk. We also recommend gold and oil as potential hedging options to protect against geopolitical flare-ups and inflation risks.

Our preferences

	Unattractive	Neutral	Attractive
Cash		=	
Fixed Income		=	
US Gov't FI		=	
US Gov't Short		=	
US Gov't Intermediate			+
US Gov't Long		=	
TIPS		=	
US Agency MBS			+
US CMBS		=	
US Municipal		=	
US IG Corp FI			+
US HY Corp FI		=	
Senior Loans			+
Preferreds		=	
EM Hard Currency FI		=	
EM Local Currency FI		=	
Commodities		=	
Gold			+
Oil			+

	Unattractive	Neutral	Attractive
Equity			+
US Equity			+
US Large Cap			+
Comm Services			+
Cons Discretionary			+
Cons Staples		=	
Energy		=	
Financials			+
Health Care			+
Industrials		=	
Info Technology			+
Materials		=	
Real Estate		=	
Utilities			+
US Growth Equity			+
US Value Equity			+
US Mid Cap		=	
US Small Cap		=	
Int'l Developed Markets		=	
Emerging Markets		=	

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 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.

Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.
Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities.

Note: We have collapsed "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive" from the five-tier rating system that is found in the *Equity Compass* into three tiers.

US economic outlook

Policy changes raise recession risks.

Brian Rose, PhD, Senior US Economist

Overview

Recent developments suggest that government policy changes will start having a more negative economic impact in the months ahead. The announcement on reciprocal tariffs expected on 2 April could decide the economy's fate. However, the hard data available so far have held up reasonably well. One example of this is jobless claims. As shown in Figure 1, claims are still at historically low levels, so even though hiring has slowed, layoffs are still low enough to keep the economy near full employment. Reflecting this, wages continue to rise at a robust pace (see Figure 2). At the same time, wage growth isn't high enough to be a major source of inflationary pressure, but higher tariffs are likely to push up goods prices in the months ahead (see Figure 3), making further progress toward lower inflation more difficult. The Fed remains in wait and see mode, and at the March meeting maintained its median expectation of two rate cuts by the end of 2025 (see Figure 4).

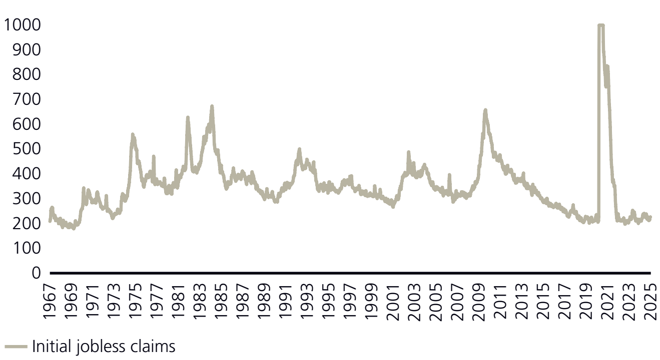
Growth

Growth is off to a weak start in 2025 owing mainly to softer consumer spending following a strong 4Q24 holiday shopping season. Real spending fell 0.6% month over month in January before edging up 0.1% in February, and 1Q25 may be the softest quarter for GDP growth since 2Q22. Consumer sentiment has fallen sharply in recent readings, especially regarding expectations, but we caution against an overly negative interpretation of these numbers. While policy changes have increased downside risks to growth, overall the recent hard data on economic activity are still holding up. In particular, as shown in Figure 2, wages continue to rise at a robust pace. With nonfarm payrolls continuing to rise and layoffs still low, the labor market provides a base of support for consumer spending. Further, AI-related activity is providing a strong tailwind for the economy. Our base case calls for GDP growth to slow to around 2.0% in 2025, which would be down from 2.8% last year.

