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Chief Investment Office GWM
Investment research

The CEO Macro Briefing Book Q2 2025

Looking past peak uncertainty

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Section 1

Insights in Brief

Executive Summary: Looking past peak uncertainty

Macroeconomic Outlook

- **From reflation to stagflation…** In a sense, Q1's GDP report reveals the inflection point the US economy is in. On one hand, private demand started the year on a robust footing, but the headline number was distorted by a surge of imports. Expectations of 2025 growth have also universally lowered but are highly dependent on the timing and implementation of any tariffs.
- **…as the Fed finds itself in a difficult position.** Tariffs have complicated the rate cut trajectory since any rate cuts to support growth may risk pushing prices up even higher. For now, markets anticipate the Fed will cut rates more than expected at the start of the year with the labor market as a key deciding factor.

Operating Environment

- **Consumers are increasingly bifurcated and anxious**. Nearly half of all spending is now driven by the top decile of consumers, while lower-incomes consumers show increasing signs of stress. Consumer sentiment has fallen to very low levels, as households expect higher prices in the near term.
- **Labor market conditions hold despite government layoffs.** Hiring remains a bright spot in the labor market even as job openings and wages cool. A more uncertain environment has led to more workers expecting near-term job losses.

Markets & Deal Activity

- **Equities and Treasuries sell-off amidst policy uncertainty**. April's sell-off was notable for affecting past leaders like the Mag 7, the hardest hit segment but quickest to recover. Still, US exceptionalism is being called into question, as traditional "safe havens" like Treasuries and the US dollar have also sold off, while markets outside the US have outperformed.
- **Dealmaking momentum dented by increasing uncertainty.** M&A sentiment has fallen to the lowest level in years as dealmakers adopt a wait-and-see approach. PE activity has fared better, helped by an increase in exit volumes. VC dollars are concentrated in larger, AI-related deals.

Politics

- **After 'Liberation Day,' POTUS 47 faces more checks to policy.** The ambitious plans of Trump's second term may be tempered by increasingly negative net favorable ratings, historically high debt levels and deficit spending, and an increasingly anxious bond market.

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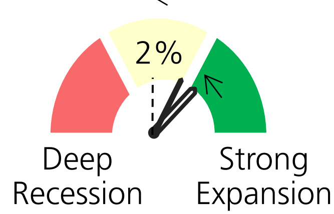
Dashboard Summary: 2025 started with stronger data and rising sentiment

Expected — Current — Six months prior

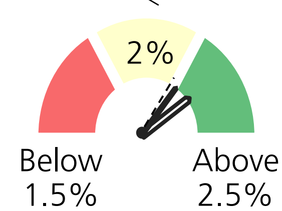
Macroeconomic Conditions

Slower growth…



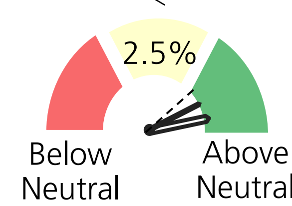
Growth

…elevated inflation…



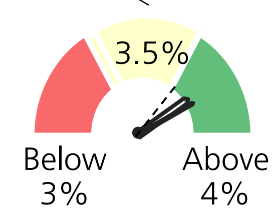
Inflation

…easing policy…



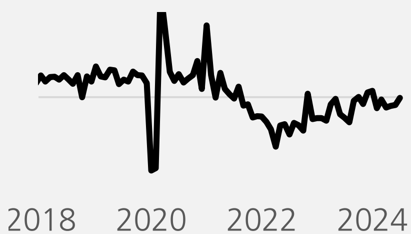
Policy Rate

…and lower rates

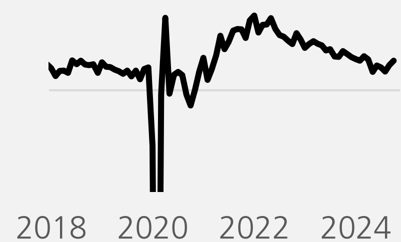


Longer-term rate

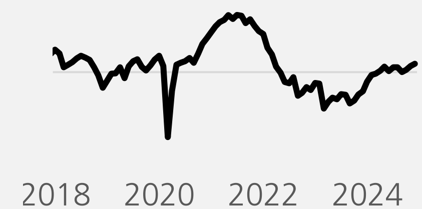
Operating Environment



Consumers

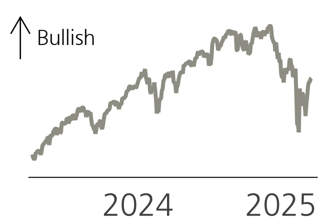


Labor

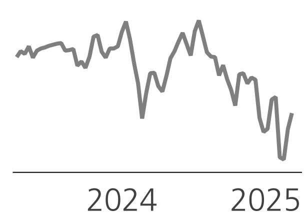


Financing

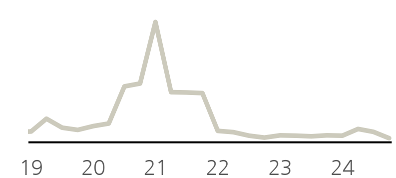
Markets & Deal Activity



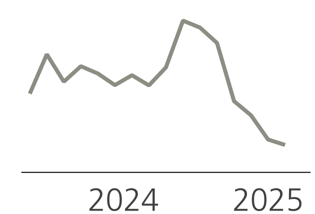
S&P 500



Investor sentiment



IPO Activity



M&A Sentiment

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Markets Dashboard: Risk assets struggle amidst policy uncertainty

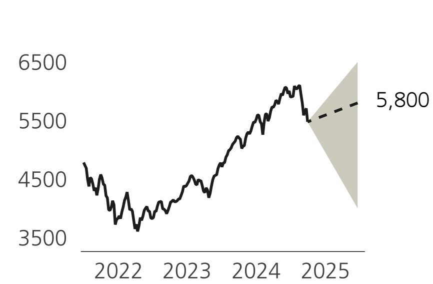
Performance	Latest	YTD	Q125	Q424	2024
S&P 500	5687	-3.3%	-4.6%	2.1%	23.3%
Large Cap Growth	3936	-3.9%	-8.6%	6.0%	35.1%
Large Cap Value	1835	-2.7%	-0.2%	-3.2%	9.8%
US Small Cap	2021	-9.4%	-9.8%	0.0%	10.0%
Int'l Developed Markets	1016	-1.2%	-2.5%	1.0%	18.4%
S&P 500 Sectors					
Energy	628	-4.1%	9.3%	-3.2%	2.3%
Materials	536	1.2%	2.3%	-12.8%	-1.8%
Industrials	1139	2.1%	-0.5%	-2.7%	15.6%
Consumer Discretionary	1605	-12.4%	-14.0%	14.1%	29.1%
Consumer Staples	901	5.5%	4.6%	-3.8%	12.0%
Healthcare	1614	0.6%	6.1%	-10.7%	0.9%
Financials	828	2.9%	3.1%	6.7%	28.4%
IT	4223	-8.4%	-12.8%	4.7%	35.7%
Utilities	405	5.2%	4.1%	-6.2%	19.6%
Real Estate	263	2.8%	2.7%	-8.7%	1.7%
US Gov't	2352	2.7%	2.9%	-3.1%	0.6%
Munis	1324	-0.9%	-0.2%	-1.2%	1.1%
TIPS	357	3.4%	4.2%	-2.9%	1.8%
Agency	125	3.1%	2.9%	-2.2%	2.8%
US IG	3341	1.6%	2.3%	-3.0%	2.1%
US HY	2720	1.4%	1.0%	0.2%	8.2%
Oil	56.7	-18.7%	-0.3%	5.2%	0.1%
Gold	3262	23.5%	19.0%	-0.4%	27.2%
USD	100	-7.8%	-3.9%	7.6%	7.1%
EUR	1.13	9.1%	4.5%	-7.0%	-6.2%
JPY	144	-7.8%	-4.6%	9.4%	11.5%
EM FX	1801	4.3%	1.7%	-3.6%	-0.7%

Source: Bloomberg, UBS, as of 2 May 2025

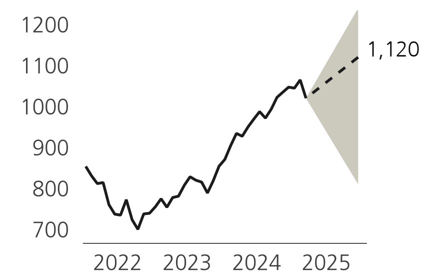
Negative Positive

UBS CIO Forecasts

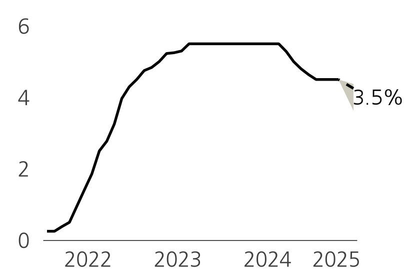
S&P 500



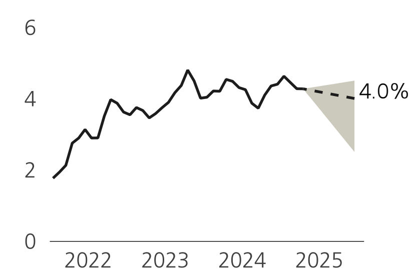
ACWI



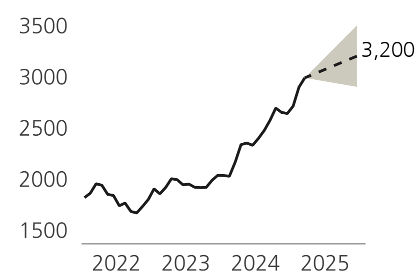
Federal Funds Rate (%)



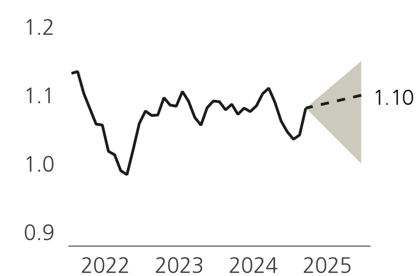
10Y Treasury Yield (%)



Gold



EUR



Section 2

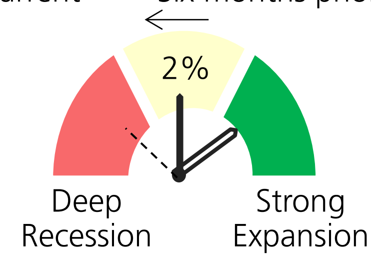
Macroeconomic Outlook

Macro Key Points: Slowdown ahead

Expected Current Six months prior

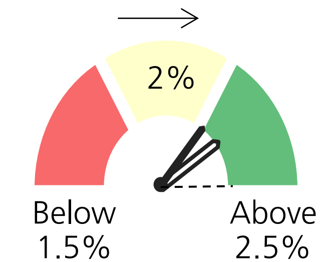
Growth

Preparing for a slowdown. The Q1 GDP report, despite its negative headline print, may be the most optimistic in 2025. Final sales to domestic private purchasers—economic activity less trade and government—accelerated to a 3% annualized quarterly pace, potentially helped by firms and households front-loading activity. Growth prospects are tied to the imposition of tariffs, a strong headwind in the coming quarters.



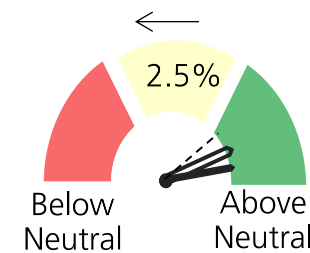
Inflation

Tariff imposition complicates disinflation path. Core and headline PCE inflation has stubbornly stayed around 2.5% through most of 2024 and into 2025. Latest prints show inflationary pressures easing, but any marginal tariff imposition would likely to push prices higher in the coming quarters—however, timing and severity matter.



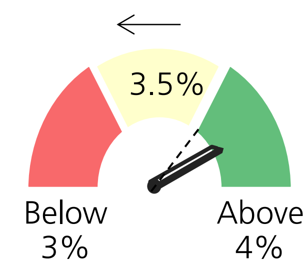
Fed funds rate

Fed's job becomes even harder. The stagflationary effects of tariffs limit what the Fed can do in terms of policy since cutting rates may exacerbate inflationary pressures even under a more modest growth environment. Still, the direction of travel is likely lower rates; we expect 100bps of cuts in 2025 starting in September. Policymakers would likely look at further deterioration in the labor market as a catalyst to cut rates faster.



10-year yield

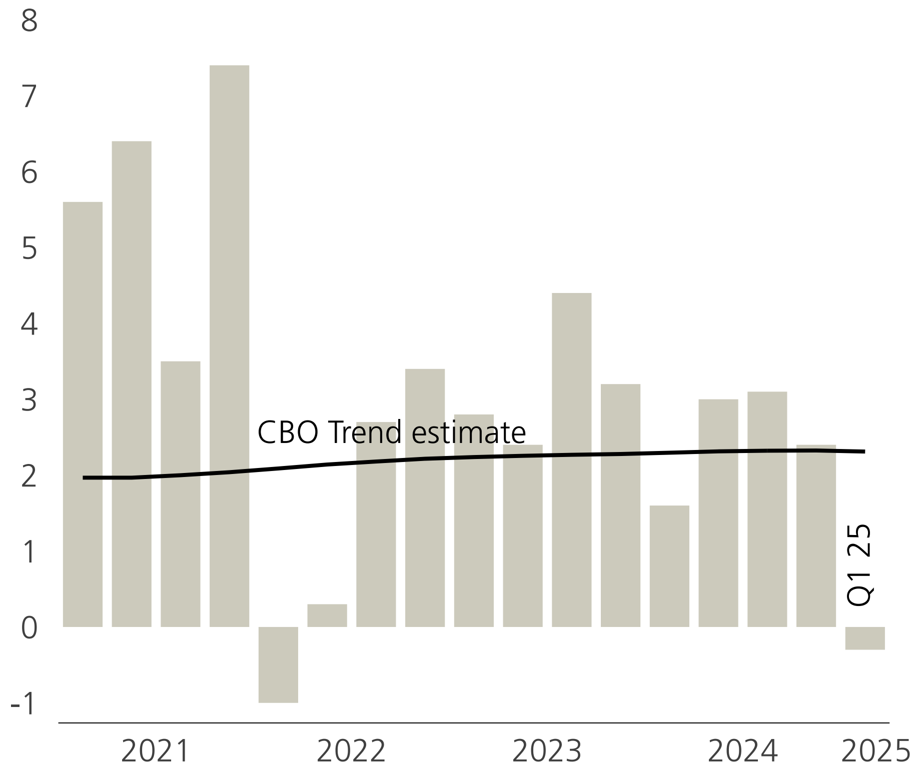
Longer-term yields a reflection of waning US exceptionalism. While many thought a 'Trump put' would be evident in the equity market, the administration may be paying a closer attention to the bond market. The rapid rise in longer-end yields led to a moderation of tariff impositions but also reflects greater investor caution in US assets under a more volatile environment.



Growth: A more modest environment after years of above-trend growth

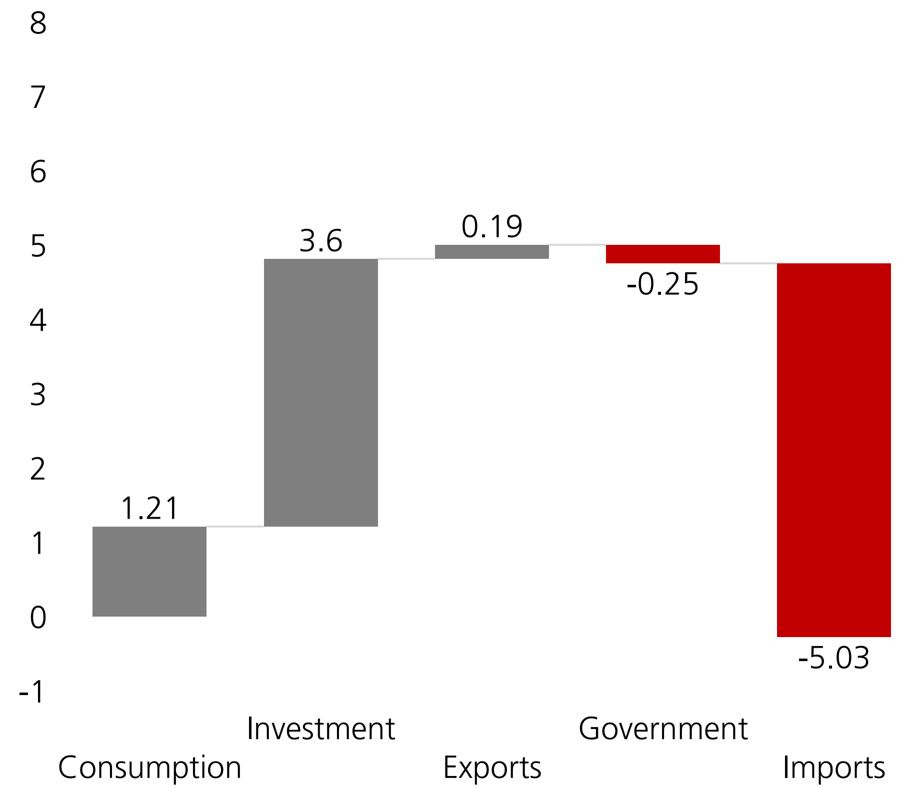
The 1Q25 GDP report shows contraction after years of above-trend growth; details were encouraging with stronger consumption and investment than expected.

1Q25 contraction follows years of above-trend growth
Real GDP, q/q SAAR %



Source: BEA, UBS, as of 5 May 2025

Imports surge masks robust domestic demand
Contribution to Q1 real GDP, q/q SAAR %



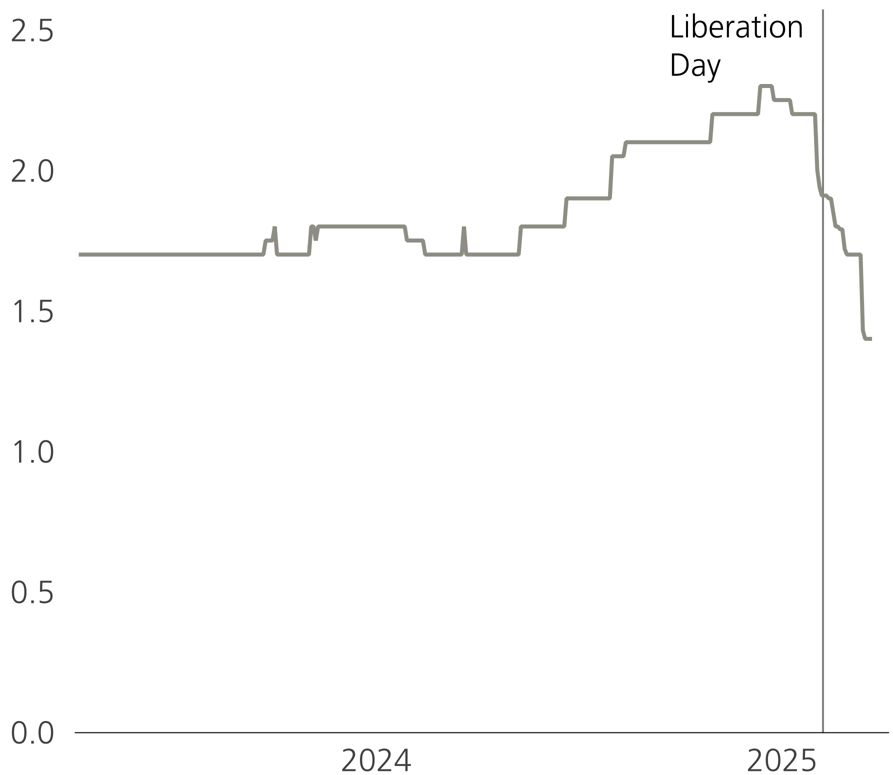
Source: BEA, UBS, as of 5 May 2025

Growth: Slowdown, not recession, expected

Consensus forecasts do not yet fully reflect the potential drag from higher tariffs, with markets pricing a more modest set of tariffs than announced during ‘Liberation Day.’

2025 growth expectations have fallen rapidly..

