22 April 2025, 11:24PM UTC
Chief Investment Office GWM
Investment Research

US stocks rebound on hopes over trade and earnings

UBS House View - CIO Alert

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What happened?

The S&P 500 recouped part of its recent lost ground, rising 2.5% on Tuesday, on positive signals from the Trump administration over trade talks and hopes that the earnings season will revive market sentiment.

US Treasury Secretary Scott Bessent, speaking in a closed-door session at an investor summit, reportedly described the current tariff standoff with China as unsustainable and said he expects the situation to de-escalate. Bessent noted that while negotiations have not yet begun, a deal remains possible, according to attendees. The US reported "significant progress" toward a bilateral trade deal with India, with calls for increased purchases of American goods following talks between Vice President JD Vance and Indian Prime Minister Narendra Modi. In addition, the White House said it was close to a deal with Japan.

The stabilization in markets may also reflect that the ongoing first quarter earnings season is not turning out to be as bad as feared, even though the percentage of companies beating sales and earnings estimates has so far been below historical averages. Despite the high degree of uncertainty and very weak consumer sentiment, companies have suggested that consumer spending remains generally resilient. Encouragingly, banks are not pulling back from lending or supporting customers.

The positive signals on trade negotiations shifted attention from concerns that President Trump may try to dislodge Federal Reserve Chair Jerome Powell, calling into question the independence of the central bank and thus the outlook for price stability.

The yield on the 30-year US Treasury, which rose on worries over political interference with the Fed, fell modestly. Gold reached a fresh record high on Tuesday, climbing above USD 3,500 an ounce, continuing to benefit from investor uncertainty. However, the precious metal later retreated.

What do we think?

The more conciliatory tone from the White House on trade talks is in line with our view that a worst-case scenario on tariffs can be avoided. Our base case is that the effective US tariff rate ex-China will settle in the 10–15% range, with Canada and Mexico remaining largely exempt. While the twists and turns of trade negotiations are likely to keep volatility elevated, recent signals suggest a more constructive approach to resolving disputes.

Tariffs and uncertainty will weigh on economic and corporate profit growth in the near term. But we expect growth to resume later this year and into 2026 as the economy adapts. Investor sentiment should recover as confidence in the underlying fundamentals returns. Despite headwinds for tech, recent earnings from semi supply chain companies pointed to solid underlying AI demand, and AI adoption rates in the US have been encouraging. We remain confident in AI's growth story and expect a manageable 3–5% earnings impact on global tech companies from the tariffs.

Finally, regarding the Fed, markets will remain alert to any signs of political interference. But while President Trump may continue to publicly criticize Chair Powell, he said on Tuesday that he has "no intention" of firing the Federal Reserve Chair. Thus, we think the likelihood of Powell's removal remains low before his term ends in May 2026. In addition, although Powell has signaled a wait-and-see approach, we believe the central bank will be prepared to respond to signs of economic weakness, particularly in the labor market, and our base case is for 75–100 basis points of rate cuts this year. This should also support market sentiment.

How to invest:
Recent developments are a reminder that market swings are likely until there is greater certainty over the outlook for tariffs. Against this backdrop, we recommend various strategies.

Manage volatility. For investors concerned about the near-term risks and looking to hedge portfolios against potential further downside.

- **Gold.** Gold has continued to serve as an effective hedge amid ongoing trade uncertainty, taking its gains since the start of the year to 27% at the time of writing. Despite this strong performance, we see further upside potential, with our base case targeting USD 3,500 an ounce by year-end versus 3,362 at the time of writing. We continue to see support from investment demand, ongoing central bank diversification, and a volatile macro backdrop.

- **Diversify with hedge funds.** By dynamically adapting to macro shifts, hedge fund strategies like discretionary macro, equity market neutral, select relative value, or multi-strategy can cushion portfolios in down markets. We believe the alpha orientation and conservative posture of multi-strategy funds will mean near-term performance is likely to be largely insulated from market volatility. Similarly, macro strategies should, in our view, generate positive outcomes amid the volatility. Investors, however, should be aware of the unique drawbacks inherent in hedge funds, such as illiquidity and a lack of transparency.

- **Seek durable income.** Recent developments have added a political risk premium to US Treasuries, reflected in a higher yield. However, we expect this to be a step change rather than an ongoing process. With yields now high, we believe US Treasuries will offer portfolio diversification benefits and should perform well in the event of a slowdown in US growth.

Take advantage of volatility. For investors unsure about the near term but looking to utilize high levels of volatility to earn additional portfolio income.

- **Focus on opportunities.** We believe recent volatility has created select attractive opportunities at a single-stock and individual-market level, with various companies with good longer-term prospects now trading at more attractive valuations. In the US, we have identified 20 US companies across a range of sectors that are higher quality, have solid business models, and offer, in our view, good longer-term value. In Europe, our "Six ways to invest in Europe" list focuses on defensive champions that can benefit from increased market volatility, as well as from likely higher European defense spending and fiscal stimulus.

Look through volatility: For investors who were underinvested going into the sell-off and/or are willing to take on near-term risk for likely long-term reward.

- **Phase in to stocks.** While volatility will likely persist, we view US equities as Attractive, with a year-end S&P 500 target of 5,800. Phasing into the market can be an effective way to position for medium- and longer-term upside while managing timing risks. Capital preservation strategies can be another way to manage near-term downside risks.

- **Transformational Innovation Opportunities (TRIOs)** We continue to see strong long-term potential in our TRIOs—Artificial intelligence, Longevity, and Power and Resources. While companies exposed to each of these ideas have been caught up in near-term derisking, we expect structural trends to be the biggest drivers over the long term, and the recent sell-off provides a potential opportunity for investors to build structural exposure.

Appendix

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