Figure 1

Jobless claims are at historically low levels

Initial jobless claims, 4-week moving average in '000s

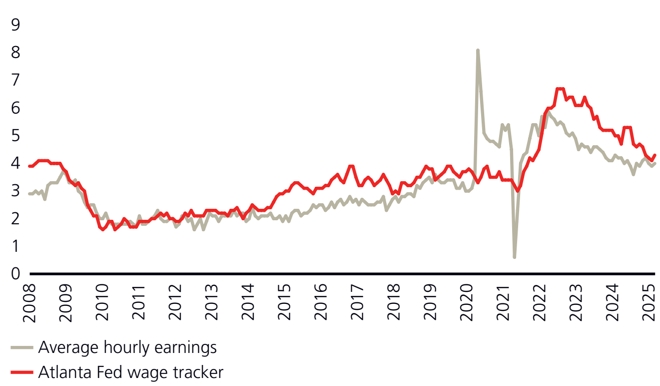


Source: FRED, UBS as of 26 March 2025

Figure 2

Wage growth supports consumer spending

Average hourly earnings, Atlanta Fed wage tracker, year-over-year change in %



Source: Bloomberg, UBS as of 26 March 2025

For our global economic forecasts,
please see our report *Global forecasts*.

Read the report ›

Inflation

As shown in Figure 3, core PCE inflation, which excludes food and energy, has been trending sideways for months, with the 2.79% inflation rate in February slightly above the 2.67% reading from last May. Our base case remains that shelter inflation will slow over 2025, but this will likely only partially offset the impact of higher tariffs, which we expect to push up prices substantially on most goods. We therefore expect core PCE inflation to remain well above the Fed's 2% target in the months ahead. Inflation is likely to remain elevated only until the tariff impact drops out of the year-over-year figures, and we do not expect tariffs to lead to higher inflation over the medium term. Stricter immigration policy could also end up stoking inflation by curtailing labor supply, causing supply/demand imbalances in the labor market that push up wage growth, as well as creating supply chain problems in sectors that rely heavily on immigrant labor.

Policy

Just like businesses and consumers, the Fed may face some difficult decisions in a rapidly changing environment driven mainly by government policy. At the FOMC meeting on 18-19 March, the Fed left rates unchanged, with the fed funds target range remaining at 4.25-4.50%. As shown in Figure 4, the dot plot continues to indicate two rate cuts in 2025, in line with our base case. However, compared with their previous projections in December, there are now more dots at zero and one cut, even though the projection for GDP growth was cut to 1.7% from 2.1% previously. This appears primarily due to the less-promising inflation outlook noted above. Our view is that the Fed will be willing to respond to any signs of weakness in the labor market with rate cuts, even if inflation remains uncomfortably above target. The Fed's economic models should suggest that tariffs create big downside risks to its full employment mandate, justifying potentially aggressive cuts if needed.

Figure 3

Core inflation trending sideways in recent months

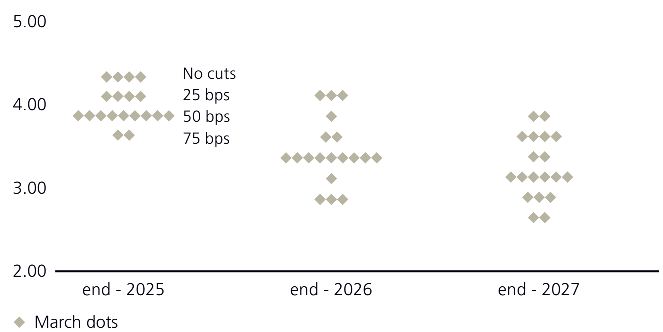
PCE and core PCE, year-over-year change in %

Source: FRED, UBS as of 28 March 2025

Figure 4

Fed expects 50bps of cuts in 2025

Dots from FOMC Summary of Economic Projections, in %



Source: Fed, UBS, as of 26 March 2025

Equities

We keep global equities at Attractive. While policy uncertainty remains a near-term risk, we expect robust fundamentals to prevail by year-end. The recent volatility provides an opportunity to gradually increase exposure, in our view. Resilient economic growth, central bank cuts, and robust structural trends in AI and power and resources should help equities trend higher throughout the year. We expect earnings to grow in the mid- to high-single digits this year and next. Contributions will likely broaden, but we believe the tech sector will remain the main engine of growth thanks to robust AI investments.

Eurozone

NEUTRAL

EURO STOXX 50 (index points, current: 5,412)	December 2025 target
House view	**5,700**
Positive scenario	6,300
Negative scenario	4,300

Note: All current values as of 27 March 2025

We are Neutral on the region. Germany's fiscal and Europe's defense plans are fundamentally supportive, but the bar for further positive surprises in the near term is more challenging. We continue to see European equities well supported by reasonable valuations, earnings that are likely bottoming, and a brighter outlook for European growth after recent spending announcements. We favor a selective approach to investing in Europe, in segments that are relatively insulated from tariff risks, offer exposure to structural growth, and benefit from European monetary and fiscal support.