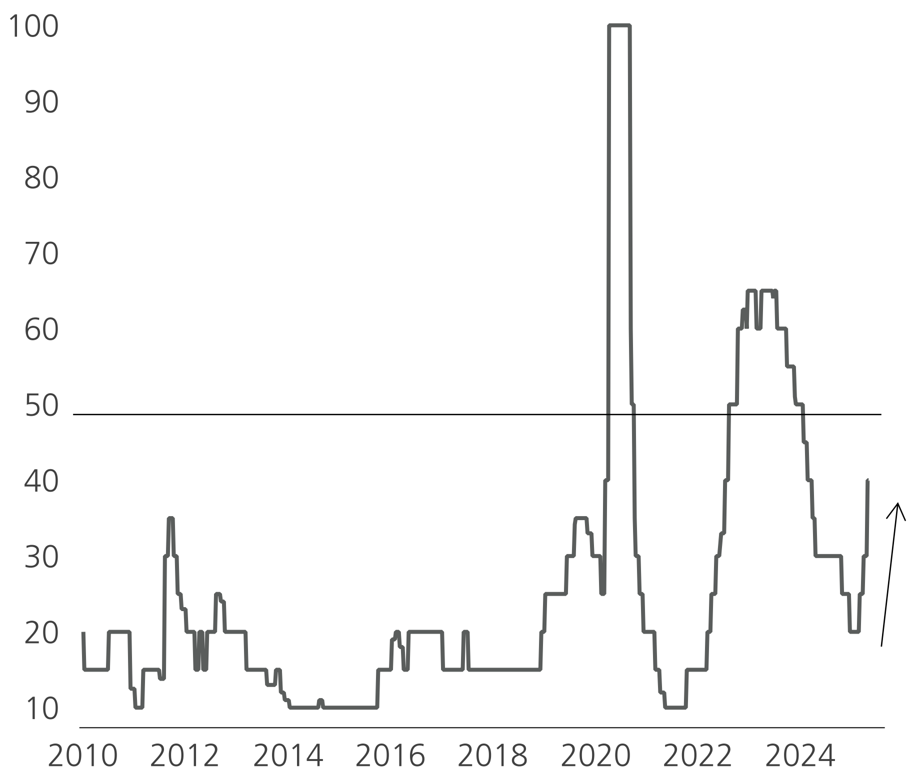
Bloomberg consensus US GDP forecasts, in %



Source: Bloomberg, UBS, as of 5 May 2025

…and recession odds rising

Consensus probability of US recession, %

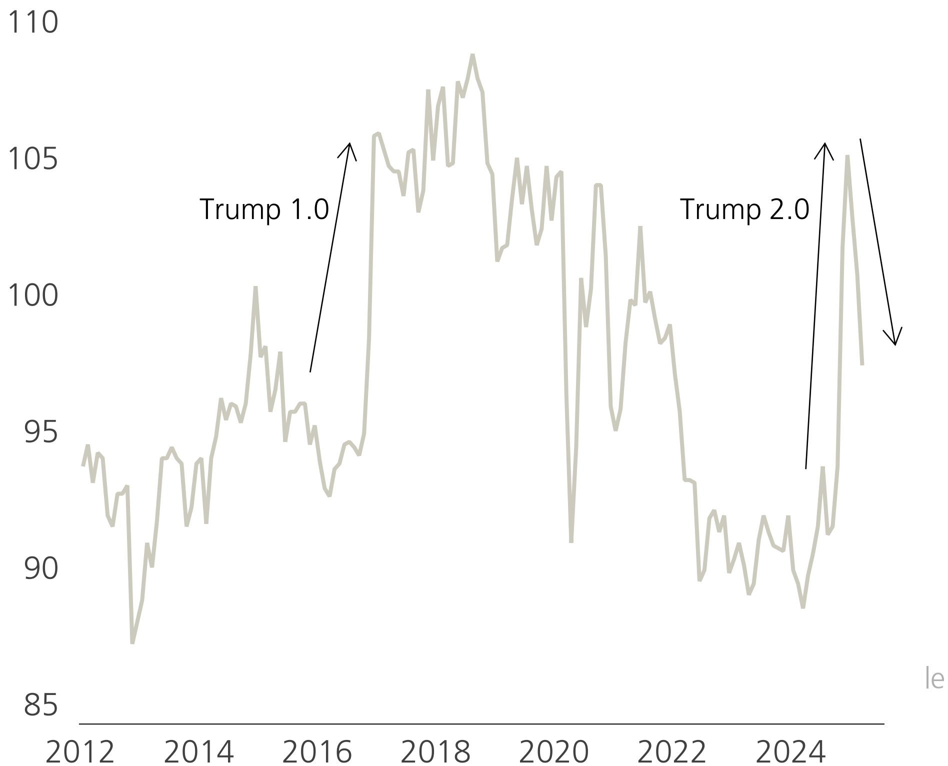


Source: Bloomberg, UBS, as of 5 May 2025

Growth: Post-election optimism tempered by rise of uncertainty

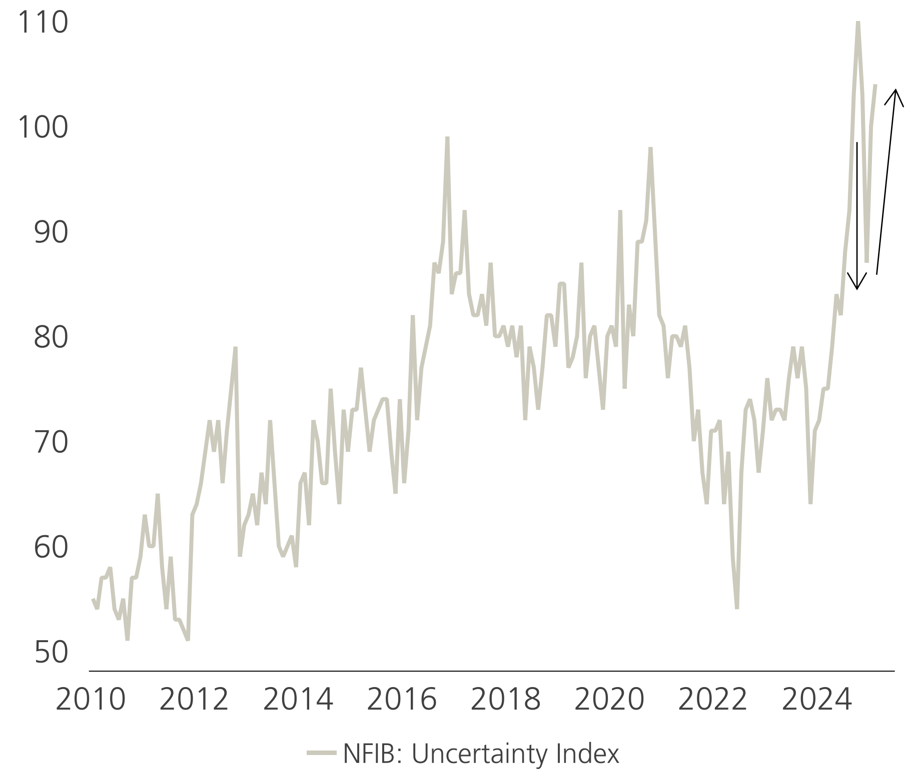
Post-election surge in business and household confidence now reversing as measures of uncertainty trending near all-time highs.

Small business sentiment surged then reversed
NFIB Small Business Optimism Index



Source: NFIB, Macrobond, UBS, as of 5 May 2025

Uncertainty now back at near-record levels
NFIB Small Business Optimism Index



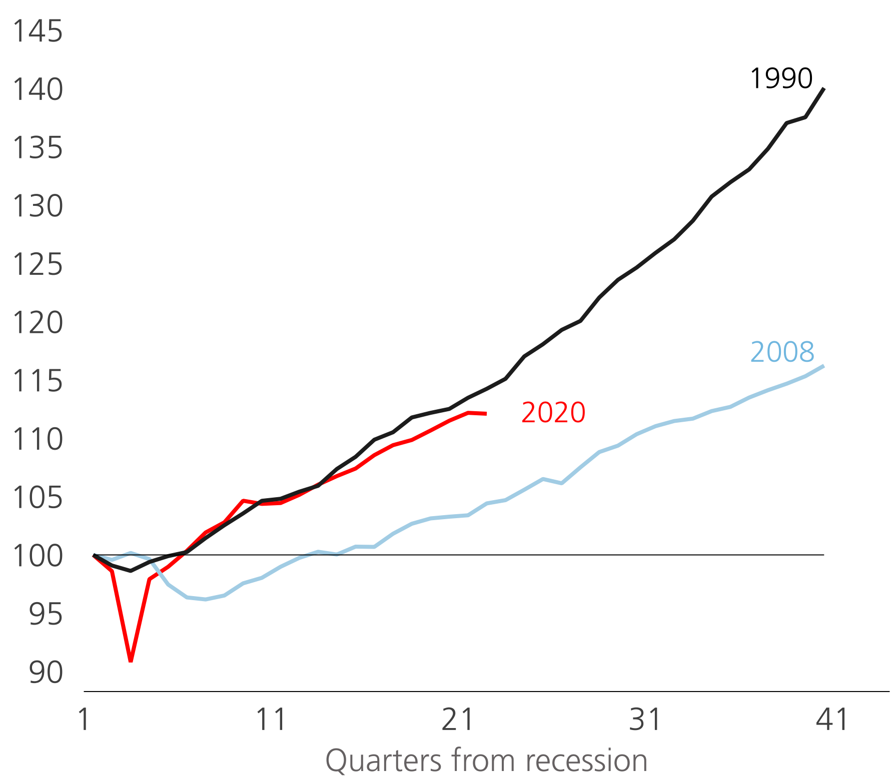
Source: NFIB, Macrobond, UBS, as of 5 May 2025

Regime: Volatile trade policy threatens robust post-pandemic cycle

Zooming out, growth in the current cycle looks much more like the 1990s than the anemic 2010s; recent economic data flow suggests stagflationary environment that threatens the expansion.

Current cycle resembles 1990s growth trajectory

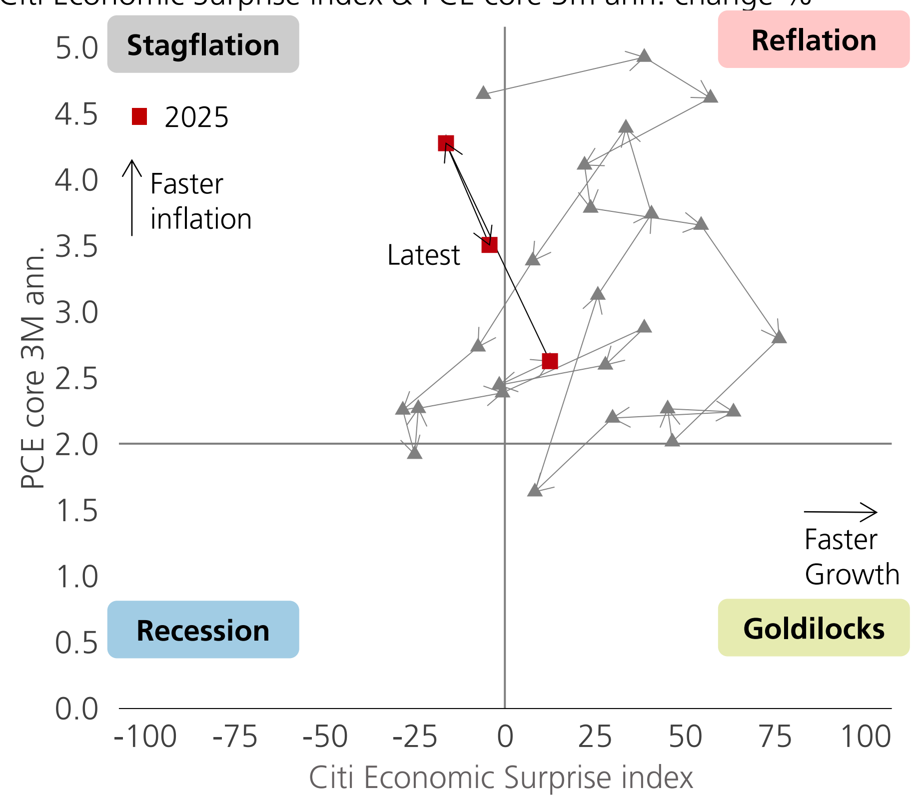
Recession start = 100



Source: BEA, Federal Reserve, UBS, as of 5 May 2025

Conditions moved from 'reflation' into 'stagflation' in 2025

Citi Economic Surprise index & PCE core 3m ann. change %



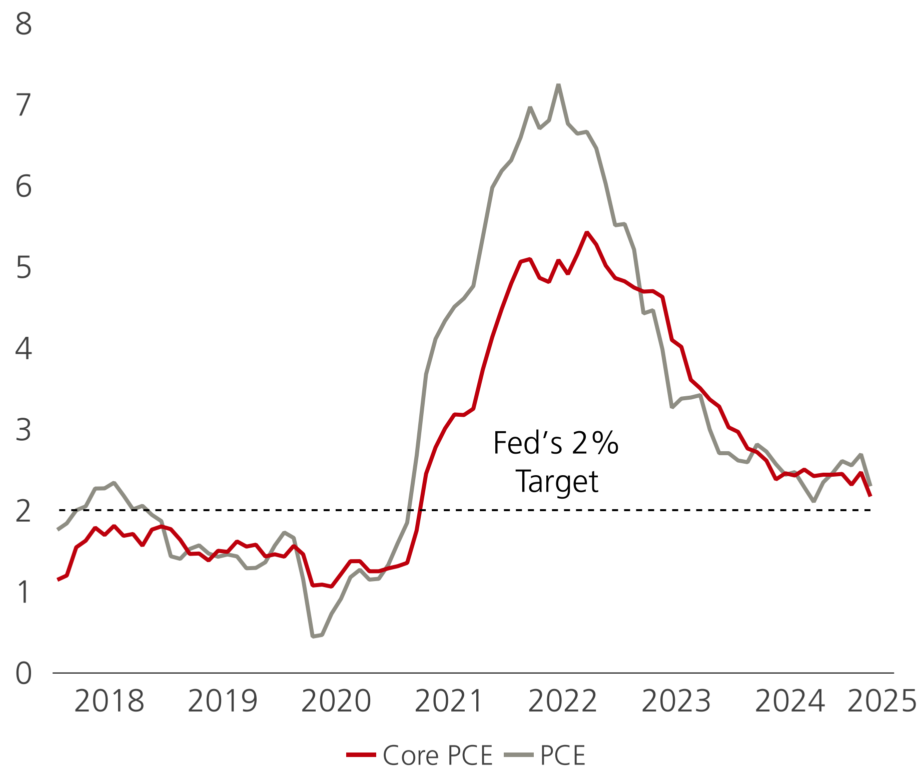
Note: Data from 1/2023

Source: NBER, UBS, as of 5 May 2025

Inflation: Inflationary pressures build with tariff announcements

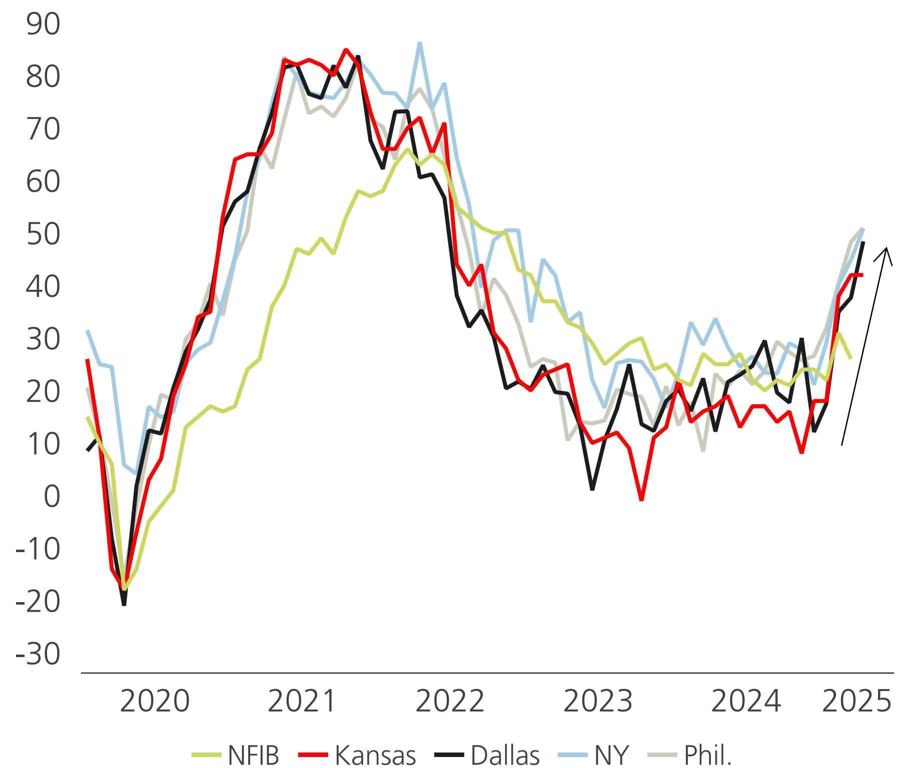
Inflation inching closer to the Fed's goal helped by slowing shelter costs, but it's likely to rise with tariff imposition; firms already report goods prices rising.

Sticky 'last mile' inflation slowing Fed rate cut trajectory
%



Source: BLS, Federal Reserve, UBS, as of 5 May 2025

Businesses already seeing higher input costs
Various price indices

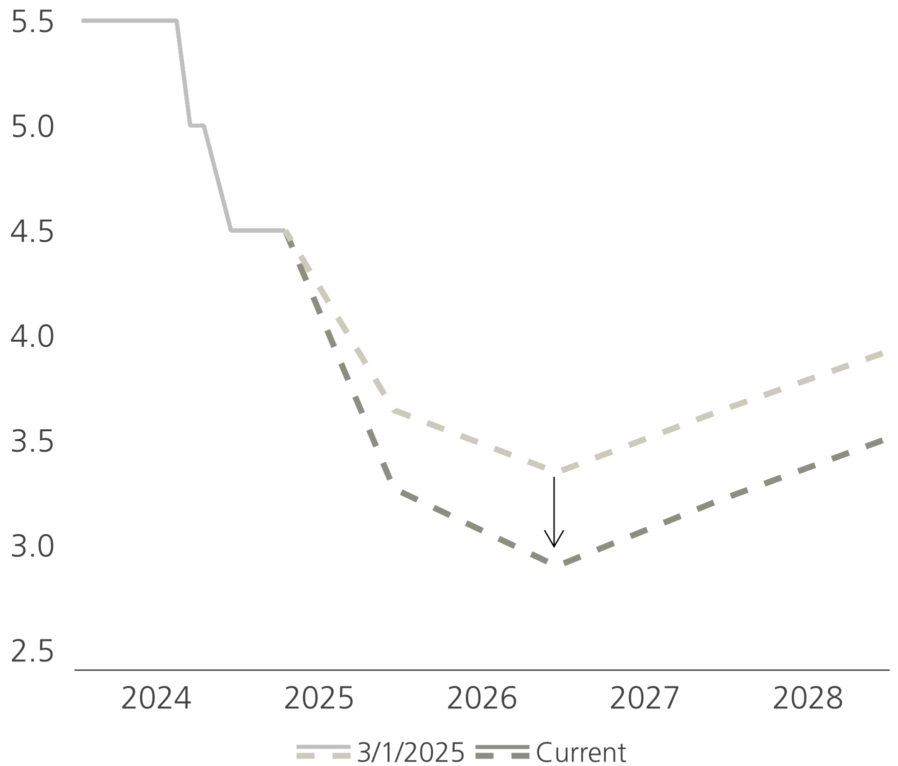


Source: NFIB, Federal Reserve, UBS, as of 5 May 2025

Rates: Strong data and persistent inflation keeping rates elevated

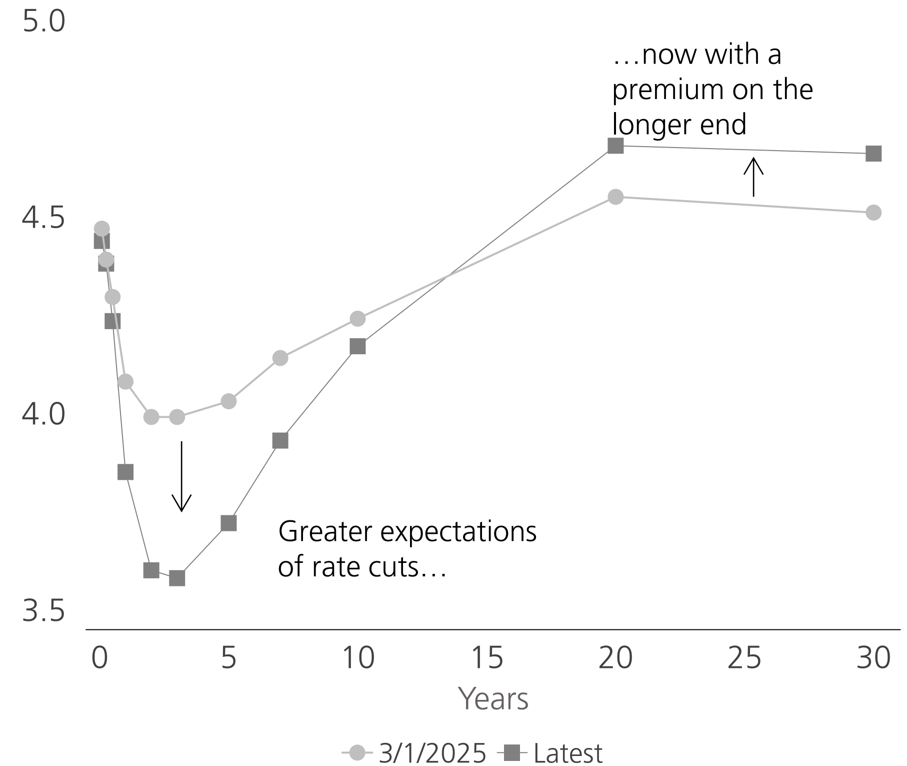
Sticky inflation amid robust growth is a risk since it prevents additional rate cuts and could push longer-term rates to 5%, increasing downside risks to growth.