Emerging markets

NEUTRAL

MSCI EM (index points, current: 1,132)	December 2025 target
House view	**1,190**
Positive scenario	1,300
Negative scenario	850

Note: All current values as of 27 March 2025

We remain Neutral on emerging market equities. The outlook for EM equities is clouded by trade uncertainty and a less aggressive Fed easing path. While regional central banks' easing and ongoing stimulus measures in mainland China provide support, uncertain US trade policy increases volatility. Key risks include a strong US dollar, rising US interest rates, and geopolitical tensions. Despite these challenges, there are opportunities in sectors driven by structural growth trends, in markets such as Taiwan and India.

Japan

NEUTRAL

TOPIX (index points, current: 2,813)	December 2025 target
House view	**2,850**
Positive scenario	3,100
Negative scenario	2,200

Note: All current values as of 27 March 2025

We are Neutral on Japanese equities despite supportive fundamentals. Until at least early May, when Japanese companies announce their guidance for FY25, uncertainty around tariffs and regulations as well as concerns over weak guidance are likely to persist, sustaining high volatility and a continued range-bound market, in our view. We recommend Japanese banks and high-quality stocks with unique earnings drivers, such as IT services and power names.

UK

NEUTRAL

FTSE 100 (index points, current: 8,690)	December 2025 target
House view	**9,000**
Positive scenario	10,000
Negative scenario	7,300

Note: All current values as of 27 March 2025

We are Neutral on UK equities. We believe current valuations are reasonable, earnings have likely bottomed, monetary policy is being eased, and the longer-term growth outlook is now on a firmer footing following the recent European fiscal announcements. We prefer a selective approach to investing in the UK, favoring segments that are relatively insulated from tariff risks, offer exposure to structural growth, and benefit from easing monetary policy and European fiscal plans.

US equities

We have an Attractive view on US equities. Stocks are down on the year, led by the decline in mega-cap growth companies. However, we continue to expect stocks to reverse course and rise by the end of the year, driven by what we believe will be: (1) policy clarity, (2) durable economic growth, (3) a pivot to pro-growth policy initiatives, and (4) AI investment.

David Lefkowitz, CFA, Head of US Equities; **Nadia Lovell,** Senior US Equity Strategist; **Matt Tormey,** US Equity Strategist

US equities overview

ATTRACTIVE

US equities

The past month has been challenging for US equity investors, as a spike in policy uncertainty has driven a pull-back in activity and a sharp decline in sentiment. The S&P 500 briefly entered correction territory—down more than 10% from its February peak. But stocks tend to perform well after bull market corrections, with average gains of 18% over the next year. And we don't think tariff rates will be large enough to spark a recession. We therefore still believe US stocks can recover and post gains for the year. Sentiment should start to improve once tariff policy is clarified and the administration pivots to pro-growth policies like deregulation and tax reform. However, recent economic weakness and our expectation that tariffs will be at the higher end of our base case prompted us to lower our 2025 S&P 500 EPS estimate from USD 270 (8% growth) to USD 265 (6% growth). We therefore trimmed our year-end S&P 500 price target from 6,600 to 6,400.

US equities – sectors

Tech should benefit from AI investment and adoption, a pickup in key end-markets, and its higher-quality bias. Continued healthy digital advertising trends should support communication services; mega-caps within consumer discretionary are attractively valued, in our view. Financials are likely to benefit from a pickup in activity and deregulation. Policy clarity and reasonable valuations should benefit health care. Utilities offer defensive exposure if economic growth falters and there is upside from AI power demand.

US equities – size

We have an Attractive view on large caps and Neutral views on mid-caps and small caps. While small-cap valuations remain compelling, profit trends are lagging other size cohorts. In addition, small caps are more correlated to economic activity, and the downtick in economic growth suggests a more challenging path for smaller companies. Nevertheless, smaller companies tend to be more domestic and could therefore potentially benefit more from tax reform.