Markets now expecting more rate cuts
Federal Reserve effective policy rate, %



Source: Bloomberg, UBS, as of 5 May 2025

...and leading to steeper yield curve
US Treasury yield curve, %



Note: Market-implied neutral rate measured as the 10Y1M forward swap
Source: Bloomberg, UBS, as of 5 May 2025

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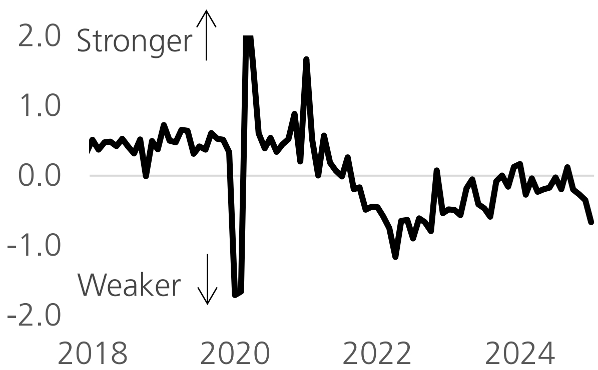
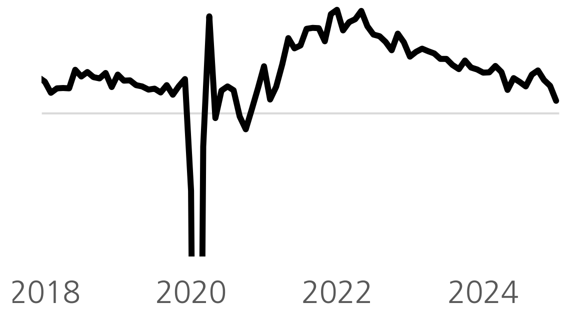
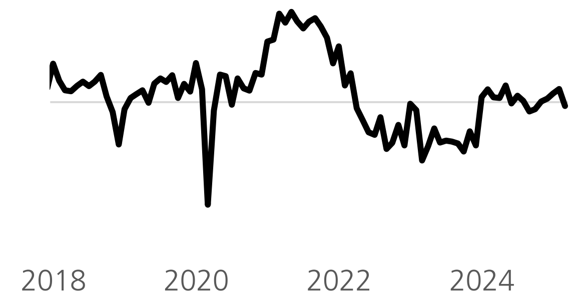
Section 3

Operational considerations

Operating Environment Dashboard: Noticeable weakness growing







Consumers

- Consumer sector deteriorated. Spending remains robust, although some it can be attributed to front-loading purchases ahead of any potential tariffs. Measures of consumer sentiment have sunk to the lowest levels in years as inflation expectations edge higher.

Labor

- Though hiring is still relatively robust and initial jobless claims are at healthy levels, workers report much more anxiety keeping or finding a job under weaker macroeconomic conditions and more uncertainty.

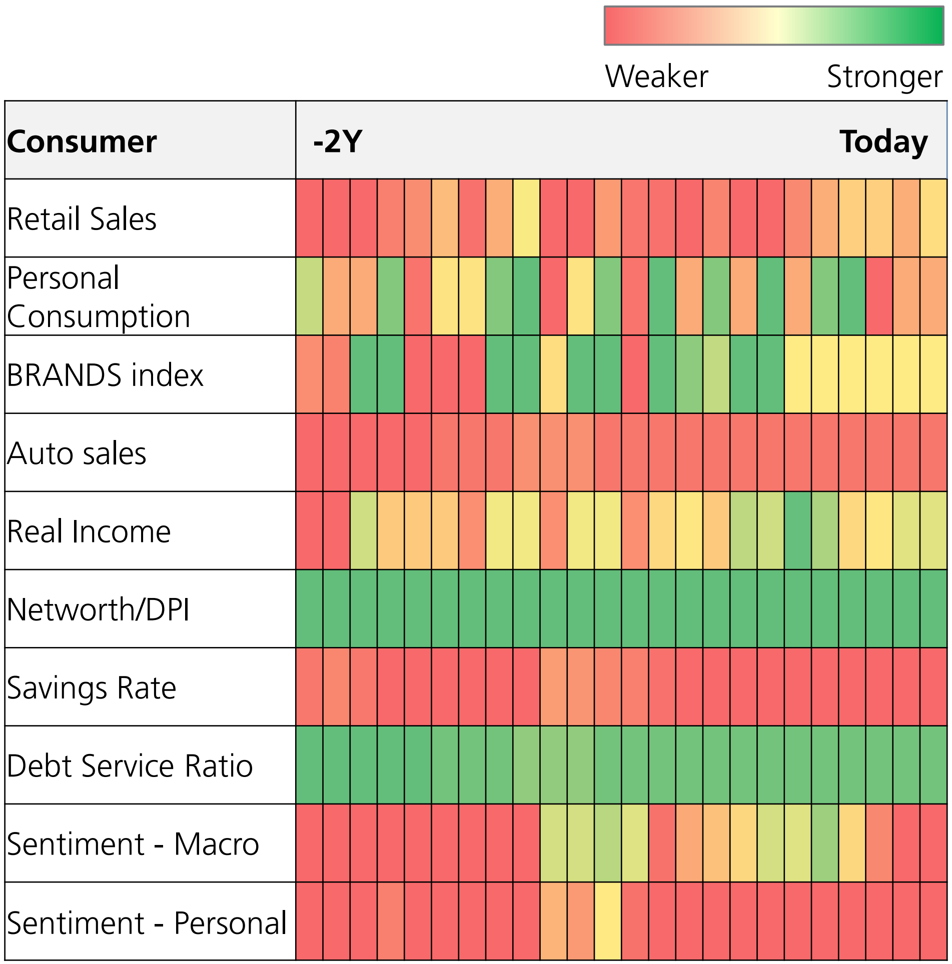
Financing

- Funding conditions are at healthy levels. Firms report moderately tighter lending conditions and spreads edge a little tighter. More rate cuts can help loosen conditions.

Section 3.1

Consumer

Consumer Key Points: Consumers increasingly stressed and bifurcated



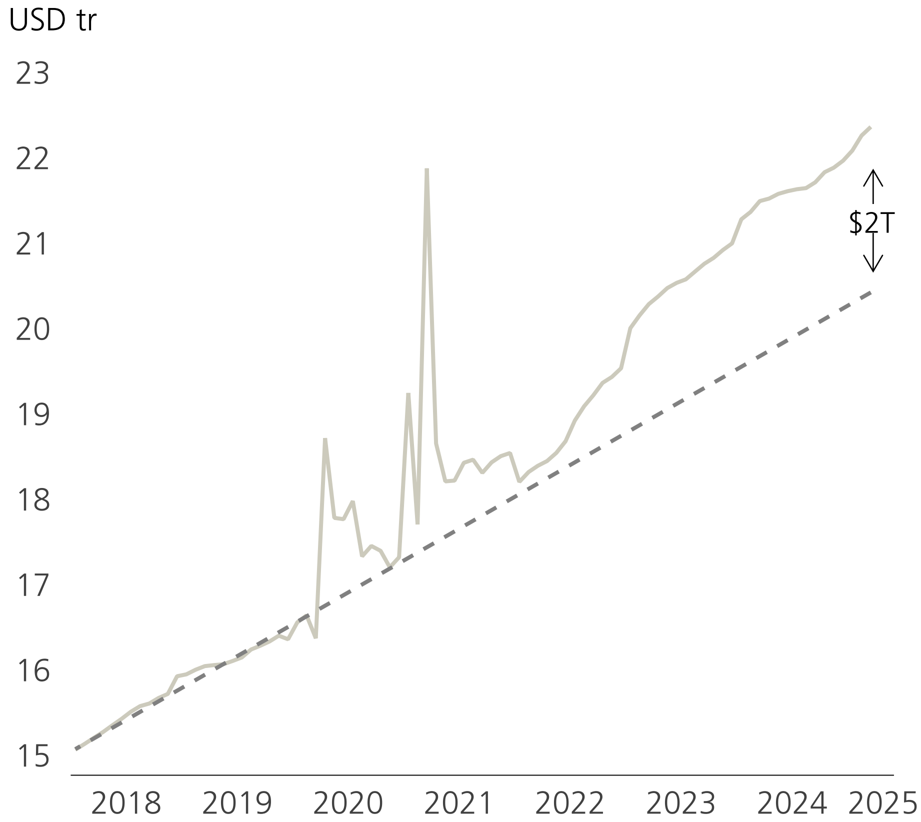
Note: "Retail sales" is measured by the monthly change of the control group; "Personal Consumption" refers to the yearly change in the real PCE; "DPI" stands for "disposable personal income", "Sentiment – Macro / Sentiment – Micro " refers to the business outlook and personal finance subcomponents of the University of Michigan's consumer sentiment survey
Source: Bloomberg, BLS, Federal Reserve, UBS, as of 5 May 2025

- **Fundamentals healthy but bifurcated.** Disposable income is growing above trend, helping drive robust spending ahead of tariff imposition. Yet nearly half of consumption is driven by top decile of consumers that have disproportionately benefitted since pandemic.
- **Cracks showing for lower incomes**. Credit card delinquencies and balance growth despite high interest rates weighing on middle- and lower-income households' ability to spend.
- **Consumer sentiment at recessionary levels.** Despite a post-election bump, renewed uncertainty and expectations of higher prices push down consumer sentiment to levels usually associated with recession.

Spending: Consumption remains robust ahead of tariff imposition

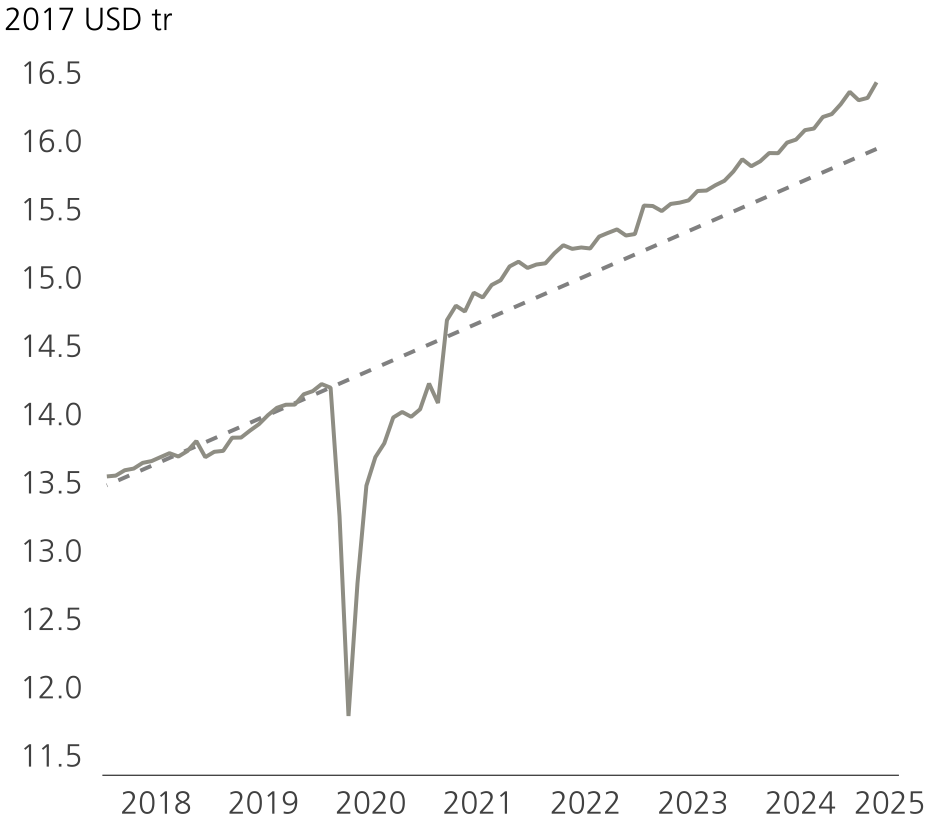
Strong consumer fundamentals and frontloading purchases ahead of tariffs have driven robust household spending so far in 2025.

Disposable income USD 2tr higher than pre-pandemic trend



Source: BEA, UBS, as of 5 May 2025

Real personal spending still above pre-pandemic trend

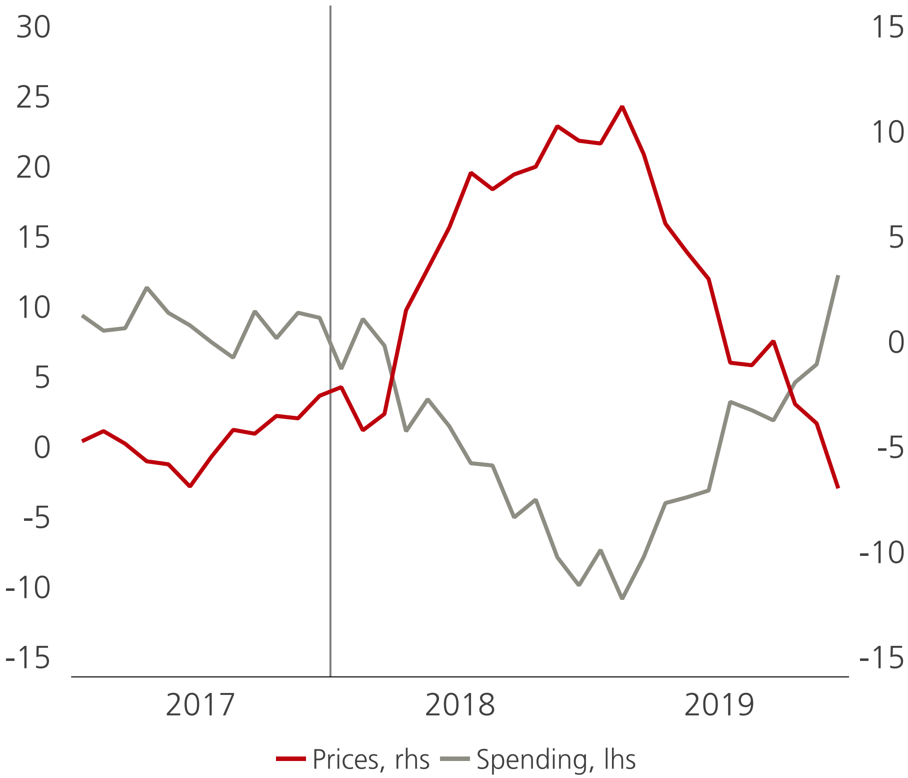


Source: BEA, UBS, as of 5 May 2025

Spending: Remember, 2018 tariffs led to higher prices and lower volumes

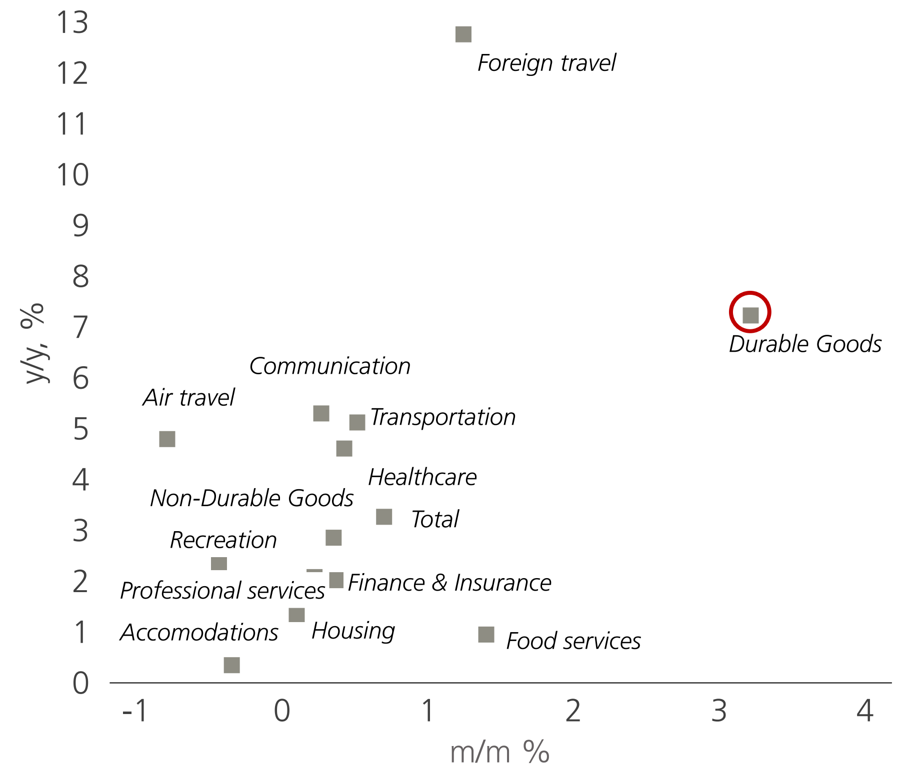
During Trump's first term, the 2018 tariffs on household appliances led to a sharp rise in prices coinciding with a drop in purchases; consumers now frontloading some durable goods purchases.

2018 tariffs caused prices to rise and real purchases to drop
PCE: Household appliances – y/y change, %



Source: BEA, UBS, as of 5 May 2025

Consumers now loading up on durable goods ahead of tariffs
change %



Source: BEA, UBS, as of 5 May 2025

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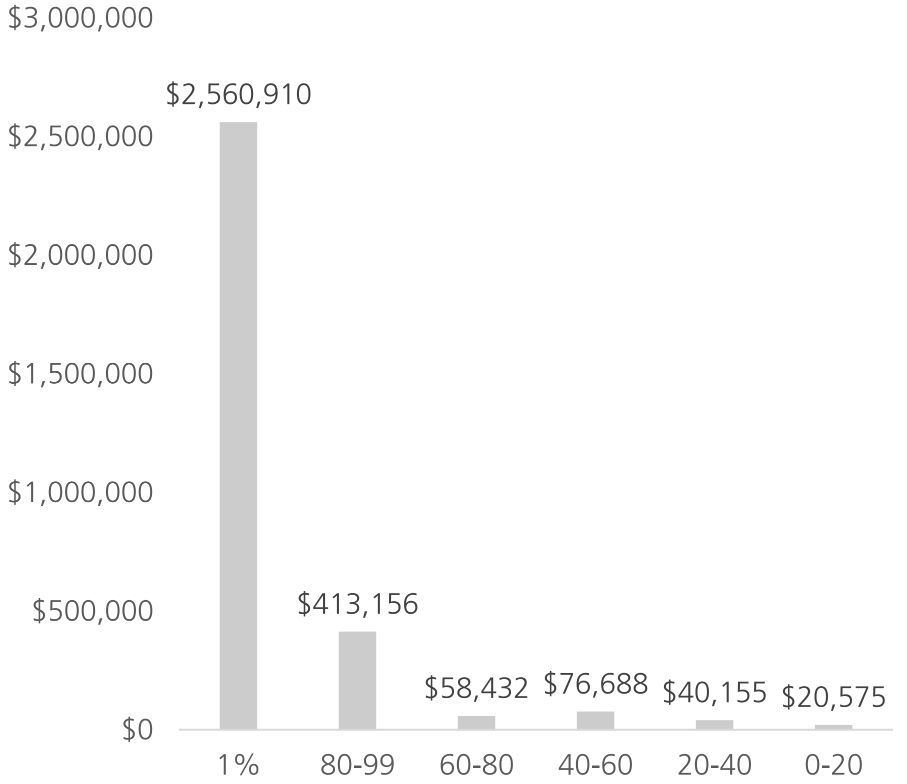
Risk: Consumption increasingly driven by higher incomes

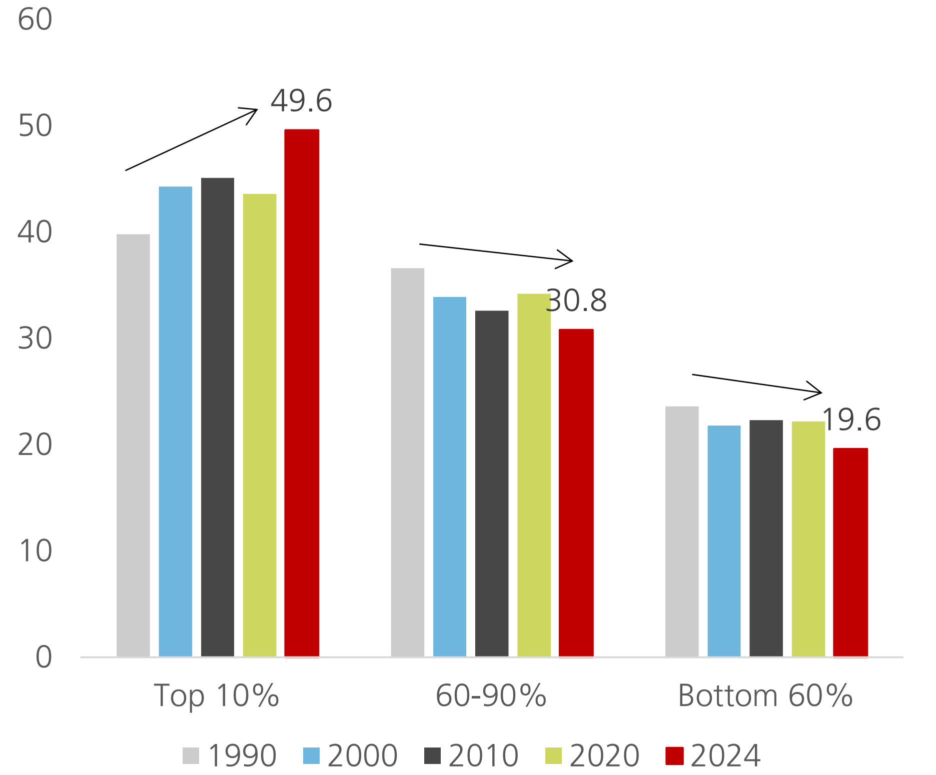
While all segments are richer overall since the pandemic, top incomes are more than 100x richer than bottom quintiles and drive the bulk of total spending.

Since pandemic, top incomes have benefited the most
Change in average household wealth since 4Q19, 2024 USD



Source: Federal Reserve, Moody's, UBS as of 5 May 2025

Top income decile now drives 50% of total consumption
Share of US personal spending by income bracket, %



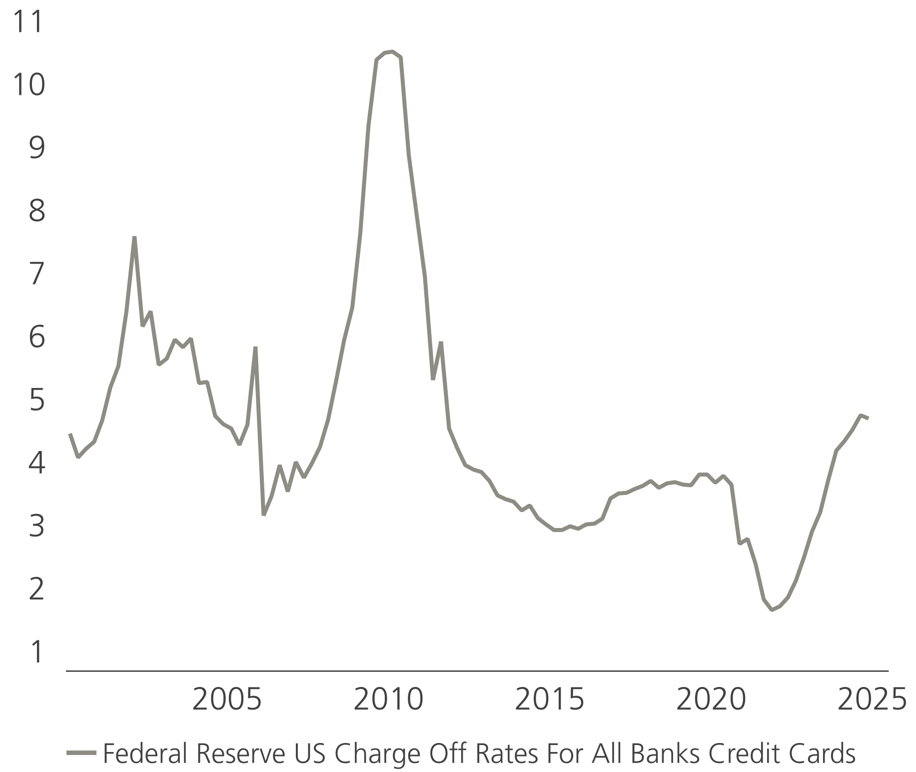
Source: Bloomberg, Federal Reserve, Moody's, UBS as of 5 May 2025

UBS

Fundamentals: Signs of consumer stress rising

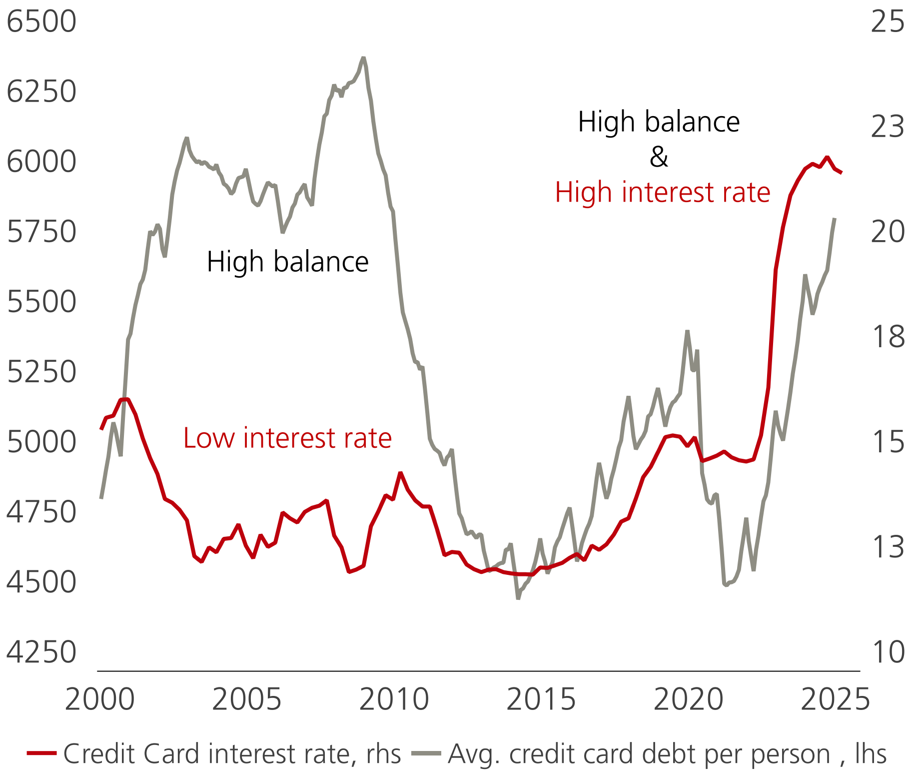
Credit card charge-off rates at the highest level in decades, while average balance reaches pre-GFC levels despite high interest rates.

Charge-off rate the highest in more than a decade
Credit card charge-off rate, %



Source: Federal Reserve Bank, UBS, as of 5 May 2025

Credit card balances accelerate despite high interest rates
Avg. credit card debt per person & avg. credit card interest rate

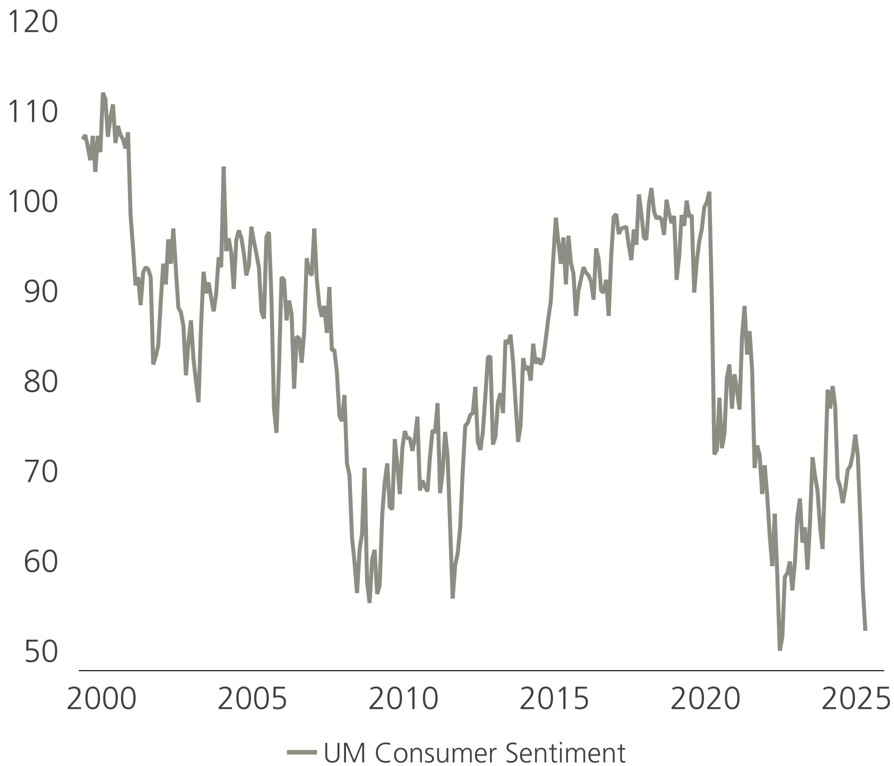


Source: Bloomberg, UBS, as of 5 May 2025

Sentiment: Sentiment dropped to recession levels

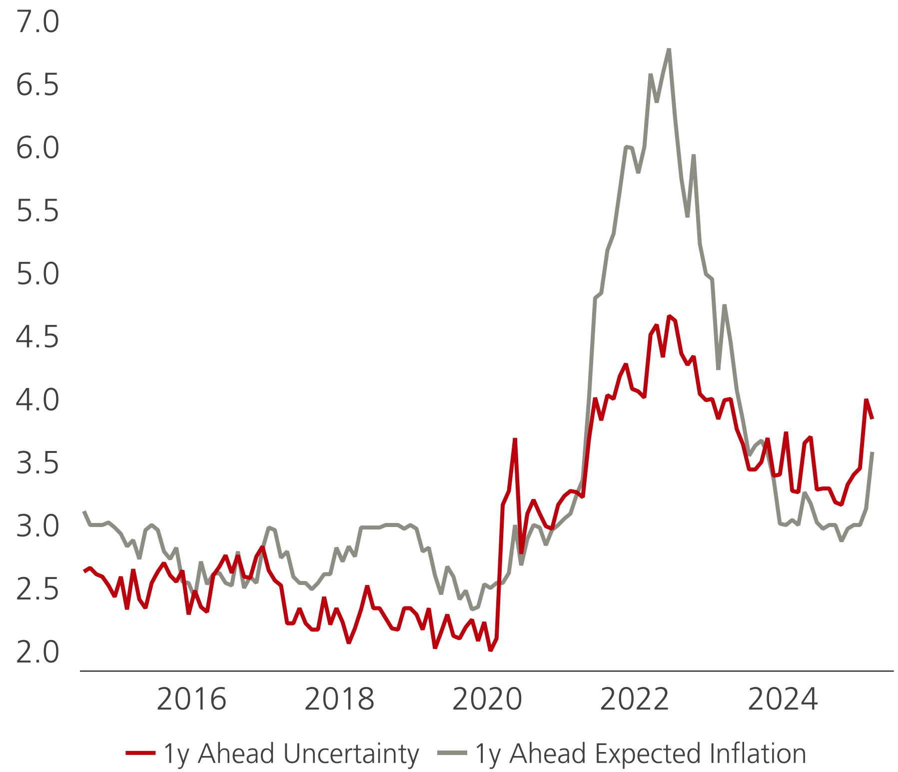
Any post-election sentiment bump now erased due to surging expectations of higher prices and uncertainty.

Sentiment now lowest since pandemic breakout
University of Michigan consumer sentiment index



Source: University of Michigan, UBS, as of 30 May 2025

…thanks to expectations of rising prices and uncertainty
%

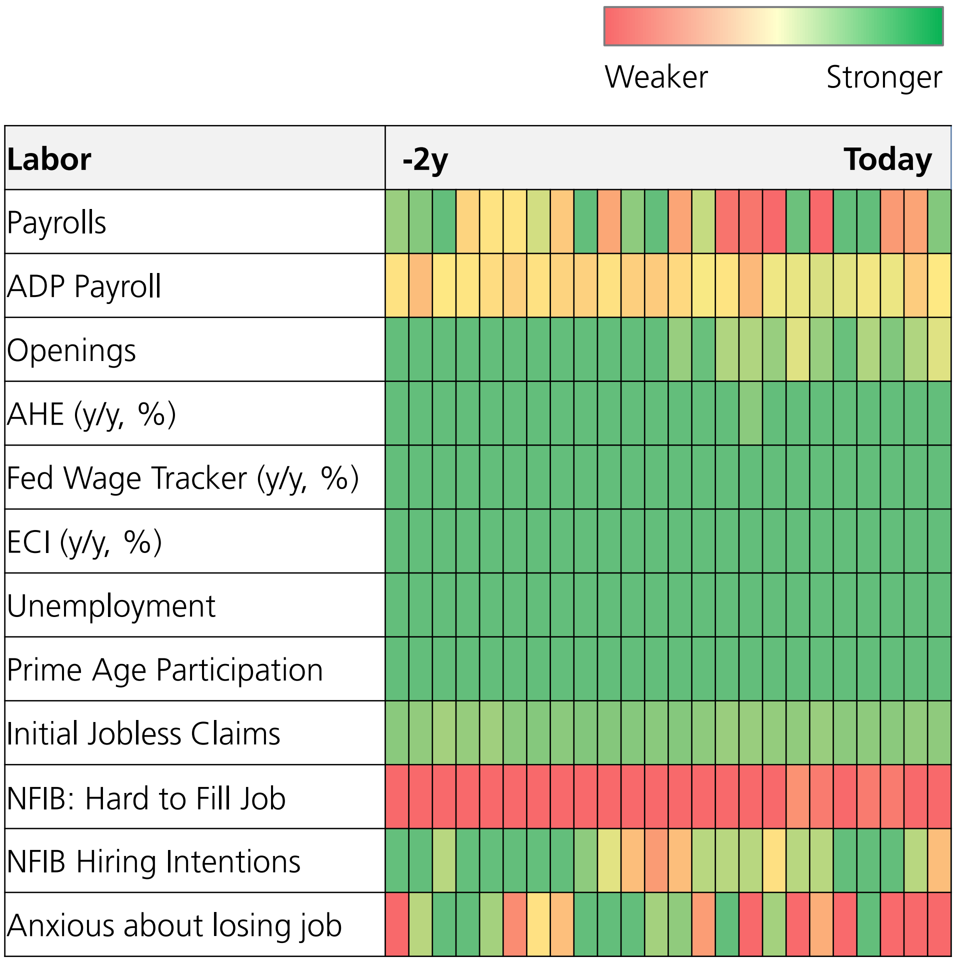


Source: Federal Reserve , UBS, as of 30 May 2025

Section 3.2

Labor

Labor Key Points: Short-term strength in the face of general cooling



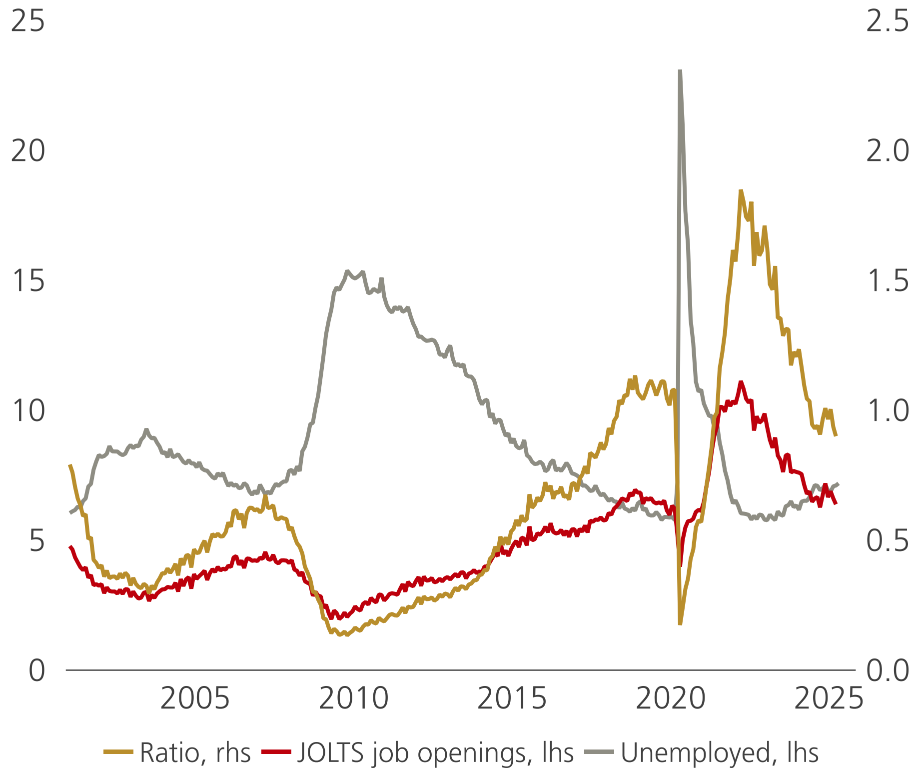
Note: "Payrolls" is represented by 1-month change of non-farm payrolls; "Openings" is represented by share of job openings relative to employment; ECI refers to the yearly change in the employment cost index; "Unemployment" is represented by the unemployment rate; "Prime Age Participation" is represented level of prime age (25-55) labor force participation
Source: Bloomberg, BLS, Federal Reserve, UBS, as of 5 May 2025

- **Hiring remains robust despite decreasing job openings**. Hiring started 2025 on strong footing, continuing momentum from 2024. Tariff-related weakness could weigh on hiring intentions over the rest of 2025.
- **Wage growth slows as employee anxiety surges.** Despite a low unemployment rate and healthy wage growth, surveys reveal jobless fears rising to the highest levels since the pandemic.
- **Layoffs very low in the private sector.** Despite further cooling of the labor market, initial jobless claims and the layoff rate remain at historically low levels. Spike of layoff announcements in 2025 almost entirely government related.