US equities – style

We have an Attractive view on both large-cap value and growth stocks. Current valuations for growth stocks are elevated, but profit trends remain favorable. Our positive views on the financials, health care, and utilities sectors suggest upside potential for value stocks.

S&P 500 (index points, current: 5,693)	December 2025 target
House view	**6,400**
↗ Upside	7,000
↘ Downside – tariff shock / US stagflation	5,100
↘ Downside – hard landing	4,500

Note: All current values as of 27 March 2025

Figure 1

Remain selective in our sector positioning

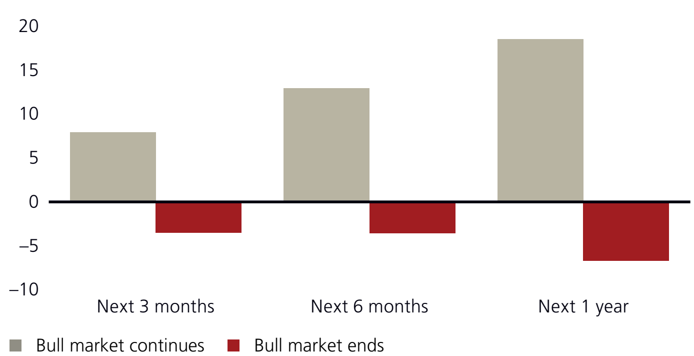
	Unattractive	Neutral	Attractive
US equities			
Communication services			+
Consumer discretionary			+
Consumer staples		=	
Energy		=	
Financials			+
Health care			+
Industrials		=	
Information technology			+
Materials		=	
Real estate		=	
Utilities			+

Note: S&P 500 sector preferences
Source: UBS, as of 27 March 2025

Figure 2

Stocks tend to perform well after bull-market corrections

S&P 500 forward returns (in %) following a 10% correction, since 1943



Source: Bloomberg, UBS, as of March 2025

Bonds

Market concerns about growth have intensified owing to uncertainty surrounding President Trump's trade policies, which has affected broader sentiment and has led to more Fed rate cuts being priced into the curve, lowering term rates. Additionally, the new administration's goal of reducing long-end rates and focusing issuance on short- to medium-term maturities has decreased term premiums from January highs. The market has fluctuated between pricing one more Fed rate cut to now more than two. We continue to believe interest rates will decline further by year-end and like the belly of the curve.

Alejo Czerwonko, Chief Investment Officer Emerging Markets Americas; **Leslie Falconio,** Head of Taxable Fixed Income Strategy; **Barry McAlinden,** CFA, Fixed Income Strategist; **Frank Sileo,** CFA, Fixed Income Strategist

Government bonds

NEUTRAL

US 10-YEAR YIELD (current: 4.3%)	December 2025 target
House view	**4.00%**

Note: All current values as of 27 March 2025

The market has shifted from inflation and deficit fears to concerns over slower growth, as soft data metrics have weakened. The recent equity volatility has been a tailwind to the decline in Treasury yields, but for this trend to continue, we likely need to see sentiment data manifest in the hard data. We continue to expect yields to trend toward 4% by year-end, but not in a straight line and would not be surprised by moves higher in the short term in reaction to policy implementation.

US investment grade corporate bonds

ATTRACTIVE

US IG SPREAD (current: 91bps)	December 2025 target
House view	**90bps**
↗ Positive scenario	70bps
↘ Negative scenario	180bps

Benchmark: ICE BofA
Note: Current values as of 27 March 2025

We hold an Attractive view on investment grade corporate bonds. We believe credit spreads, while tight historically, are likely to remain supported by yield-focused buyers and resilient fundamentals in the context of decent growth in the economy and corporate earnings. However, slowing US growth, near-term policy uncertainty, and downside risks to growth are likely to keep spreads from tightening meaningfully on a sustained basis, and we revise our credit spread target slightly upwards. We find the outright level of yields appealing and believe investors with excess cash holdings should look to medium-duration IG bonds for appealing income prospects.