Labor Demand: Hiring remains strong despite lower job openings

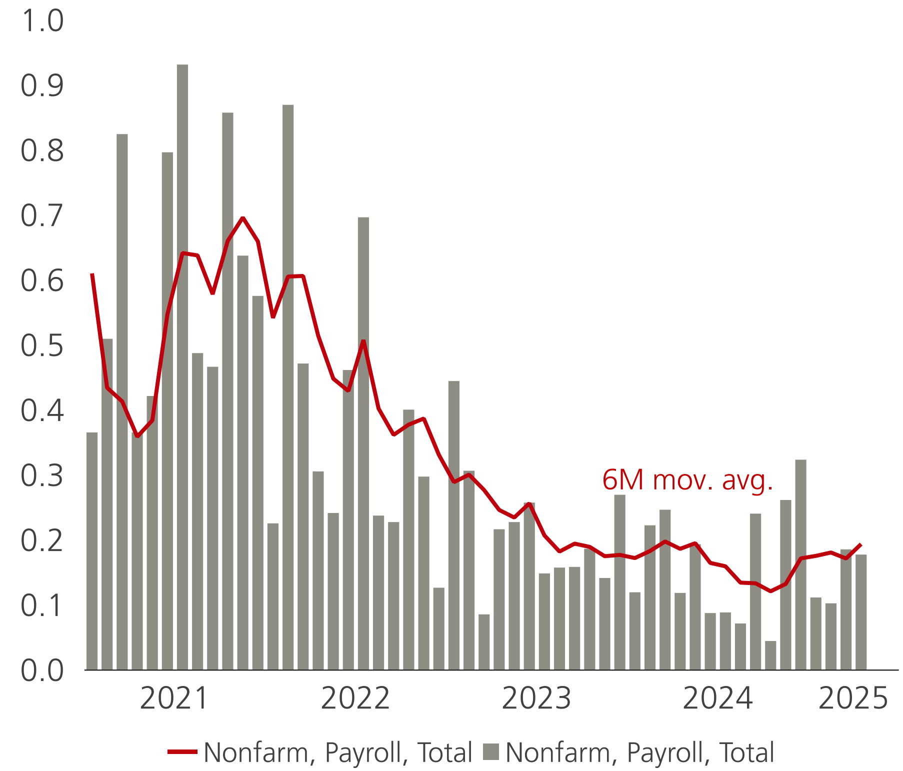
Decreasing job openings and modest rise of unemployed consistent with other signs of a generally cooling labor market. Nevertheless, job gains holding up so far in 2025.

Job openings / unemployed ratio back to pre-pandemic range
in millions and ratio



Source: BLS, Macrobond, as of 5 May 2025

Hiring started 2025 on strong footing
Non-farm payrolls, 1m change in millions



Source: BLS, Macrobond, as of 5 May 2025

UBS

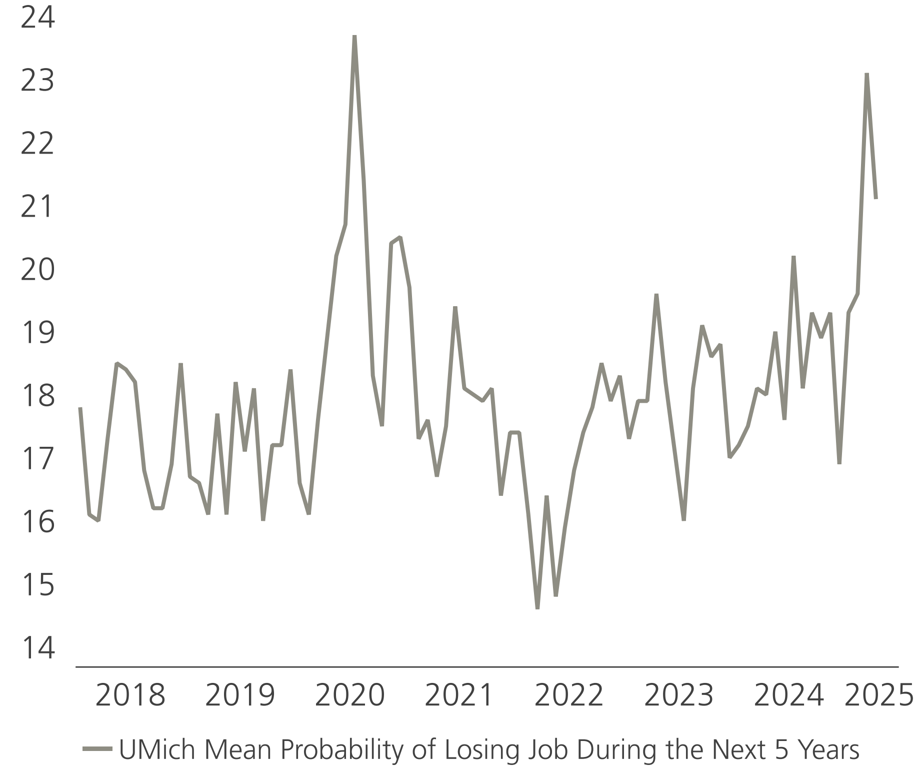
Wages: Pay cools as job loss fear rises

Wage growth continues to cool, reflective of slower job market; high levels of uncertainty leading more workers to fear near-term job loss.

Wage growth has slowed faster than pre-pandemic pace
year/year, %

Source: Federal Reserve Bank of Atlanta, BLS, BEA, UBS as of 5 May 2025

Workers the most fearful of losing jobs since pandemic
Odds of losing job within five years,%

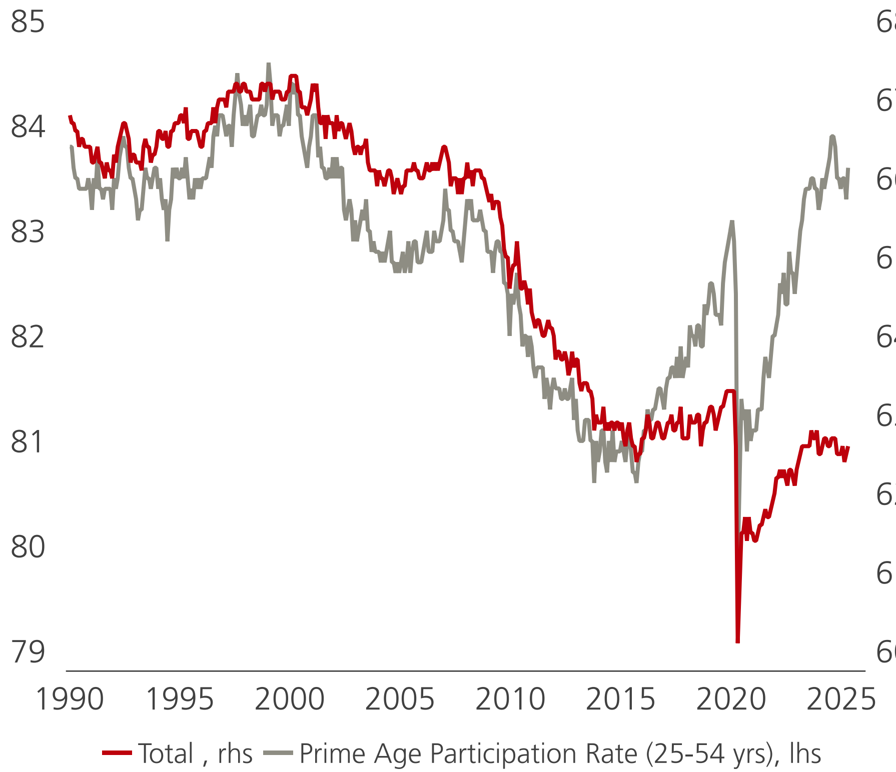


Source: University of Michigan, UBS as of 5 May 2025

Labor Supply: Tighter immigration not yet evident in labor data

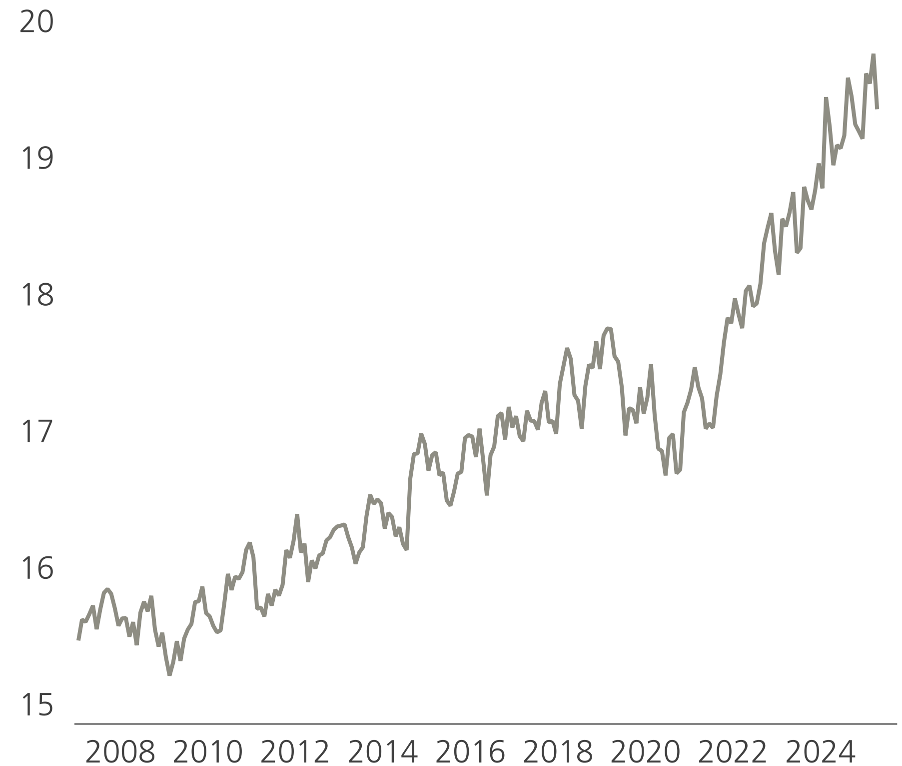
Despite surge of anti-immigration rhetoric, share of foreign-born workers still at all-time highs as domestic perception already stretched.

Prime age participation stalled at very high levels
%



. Source: BLS, UBS, as of 5 May 2025

Share of foreign-born workers still at all-time highs
% of labor force

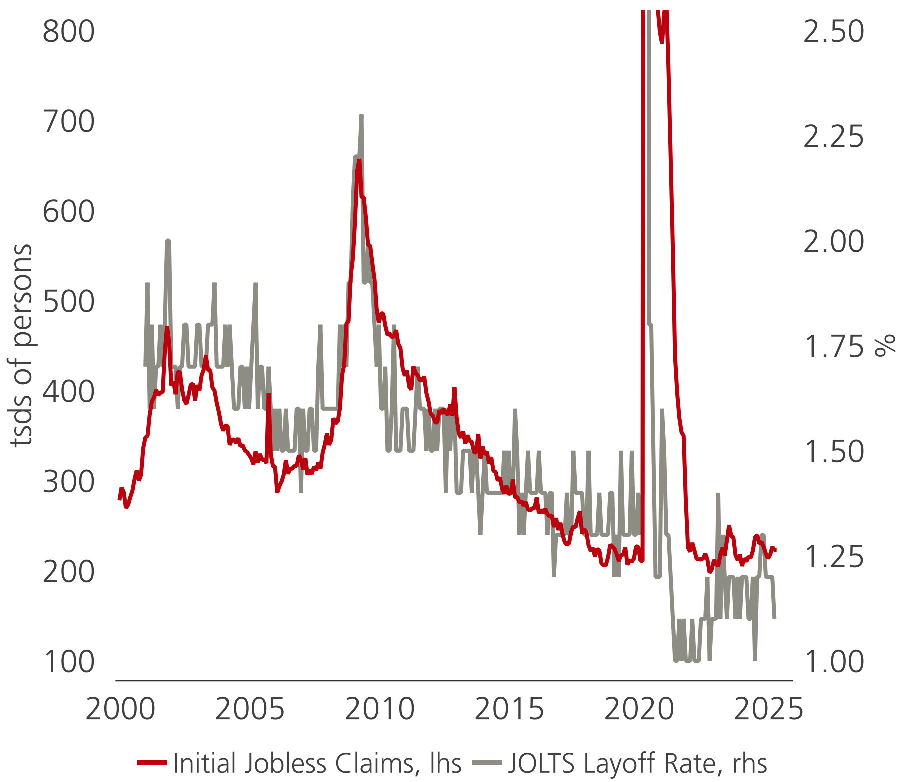


Source: CBO, UBS, as of 5 May 2025

Unemployment: Very few layoffs in private sector

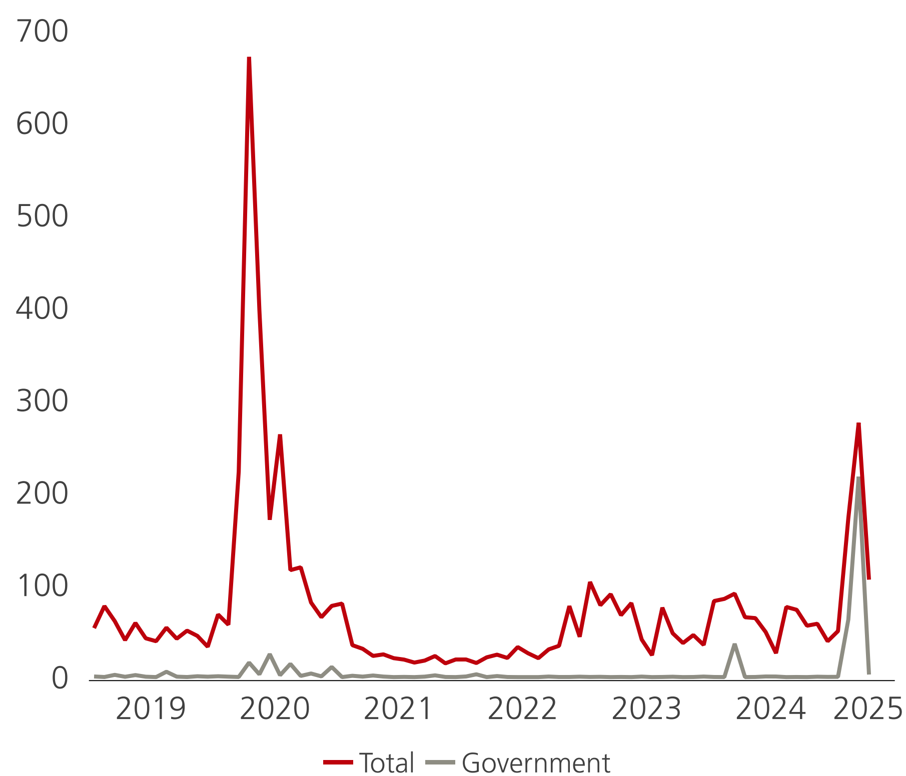
Despite more cooling of the labor market, initial jobless claims remain at historically low levels; ex-government, layoff announcements have been very low.

Jobless claims and layoff rate still at historically low levels
Jobless claims and layoff rate



Note: Axes have been truncated
Source: BLS, UBS, as of 5 May 2025

2025 layoffs almost entirely related to government
Layoff announcements, in thousands



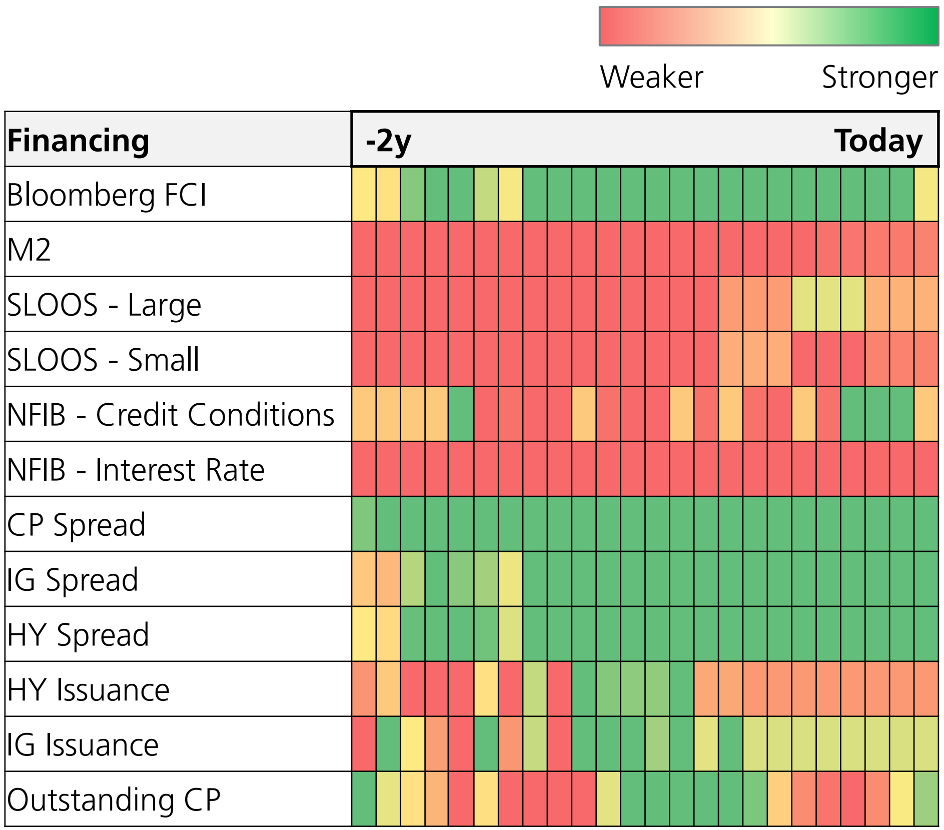
Source: Challenger, Gray, & Christmas, UBS, as of 5 May 2025

Section 3.3

Financing

UBS

Financing Key Points: Healthy financial conditions despite volatility



Note: Financial conditions refers to the Bloomberg Financial Conditions index; "SLOOS" refers to the Federal Reserve Senior Loan Officer Survey; IG issuance are measured on a quarterly moving average of monthly issuance data; Availability of Borrowing Costs refers to "Interest Rate on short-term loans" component in the NFIB survey
Source: Bloomberg, NFIB, SIFMA, Federal Reserve, UBS, as of 5 May 2025

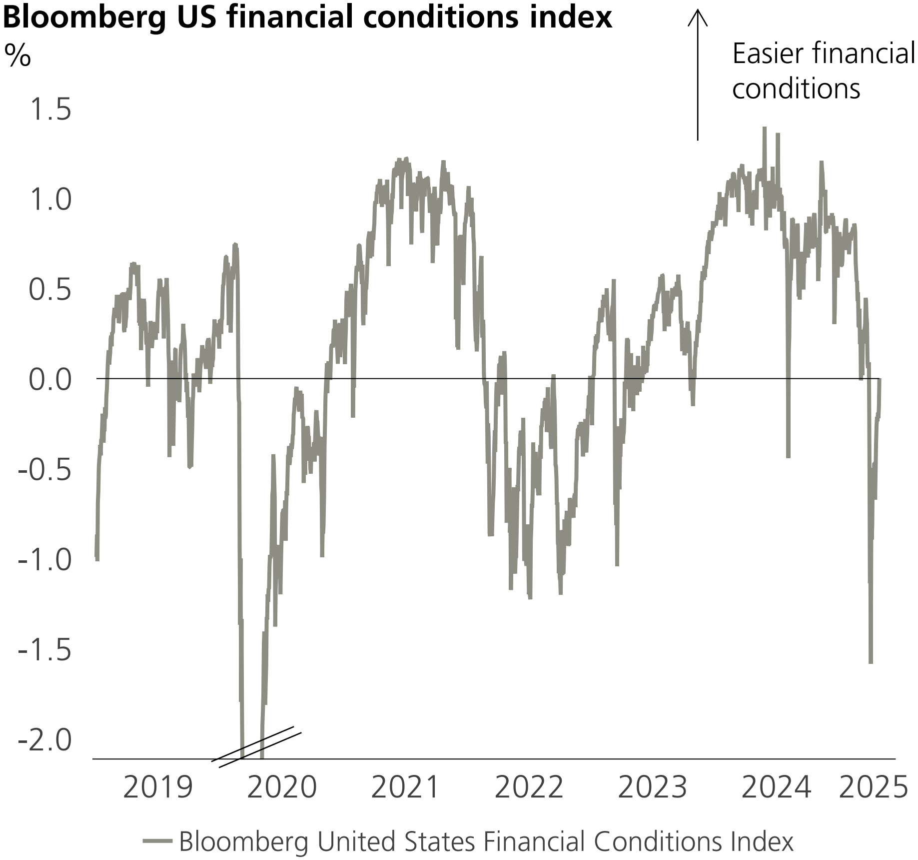
- **Financial conditions remain healthy.** Firms report healthy credit conditions but increased uncertainty, and expectations of a slowdown temper loan demand.
- **Corporate issuance strong but HY falters in a more uncertain environment.** Both investment grade and high yield spreads remain at very tight levels despite tariff-induced widening. Issuance continues to accelerate for investment grade bonds but has slowed for high yield bonds as investors prefer more credit-worthy assets.

Financial Conditions: Despite high rates, conditions generally favorable

Generally favorable financial conditions at the start of 2025 freeze during 'Liberation Day' announcement but quickly recover; lending standards back to historical averages.

Bloomberg US financial conditions index

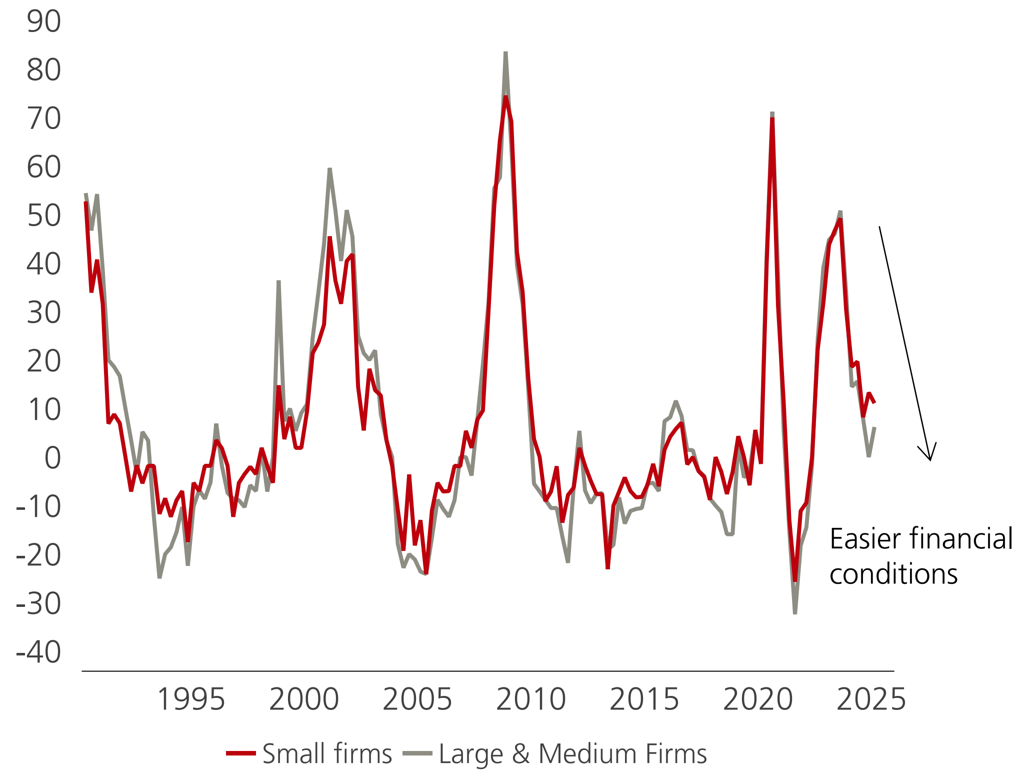
%



Note: Axes have been truncated
Source: Federal Reserve, Macrobond, UBS, as of 5 May 2025

Banks reporting easier lending standards

Fed Senior Loan Officer Survey reporting tighter standards, %



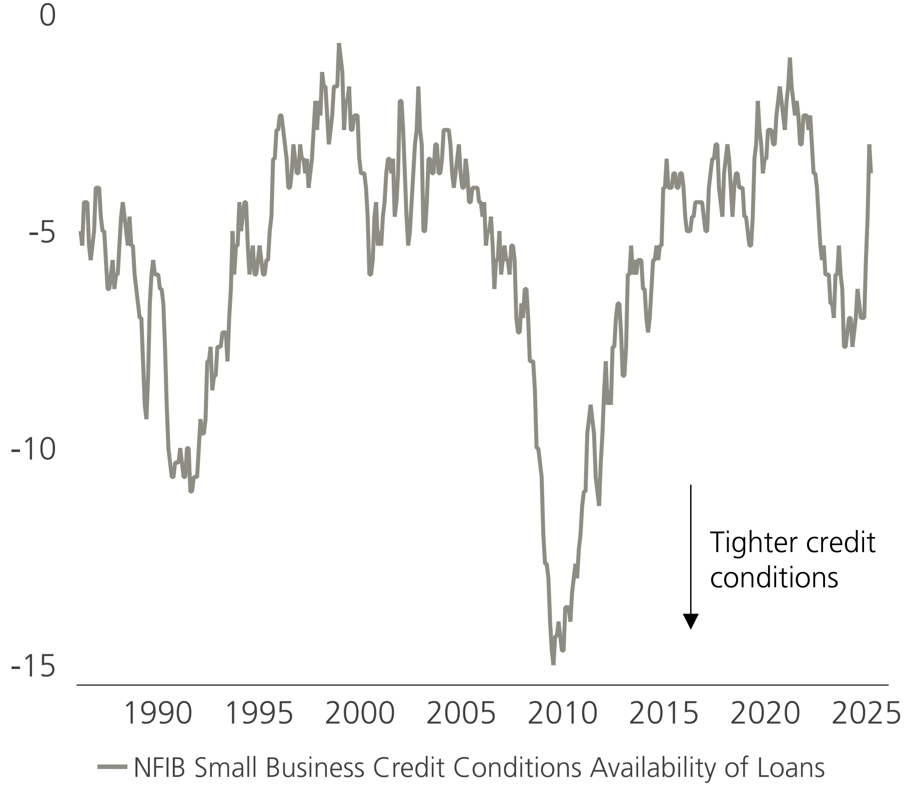
Source: Federal Reserve, Macrobond, UBS, as of 5 May 2025

Financial Conditions: Firms report easier financial conditions in 2025

Easier credit conditions and expectations of lower policy rates help bolster financial conditions, but banks say loan demand has eased as uncertainty has increased.

Credit availability sharply improve in 2025

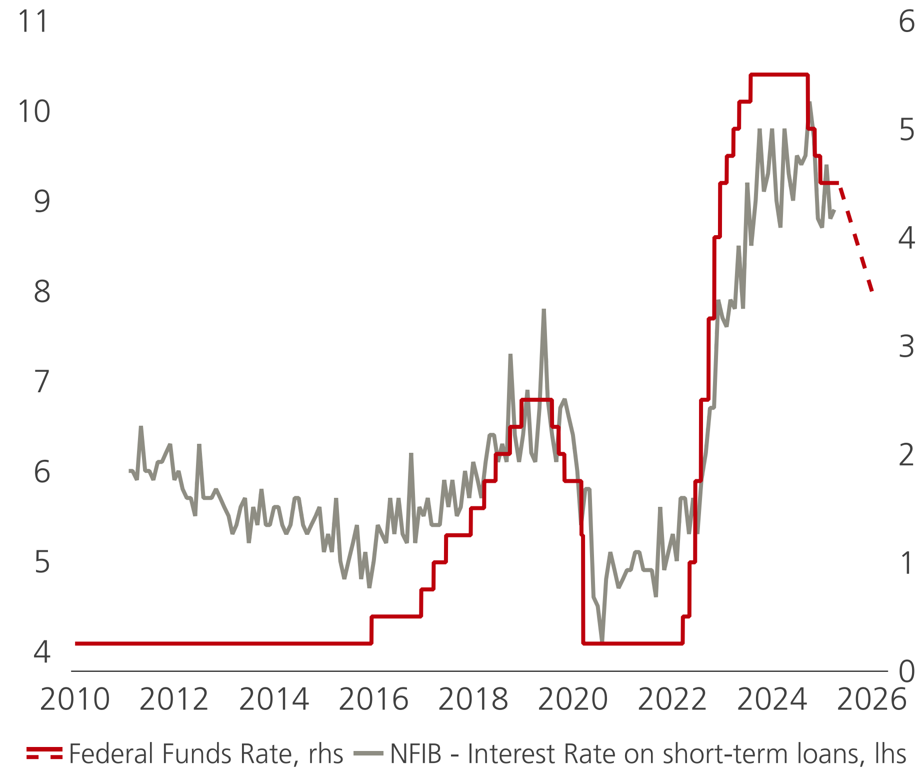
NFIB survey: Credit Conditions index



Source: NFIB, Macrobond, UBS as of 5 May 2025

Loans for smaller businesses still at very high levels

NFIB survey: Actual interest rate paid and policy rate (%)

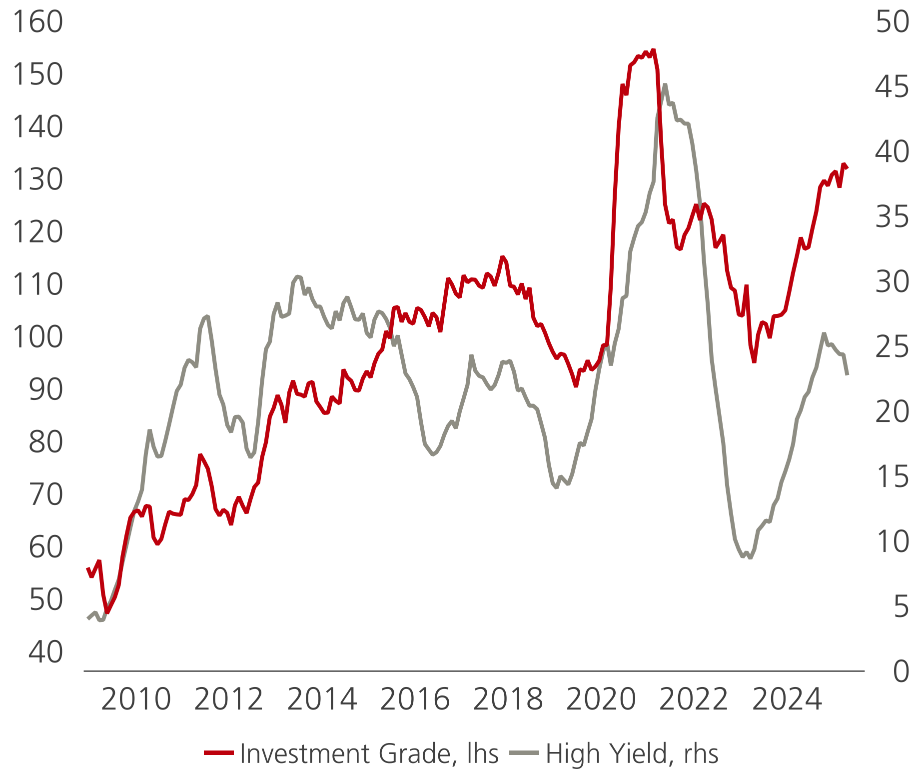


Source: NFIB, Macrobond, UBS as of 5 May 2025

Financial Conditions: Strong issuance wobbled by market volatility

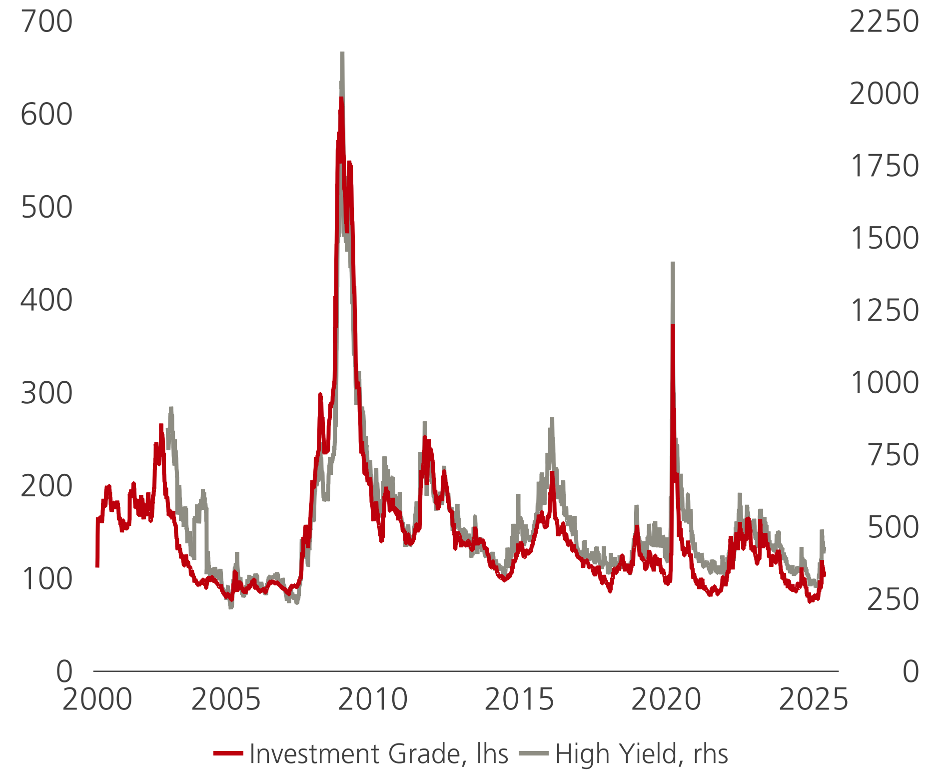
Corporates expected to issue USD 1.5tr in investment grade bonds in 2025; policy volatility hurts high yield issuance as investors prefer less risky assets.

IG issuance continues strong trend while HY issuance falters
1Y mov. avg., USD bn



Source: Bloomberg, Macrobond, UBS as of 5 May 2025

Spreads for both IG and HY still at very tight levels
Basis points



Source: Bloomberg, Macrobond, UBS as of 5 May 2025

UBS

Section 4

Policy, geopolitics, politics

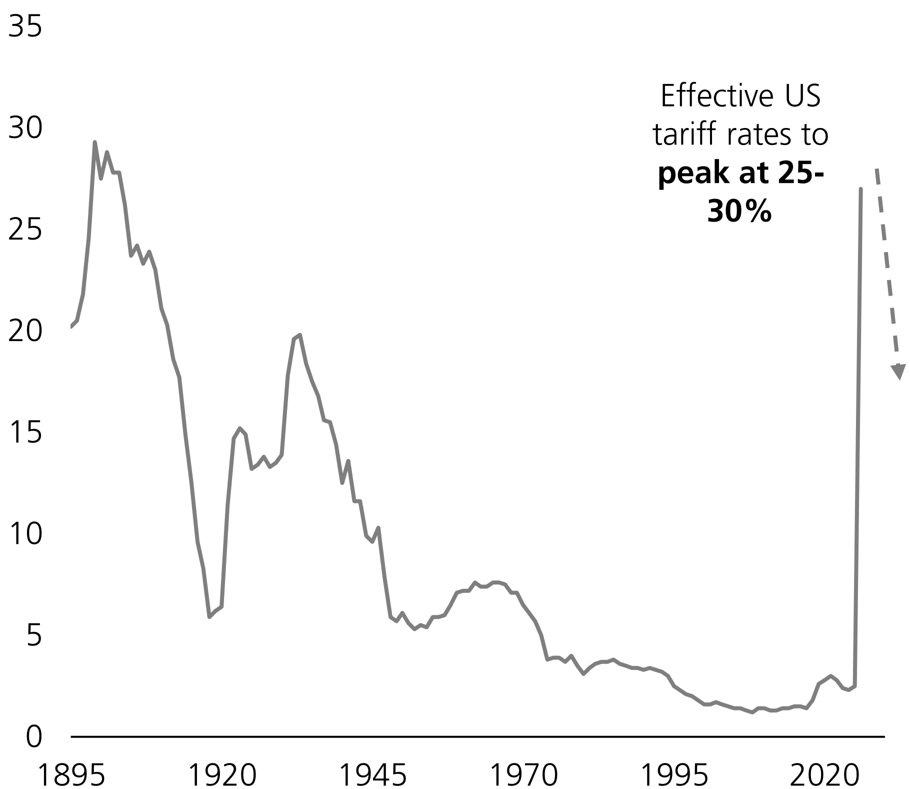
UBS

Policy: Tariffs represent a sharp reversal to historic US trade policy

Trump has announced a broad swath of tariffs early into his presidency; if implemented, they could represent the highest tariffs seen in a century, affecting a broad range of trade partners.

Trump's second-term tariff threats higher than his first term

Weighted average effective tariff rate, %



Note: Trump 2.0 Tariff rate assumes a 60% tariff on China, 10% For the rest of the world.
Source: U.S. International Trade Commission, UBS, as of 5 May 2025

Chinese and other Asian imports the most affected

Estimated tariff impact on select economies, %

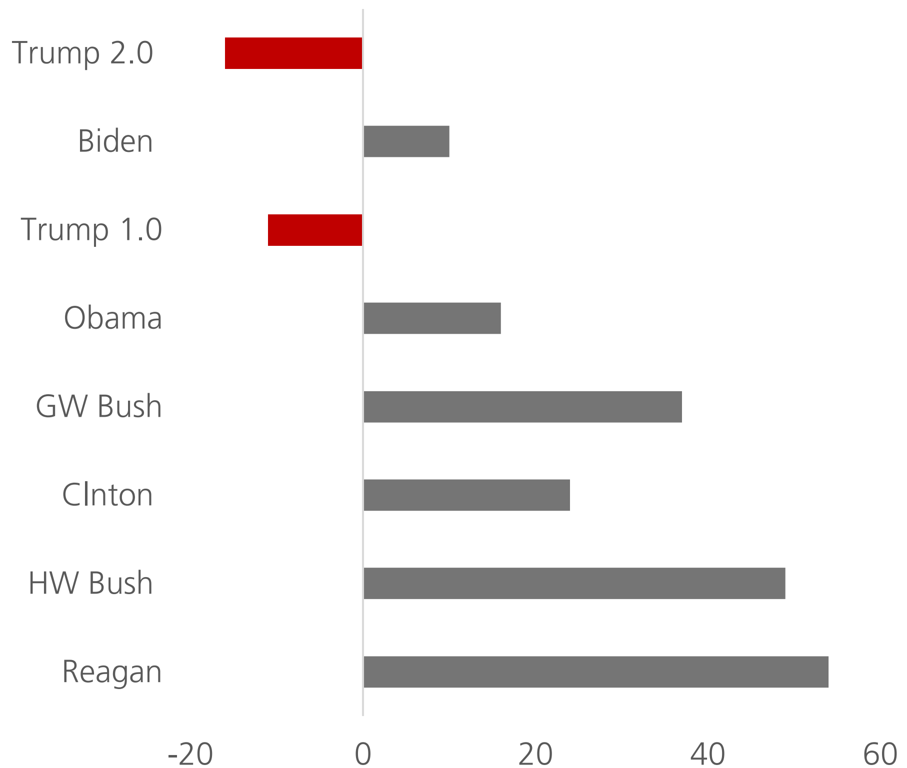
	Pre-April 2 effective tariff rate	Headline Tariff rate announced April 2	Effective tariff rate (after exemptions)	Total effective tariff rate (1) + (3)
EU	9.1%	20%	13.0%	22.1%
Mexico	8.4%	0%	0.0%	8.4%
Mainland China	33.7%	34%	29.3%	62.9%
Canada	5.7%	0%	0.0%	5.7%
Japan	10.7%	24%	13.2%	24.0%
Vietnam	4.8%	46%	39.6%	44.5%
South Korea	10.1%	25%	12.1%	22.2%
Taiwan	3.1%	32%	25.2%	28.3%
India	4.2%	26%	18.5%	22.7%
Australia	0.9%	10%	8.2%	9.0%
Philippines	2.0%	17%	13.8%	15.8%
Bangladesh	15.1%	37%	36.9%	51.9%

Source: Bloomberg, UBS, as of 5 May 2025

Policy: Low approval ratings put pressure on Trump administration

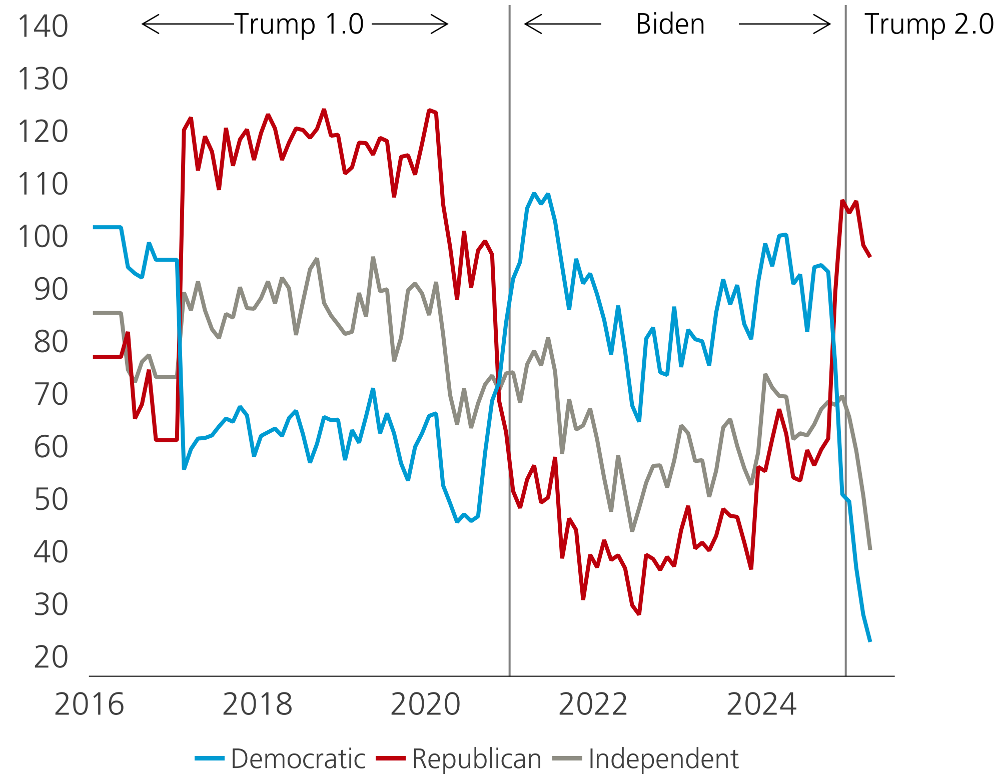
100 days into his second term, President Trump is even more unpopular than he was during his first term as voters become increasingly pessimistic on the economy.