Emerging market bonds

NEUTRAL

EMBIG DIV. / CEMBI DIV. SPREAD (current: 331bps / 248bps)	December 2025 target
House view	**325bps/225bps**
↗ Positive scenario	290bps / 210bps
↘ Negative scenario	550bps / 500bps

Note: Current values as of 27 March 2025

We keep emerging market credit as Neutral. Valuations look historically tight, leaving lower-rated issuers vulnerable to possible setbacks. However, we believe investors can achieve an appealing mid-single-digit interest rate carry return given CIO's outlook for lower Treasury yields and our expectation for bond spreads to trend rangebound over the next six to 12 months. Key risks include policy uncertainty in the US, deepening economic woes in China, resurging inflation fears, and an escalation of trade and/or geopolitical tensions.

EMBIG = hard-currency sovereign bonds; CEMBI = hard-currency corporate bonds

US high yield corporate bonds

NEUTRAL

USD HY SPREAD (current: 319bps)	December 2025 target
House view	**320bps**
↗ Positive scenario	250bps
↘ Negative scenario	700bps

Benchmark: ICE BofA
Note: All current values as of 27 March 2025

We have a Neutral view on HY. The market has focused on policy uncertainty and slowing US growth, which has caused spreads to widen somewhat yet remaining near historical lows. Our base case anticipates resilient US economic growth with low expected credit losses. We expect default rates to range at 2-3% over the next 12 months, but we revise our spread target slightly upwards to reflect the macro uncertainties. We view the 7.5% yield as providing attractive carry for yield focused investors.

Municipal bonds

NEUTRAL

We remain Neutral. The muni index yield of 3.9% is back up to one-year highs. The tax-equivalent muni index yield of 6.6% is particularly attractive for investors in the highest tax brackets. Munis have underperformed as the curve has steepened, and M/T ratios have cheapened year to date, particularly for longer maturities. Near term technicals remain challenged as supply remains elevated (12% higher than last year, which saw record issuance). We maintain our barbell preference. We like the four- to eight-year and 17- to 30-year range on the AAA tax-exempt curve. We retain our preference for higher-quality credits.

Non-US developed fixed income

NEUTRAL

Over the past month, bond yields in non-US developed markets moved broadly higher, hurting the asset class. On foreign exchange markets, the dollar depreciated against most other major currencies, boosting the value of foreign currency bonds in dollar terms. These factors roughly offset each other, leaving the asset class little changed for the month. With US bonds still offering higher yields than in most other developed markets, we do not recommend a strategic asset allocation position on the asset class.

Additional US taxable fixed income (TFI) segments

Agency bonds

We remain Neutral on agency debt given the compressed spreads and value in other sectors. We do not see value in agency debt versus other higher-quality sectors such as Treasuries or agency MBS. Those that want to lock in higher yields should allocate to agency MBS. For investors looking for a higher yield with a high-quality rating, agency MBS is cheap to agency debt and IG corporates.

The current spread is +10bps (versus +5bps last month)

Mortgage-backed securities (MBS)

MOST ATTRACTIVE

Agency MBS are finally catching their long-awaited performance tailwind and is one of the best performers year-to-date, returning 2.5% versus the 1.6% in IG corporates, and investors can still pick up ~50bps in yield over IG. While there is the potential for slightly higher supply if 10-year yields trend toward our 4% estimate throughout the year, we believe demand will far outweigh supply, particularly bank demand—a key component to agency MBS performance.

AGENCY MBS SPREAD (current: 139bps)	December 2025 target
House view	**110bps**
Positive scenario	100bps
Negative scenario	185bps

Note: Current values as of 27 March 2025

Preferred securities

NEUTRAL

Preferreds have benefited from lower rates and tight credit spreads, but recent equity market volatility appears to be hitting USD 25 par investors particularly hard, with losses of about 2% in March nearly wiping out YTD returns. Institutional preferreds are flat for the month and holding YTD gains of about 1.5% supported by positive technicals. Banks have been net redeemers, offset by a proliferation in non-bank hybrid preferred issuance that is broadening the investor base and sector demand. This is keeping valuations tight and generally unappealing. Still, the lack of competitive yield alternatives along with a benign rate backdrop, and supply-demand dynamics are likely to remain supportive.

Treasury Inflation-Protected Securities (TIPS)

NEUTRAL

Real yields are leading the fall in nominal yields. 10-year real yields have fallen 20bps since the inauguration while 10-year breakeven inflation has fallen just 5bps, reflecting the market's concerns regarding the growth impacts of tariffs rather than the inflation impacts. As we think the trend toward 4.0% 10-year nominal Treasury yields will not be a straight path, and there is potential for a rise in the short-term, we would look to add 10-year real yields near 2.5%.

US 10-YEAR REAL YIELD (current: 1.95%)	December 2025 target
House view	**1.50%**
Positive scenario	0.75%
Negative scenario	2.30%

Note: All current values as of 27 March 2025

Figure 1

UBS CIO interest rate forecast

In %

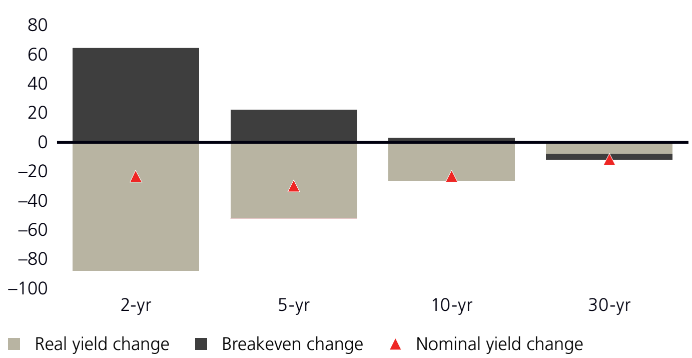
UST	Current	Jun-25	Sep-25	Dec-25	Mar-26
2-year	4.0	4.0	3.8	3.8	3.8
5-year	4.1	4.0	3.8	3.8	3.8
10-year	4.3	4.3	4.0	4.0	4.0
30-year	4.7	4.5	4.3	4.3	4.3

Source: Bloomberg, UBS, as of 26 March 2025

Figure 2

Real yields have led the decline in nominals, reflecting the market's focus on tariff impacts to growth vs. inflation

Year-to-date change, in bps



Source: Bloomberg, UBS, as of 25 March 2025

Commodities and listed real estate

Commodity markets have held up well despite prospects of US tariffs negatively influencing financial markets and global growth. Our benchmark CMCI total return index has risen by 5% this year, and we believe the outlook for the asset class on a full-year basis remains positive, underpinned by several supportive structural factors. By sector, we like crude oil from a volatility-selling perspective, gold from a portfolio hedging angle, copper from structural demand supply perspective, and agriculture/livestock from a diversification standpoint.

Dominic Schnider, CFA, CAIA, Strategist, UBS Switzerland AG; **Giovanni Staunovo,** Strategist, UBS Switzerland AG; **Thomas Veraguth,** Strategist, UBS Switzerland AG; **Wayne Gordon,** Strategist, UBS AG Singapore Branch

Commodities

NEUTRAL

GOLD (current: USD 3,019/oz) — December 2025 target

ATTRACTIVE

House view	USD 3,200/oz
Positive scenario	USD 2,900/oz
Negative scenario	USD 3,500/oz

Note: All current values as of 27 March 2025. Gold is considered a safe-haven asset whose price tends to rise when risk assets, such as equities, fall, and vice versa.

BRENT (current: USD 73.79/bbl) — December 2025 target

ATTRACTIVE

House view	USD 80/bbl

Note: Current values as of 27 March 2025

Precious metals

Gold prices surpassed USD 3,000/oz for the first time on 14 March. We have lifted our target to USD 3,200/oz (from USD 3,000/oz). ETF inflows have again accelerated in recent weeks, with scope for further buying as investors seek defensive assets amid escalating uncertainties. A structural shift in central bank behavior is also underway, and we expect another year of strong buying at around 950 metric tons. We do not yet think gold has peaked and would allocate around 5% of a USD balanced portfolio from a longer-term diversification standpoint.

Base metals

Bloomberg reported that US copper tariffs could be implemented as early as May after the US launched a Section 232 investigation on imports of metal in late February. Once tariffs are implemented, we expect US imports to slow temporarily as end-users consume inventories. Short term, this could weigh on LME prices, but longer term, we expect supply-side constraints and unabated demand growth from energy transition projects to tighten global fundamentals. We target USD 11,000/ metric ton on a 12-month basis.