Very low polling may constrain Trump ahead of midterms
Net approval polling of presidents 100 days into term



Source: Gallup, Macrobond, UBS as of 5 May 2025

Independents and Dems express very low confidence
Consumer expectations index by party



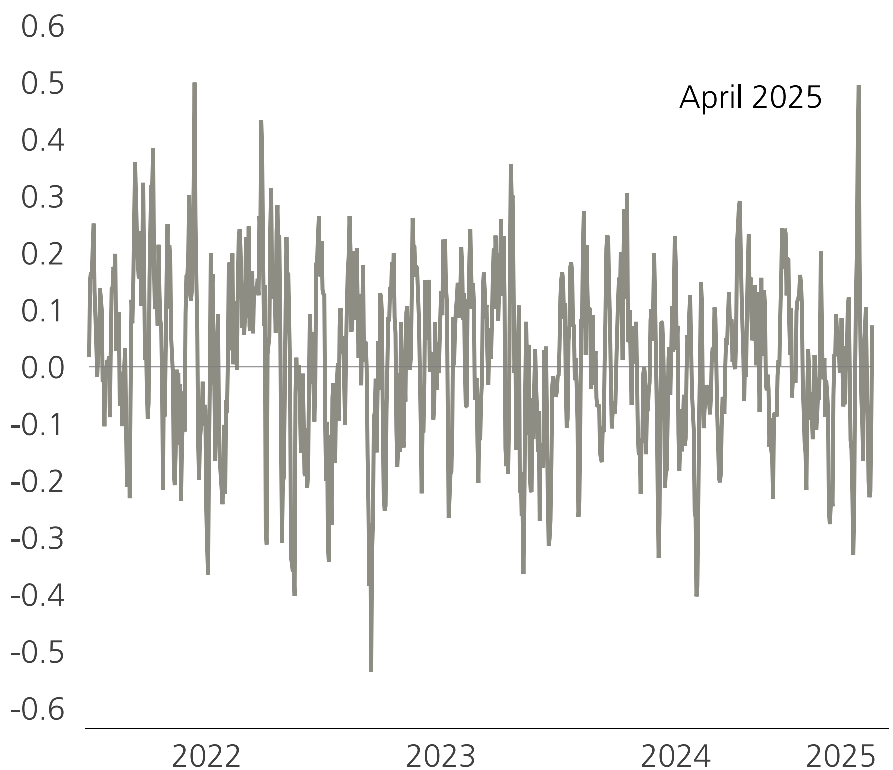
Source: University of Michigan, Macrobond, UBS as of 5 May 2025

Policy: Unusual bond market moves also a "check" on volatile policy

Treasuries, typically perceived as a safe haven, also sold off in April with equities causing a sharp spike in yields; policymaker concerns emerged as well given already-stretched deficit levels.

90-day tariff pause followed sharp spike in bond yields…

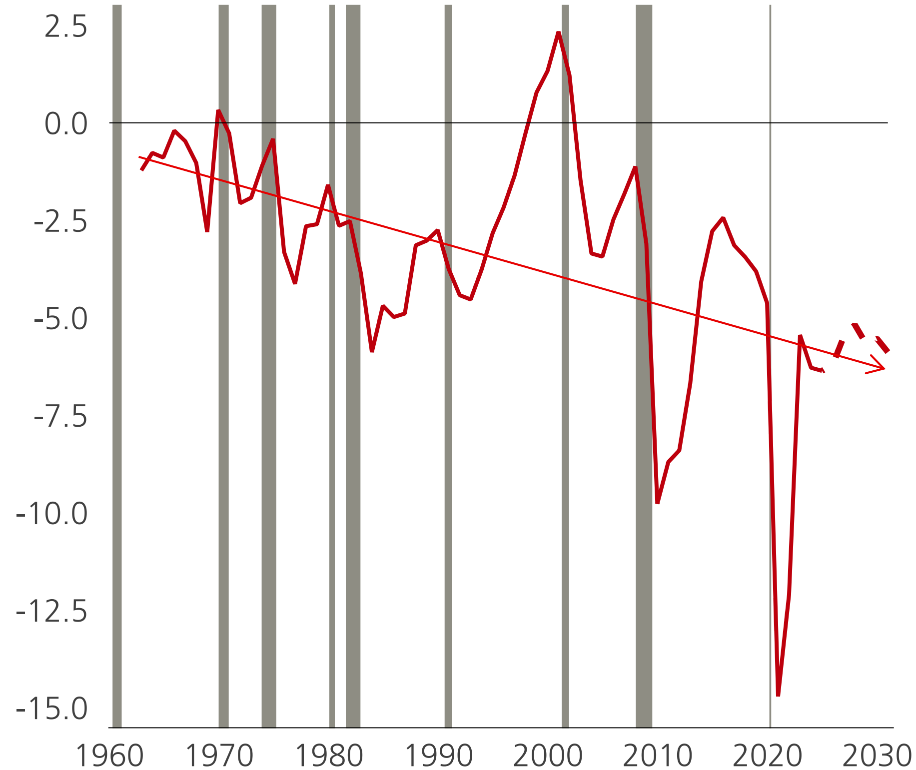
1w change of 10y US Treasury yields %



Source: CBO, UBS, as of 5 May 2025

…which can only exacerbate wide deficit concerns

%GDP



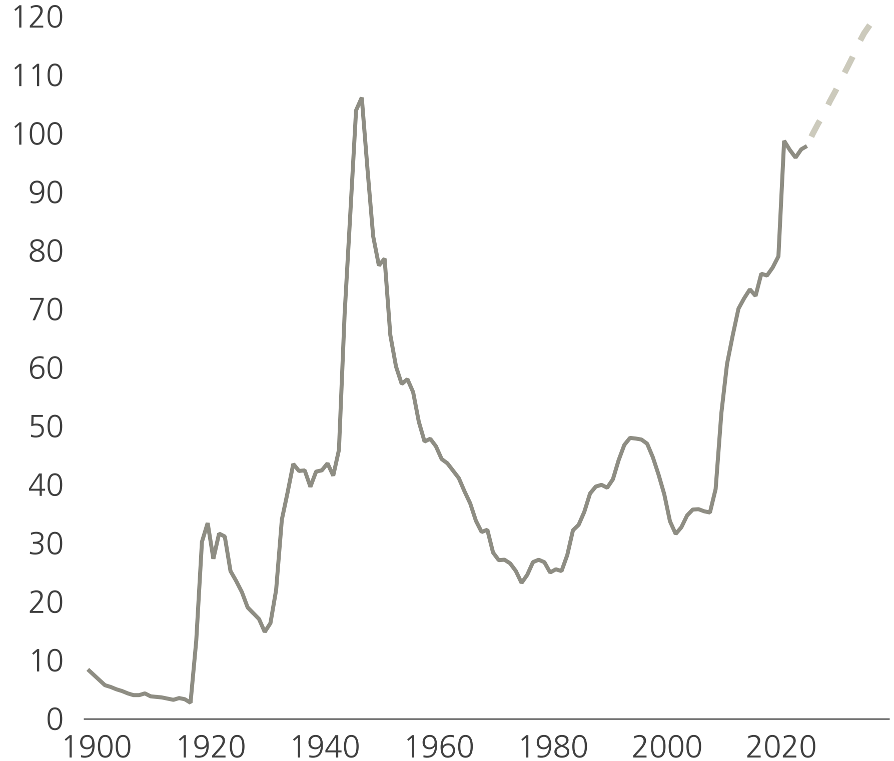
Source: CBO, UBS, as of 5 May 2025

Policy: Parts of Trump's agenda stymied by worrisome fiscal math

Renewed deficit concerns and already-high debt levels likely constrain POTUS 47's legislative agenda beyond expensive extension to TCJA.

Debt already near historical highs and projected to go higher

% GDP



Source: CBO, UBS, as of 5 May 2025

Trump 2.0's policies estimated to add trillions to deficit

USD tr

Spending Proposals	Amount
Extend Tax Cuts & Jobs Act	-4.5
Exempt overtime/tip income from taxes	-2.3
End taxation of Social Security Benefits	-1.3
Lower corp. tax rate for dom. manufacturers	-0.2
Secure Border and Deport Unauthorized Immigrants	-0.35
Other	-0.9
Additional Spending Total	**-9.6**
Revenue Proposals	**Amount**
Universal and higher marginal tariff policy	2.7
Reform energy policy, expand production	0.7
Reduce waste, fraud, abuse	0.1
End Dept. of Education	0.2
Additional Revenue Total	**3.7**
Interest Payments	-1.05
Total Deficit Impact	**-6.95**

Source: Tax Foundation, UBS, as of 5 May 2025

Section 5

Markets and corporate transactions

UBS

Markets Activity Key Points: Tariffs weigh on markets and dealmakers

Equities start 2025 with high volatility. US equities endured a three-standard deviation decline before gaining ground in April after 'Liberation Day' tariff announcements. The slowdown in growth is likely to push down earnings growth in 2025 to 0%, but investors may look past tariff-related weakness and 'peak uncertainty' to stronger 2026 earnings backdrop.

Spreads pricing in slowdown, not recession. Credit spreads widened during the tariff-related sell-off but remained well-tempered compared to other parts of the market and are now recovering. Rates may remain elevated due to increasing deficit anxiety.

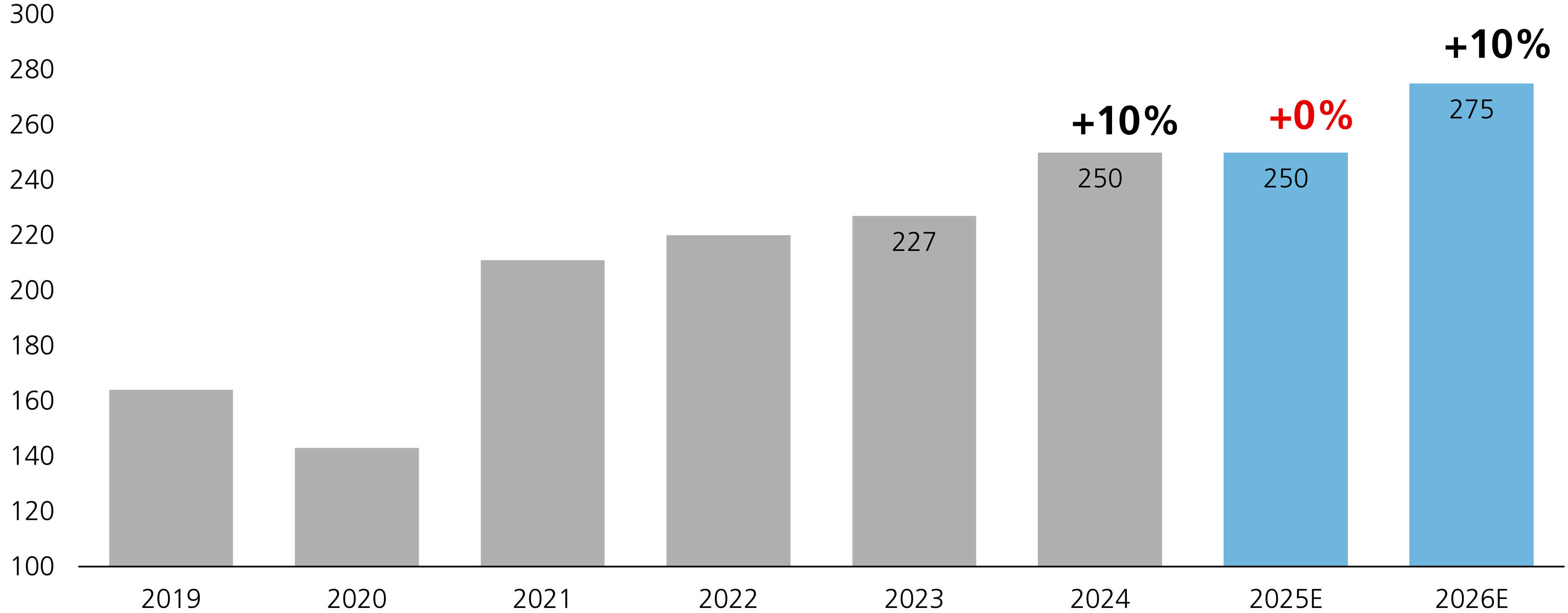
Beginning of year optimism in M&A and PE now tempered by tariffs. M&A optimism has significantly cooled as dealmaking executives take a wait-and-see approach. PE activity is more robust, as exit value was boosted by a high-profile deal in 1Q25 and with dealmakers sitting on very high dry-powder levels to take advantage of any market dislocations.

Volatile markets weigh on IPO activity while VC increasingly driven by AI. Already, several listings have been delayed due to do lower valuations and higher volatility; a more stable market and a reduction in tariff worries should drive listings in the second half of the year. Large, AI-related investments accounted for more than 70% of VC investment value in 1Q25.

Equities: Q1 earnings remained healthy despite tariff shock

We expect the S&P 500 to reach 5,800 this year with an EPS estimate of USD 250 (no growth). Markets seem to pricing in tariff hit and look to stronger backdrop in 2026.

CIO expects S&P 500 earnings growth to remain flat in 2025 but rise 10% in 2026
S&P 500 yearly EPS (USD) with CIO forecast



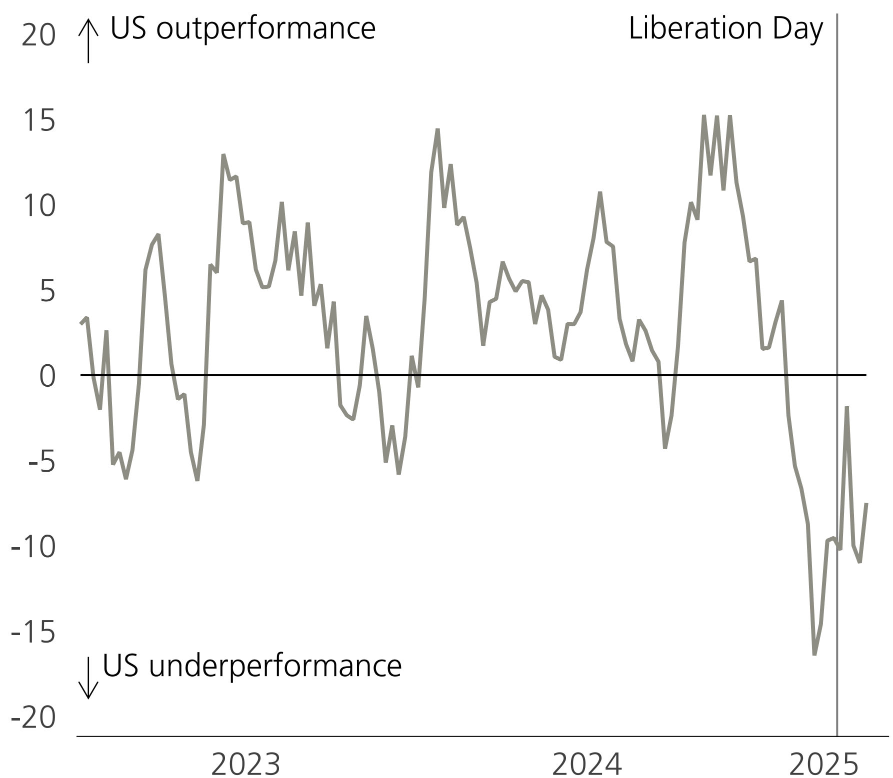
Source: FactSet, UBS, as of 5 May 2025

UBS

Equities: US exceptionalism questioned after 'Liberation Day'

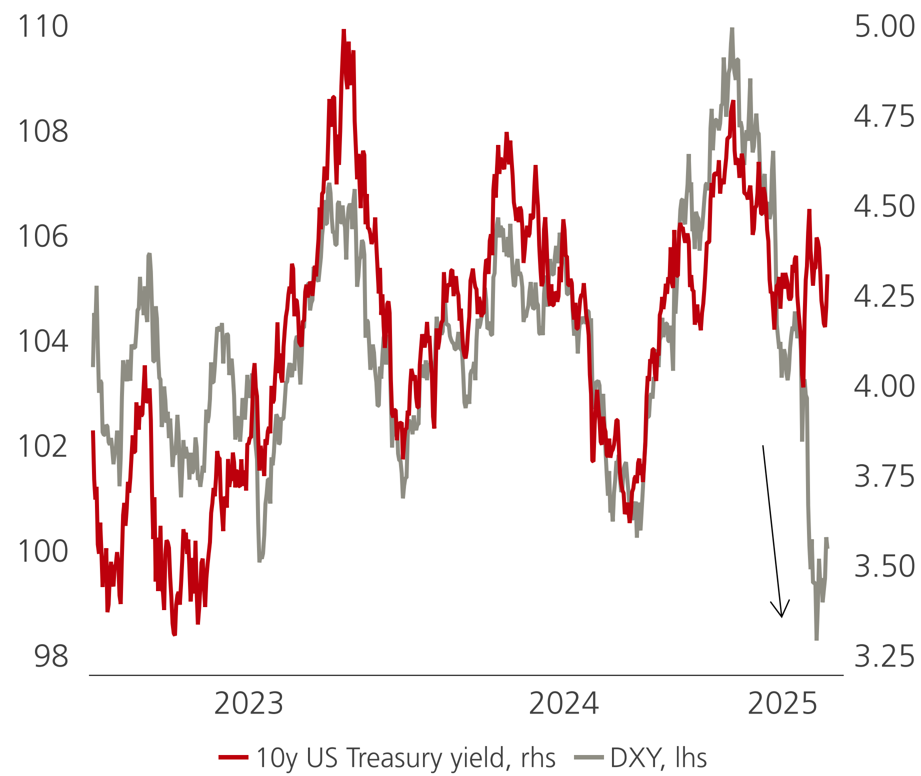
Since the pandemic, US risk assets had outperformed peers thank to favorable macro tailwinds; now, policy uncertainty has led to stock underperformance and a weaker USD despite elevated yields

US equities now vastly underperforming DM peers
MSCI US – MSCI ACWI ex-US**,** 30-day rolling returns %



Source: Bloomberg, UBS, as of 5 May 2025

USD, a usual beneficiary during risk-off, sold off with equities
DXU USD index and 10y US Treasury yields %



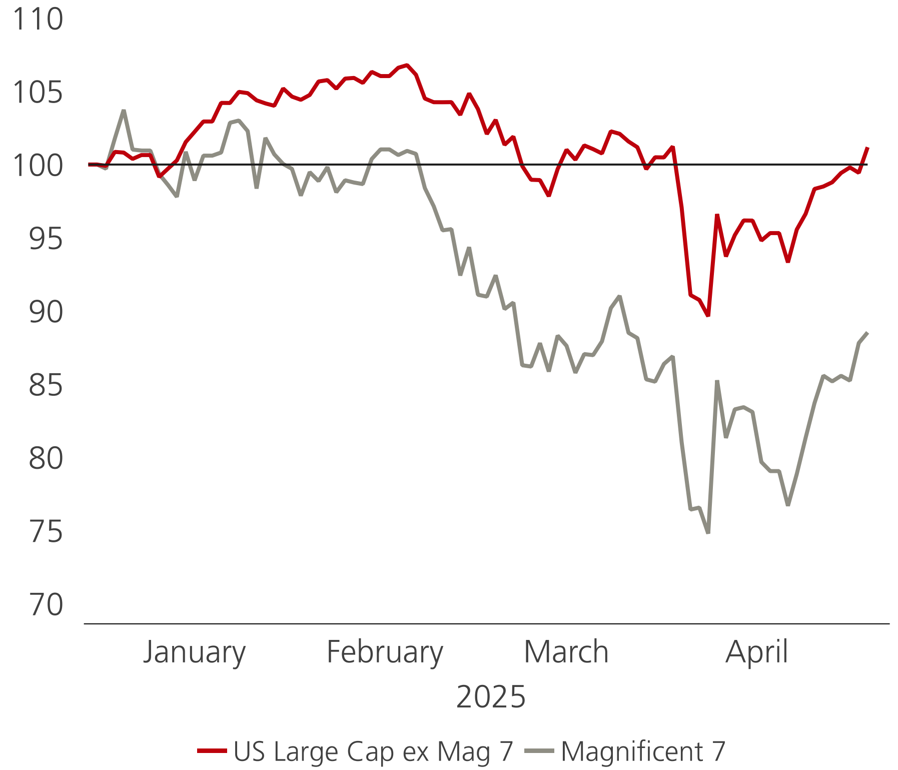
Source: Bloomberg, UBS, as of 5 May 2025

Equities: Within US, Mag 7 and cyclicals underperforming

Within the US, prior winners like the Mag 7 and cyclicals are under pressure as defensives and S&P 493 outperform in a more volatile environment.