Agriculture

Grains and soft commodities continue to experience significant fluctuations owing to tariff-related risks, weather, and swings in energy prices. Livestock prices have fared better, with live cattle performing solidly as we anticipated. Livestock prices do vary by protein, but we keep live cattle as our top pick. We forecast Brazil and US beef production to contract by 5% and 3% in 2025, respectively, which should see global beef inventories tighten further over the year ahead.

Crude oil

Available oil inventory data suggest a moderately undersupplied oil market in early 2025. We continue to believe the oil market will be closely balanced this year, in contrast to market expectations of larger oil surpluses. In the near term, US tariff news is likely to keep oil prices volatile. Nevertheless, we retain our moderately constructive outlook for crude prices, so we still like selling crude oil's downside price risks.

Listed real estate

RUGL Index (current: USD 5,962) — December 2025 target

House view	USD 7,600
Positive scenario*	USD 7,800
Negative scenario*	USD 7,100

Note: All current values as of 27 March 2025
*Positive and Negative scenarios reflect December 2025 targets.

Real estate values are expected to profit from interest rate cuts, rental growth, and increasing transaction volumes. We like companies that seek growth and engage in acquisitions or accretive issuance and that show strong pricing power, profitable pipelines, attractive yield gaps, and robust cash flows. Stocks trading at discounts offer above-average potential returns if they manage to further strengthen their balance sheets.

Foreign exchange

We raise AUD to Attractive

Dominic Schnider, CFA, CAIA, Strategist, UBS Switzerland AG

Year-to-date, the US dollar has reversed around half of its rally from late 2024 as the so-called "Trump trade" has weakened. Following US President Donald Trump's election win, the USD surged late last year. In 2025, markets have focused more on the adverse impact of tariffs on economic growth amid spending cuts rather than on growth-supportive tax cuts. Meanwhile, Germany's new chancellor-in-waiting has surprised markets with an unprecedented fiscal stimulus package.

The recent rally in the EURUSD already reflects much of the positive news around Germany's fiscal plan, in our view. This puts the focus on near-term macroeconomic data releases and whether they confirm firmer economic growth ahead and thus a stronger EUR. Additionally, if US tariffs targeting Canada, Mexico, and China expand to Europe, the EURUSD could face renewed pressure. We therefore project the currency pair may retrace toward 1.06 in 2Q25. In 2H25, we expect the European Central Bank to conclude its easing cycle after halving rates over the past year. Meanwhile, the Federal Reserve may restart its own easing cycle this summer, with the risks skewed toward more cuts than what is priced by the rates futures market. We believe this combination should help the EURUSD rise above 1.10 in late 2025 and into 2026. Consequently, we see the GBPUSD first touching 1.26 before rising above 1.30, and the USDCHF rising to 0.90 before gradually easing toward 0.85. The Swedish krona and the Norwegian krone have rebounded recently, particularly the former. Nevertheless, we maintain the view that both currencies are still undervalued from a longer-term perspective.

Outside Europe, we see additional potential for the Japanese yen and the Australian dollar to strengthen versus the USD. We expect the Bank of Japan (BoJ) to be the only G10 central bank raising rates this year, narrowing the yield differential that has held the JPY back and kept it highly undervalued. Meanwhile, the AUD remains among the higher-yielding G10 currencies, offering more than 4% carry. We believe that once the market realizes that the RBA will cut rates less than what the market is currently expecting, we should see support for the AUD building. In our forecasts, the AUD holds one of the highest expected returns, and we raise it to Attractive.

Finally, we maintain our Unattractive view on the Chinese yuan. We expect US tariffs on Chinese exports to rise further, with the effective tariff rates shifting above 30%. Given the People's Bank of China's (PBoC) determination to keep the yuan stable, we believe there is also a limit to potential CNY weakness, and see room for the USDCNY to roll over later this year once the USD declines more broadly.

FX strategy

	Unattractive	Neutral	Attractive
USD		=	
EUR		=	
JPY			+
GBP		=	
CHF		=	
AUD		= →	+
CNY	−		

Changes are based on the Foreign exchange preferences table found in UBS House View Monthly Extended: April 2025, published 27 March 2025

FX forecasts

	Current	Jun-25	Sep-25	Dec-25	Mar-26
EURUSD	1.08	1.06	1.08	1.10	1.12
USDJPY	151	148	148	145	142
GBPUSD	1.29	1.26	1.29	1.31	1.33
USDCHF	0.88	0.90	0.88	0.86	0.85
USDCAD	1.43	1.46	1.44	1.42	1.40
AUDUSD	0.63	0.65	0.66	0.67	0.68
NZDUSD	0.57	0.56	0.57	0.58	0.60
USDSEK	10.03	10.47	10.19	9.91	9.64
USDNOK	10.52	10.85	10.46	10.18	9.91

Sources: SIX Financial Information, UBS, as of 27 March 2025

Investment committee

The UBS investment process is designed to achieve replicable, high-quality results through applying intellectual rigor, strong process governance, clear responsibility, and a culture of challenge.

Based on the analyses and assessments conducted and vetted throughout the investment process, the Chief Investment Officer (CIO) formulates the UBS Wealth Management Investment House View at House View Investment Meeting (HVIM). Senior investment professionals from across UBS, complemented by selected external experts, debate and rigorously challenge the investment strategy to ensure consistency and risk control.

The participants in the HVIM include top market and investment expertise from across all divisions of UBS:
- Mark Haefele (Chair)
- Solita Marcelli
- Paul Donovan
- Min Lan Tan
- Themis Themistocleous
- Bruno Marxer (*)
- Adrian Zuercher
- Mark Andersen

We recognize that a globally derived house view is most effective when complemented by local perspective and application. As such, UBS has formed a Wealth Management Americas US Investment Strategy Group:
- Solita Marcelli
- Alejo Czerwonko
- Jason Draho (chair)
- Leslie Falconio
- David Lefkowitz
- Brian Rose
- Daniel Scansaroli

(*) Business area distinct from Chief Investment Office Global Wealth Management

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Our preferences do not assure profits or prevent against losses from an investment portfolio or accounts in a declining market.

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.

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Preferred securities: Prospective investors should consult their tax advisors concerning the federal, state, local, and non-U.S. tax consequences of owning preferred stocks. Preferred stocks are subject to market value fluctuations, given changes in the level of interest rates. For example, if interest rates rise, the value of these securities could decline. If preferred stocks are sold prior to maturity, price and yield may vary. Adverse changes in the credit quality of the issuer may negatively affect the market value of the securities. Most preferred securities may be redeemed at par after five years. If this occurs, holders of the securities may be faced with a reinvestment decision at lower future rates. Preferred stocks are also subject to other risks, including illiquidity and certain special redemption provisions.

Municipal bonds: Although historical default rates are very low, all municipal bonds carry credit risk, with the degree of risk largely following the particular bond's sector. Additionally, all municipal bonds feature valuation, return, and liquidity risk. Valuation tends to follow internal and external factors, including the level of interest rates, bond ratings, supply factors, and media reporting. These can be difficult or impossible to project accurately. Also, most municipal bonds are callable and/or subject to earlier than expected redemption, which can reduce an investor's total return. Because of the large number of municipal issuers and credit structures, not all bonds can be easily or quickly sold on the open market.

Appendix

Emerging Market Investments
Investors should be aware that emerging market assets are subject to, among others, potential risks linked to currency volatility, abrupt changes in the cost of capital and the economic growth outlook, as well as regulatory and socio-political risk, interest rate risk, and higher credit risk. Assets can sometimes be very illiquid, and liquidity conditions can abruptly worsen. CIO GWM generally recommends only those securities it believes have been registered under federal US registration rules (Section 12 of the Securities Exchange Act of 1934) and individual state registration rules (commonly known as "Blue Sky" laws). Prospective investors should be aware that to the extent permitted under US law, CIO GWM may from time to time recommend bonds that are not registered under US or state securities laws. These bonds may be issued in jurisdictions where the level of required disclosures to be made by issuers is not as frequent or complete as that required by US laws.

Investors interested in holding bonds for a longer period are advised to select the bonds of those sovereigns with the highest credit ratings (in the investment grade band). Such an approach should decrease the risk that an investor could end up holding bonds on which the sovereign has defaulted. Sub-investment grade bonds are recommended only for clients with a higher risk tolerance and who seek to hold higher yielding bonds for shorter periods only.

Nontraditional Assets
Nontraditional 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-US 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 US dollars, changes in the exchange rate between the US 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 US investor.

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