Small caps improving recently but still lagging large-cap tech

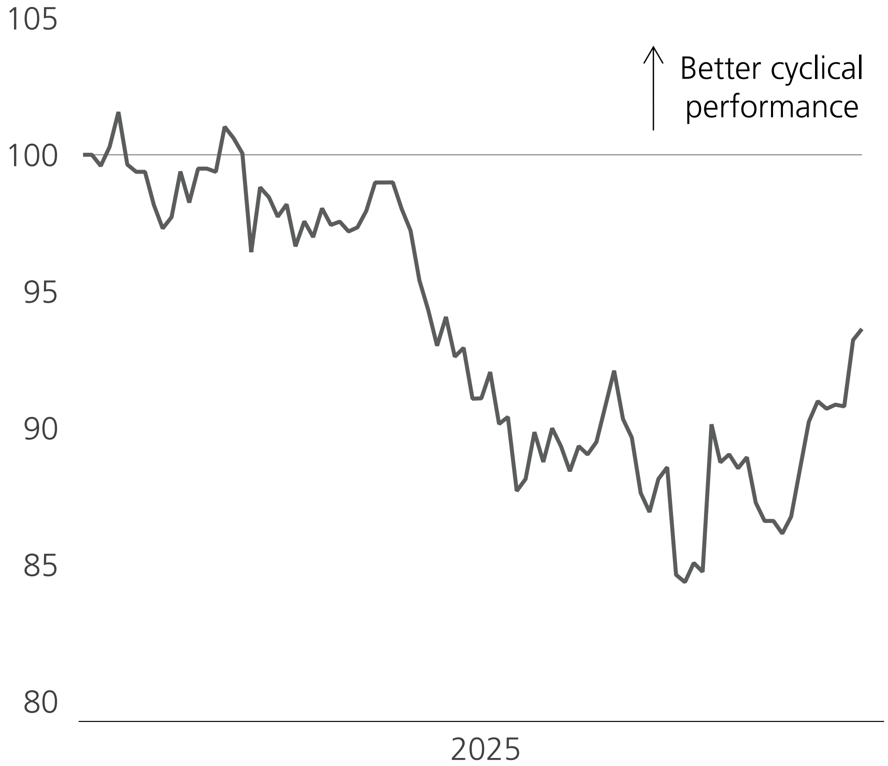
Large-cap tech / small cap performance, 12/31/2024=100



Notes: Large cap tech represented by QQQ index while small-caps represented by RTY index.
Source: Bloomberg, UBS, as of 5 May 2025

Election set the stage for Q4 cyclicals surge

MSCI Cyclicals – Defensives return spread, 12/31/2024=100

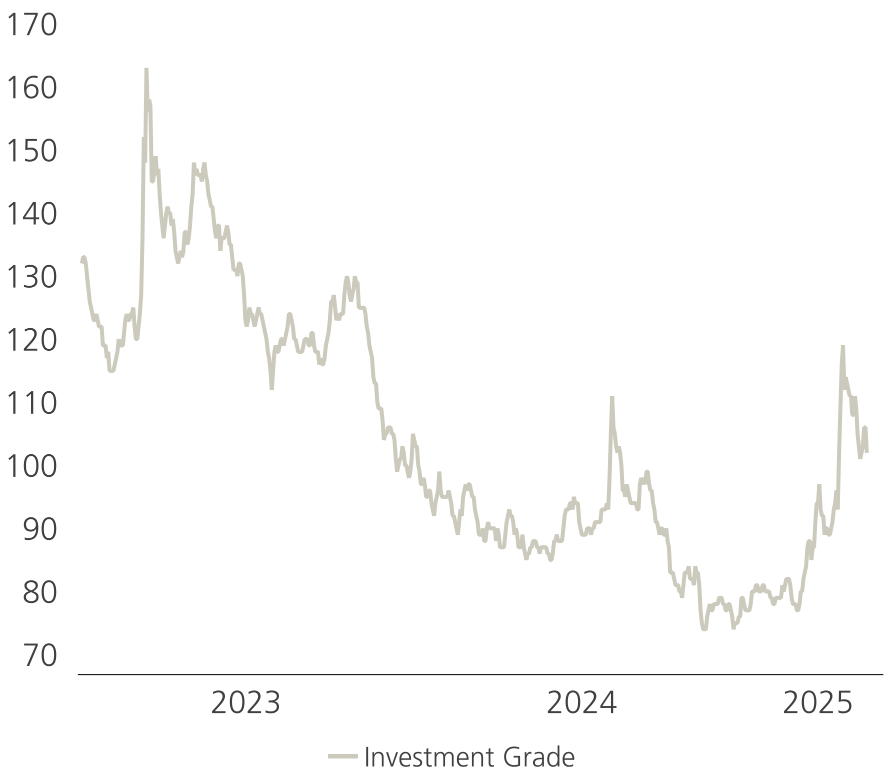


Source: Bloomberg, UBS, as of 5 May 2025

Credit: Wider credit spreads suggest a slowdown, not a recession

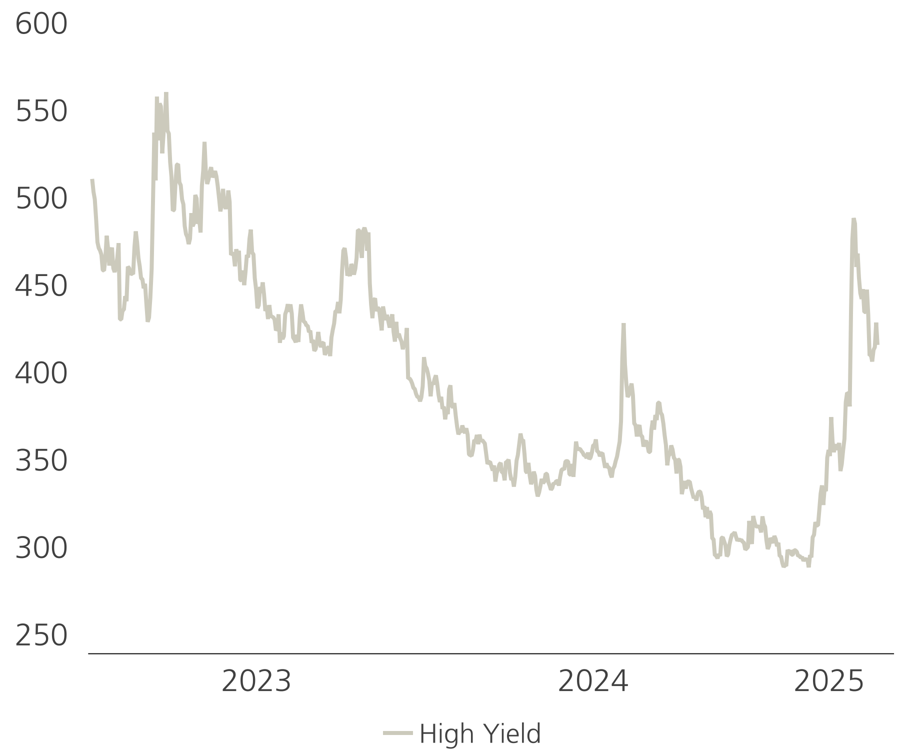
Spreads on investment grade and high yield indices have widened from historically tight levels after tariff announcements but are not yet in 'recession' territory.

IG spreads have widened, but not to extreme levels
Investment grade bond spread to Treasuries, in %



Source: Bloomberg, UBS, as of 5 May 2025

HY spreads have risen from very tight levels
High yield bond spread to Treasuries, in %



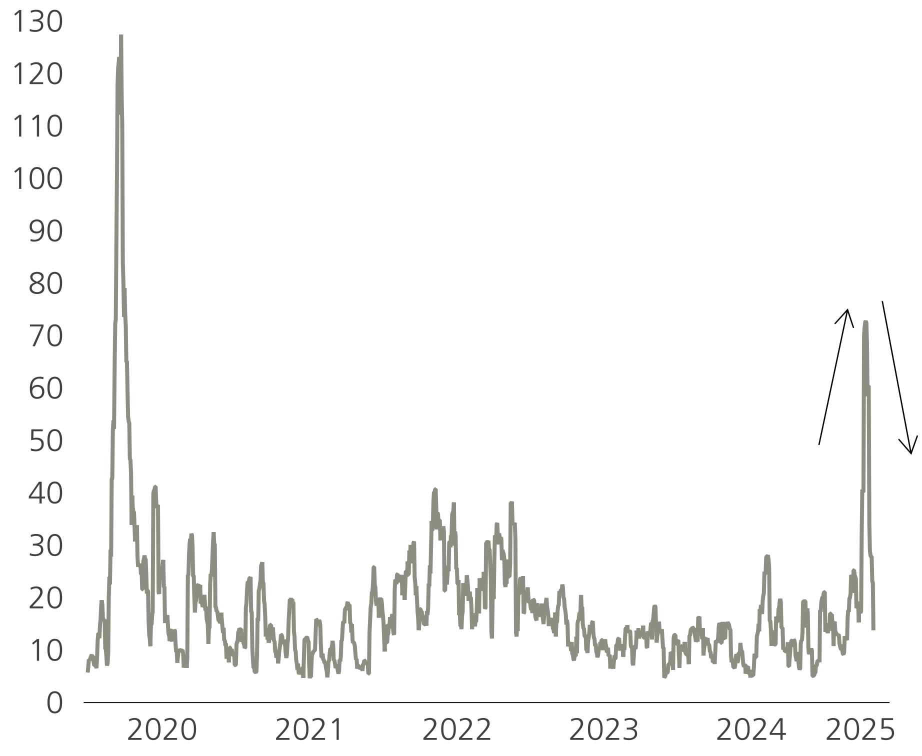
Source: Bloomberg, UBS, as of 5 May 2025

UBS

Volatility: Reached multi-near extremes, now back to 'normal'

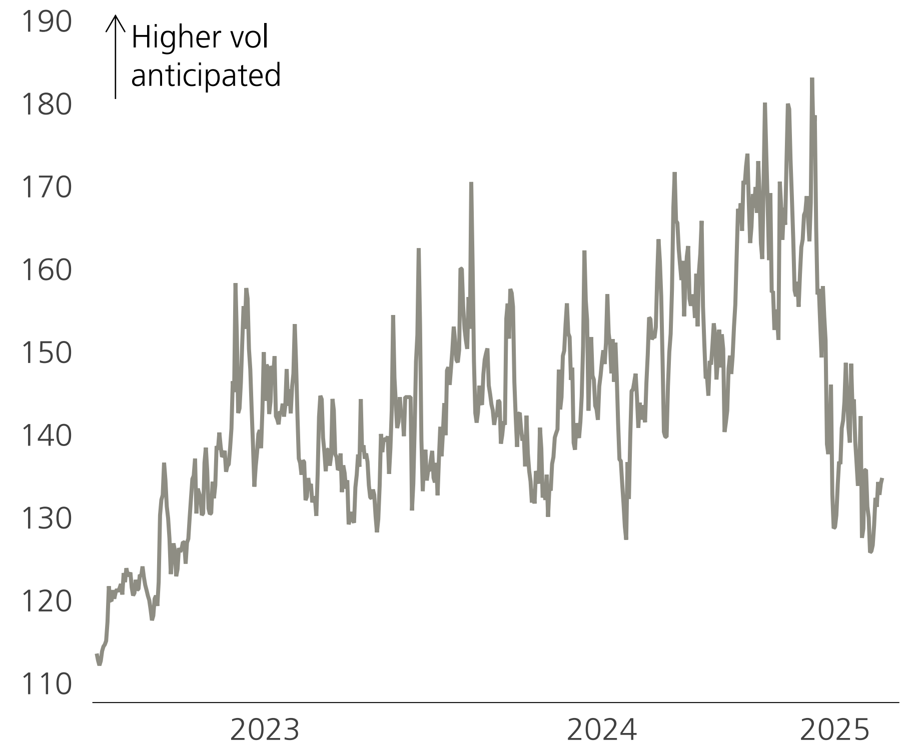
Equity volatility measured by the VIX index jumped in April but also made a quick retreat thanks to the 90-day tariff pause. The skew, a proxy for downside risks, now at lowest levels since 2024.

VIX spiked and now back to more normal levels
Realized volatility of S&P 500



Source: Bloomberg, UBS, as of 7 April 2025

SKEW index also now back in relative normal territory
CBOE Skew index

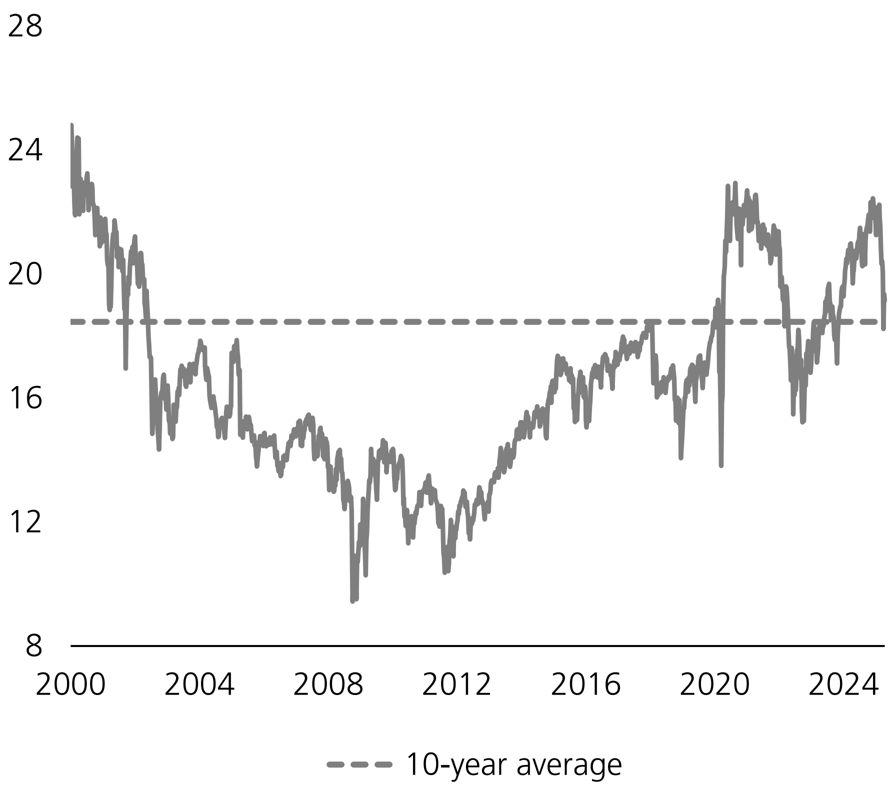


Source: Bloomberg, UBS, as of 7 April 2025

Valuations: Stocks continue to perform despite elevated valuations

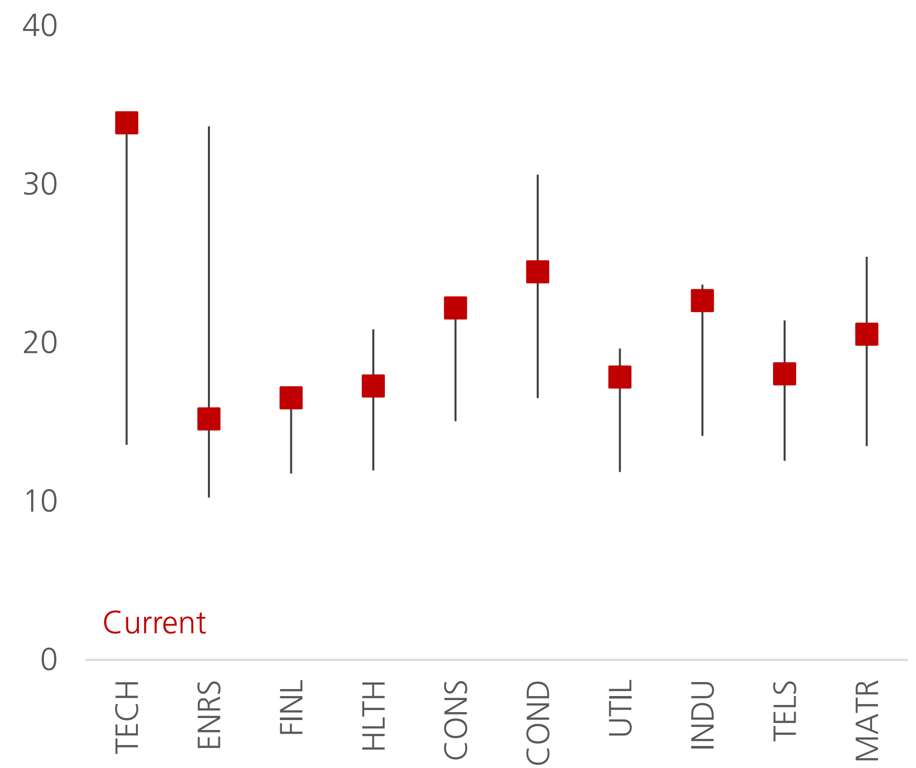
US valuations are modestly higher relative to history but justified given earnings trajectory; ex-tech valuations for other sectors look in line with historical averages.

US equity valuations now close to 10y average
S&P 500 12-month forward P/E ratio



Source: Bloomberg, UBS, as of 5 May 2025

But different parts of the S&P 500 more expensive than others
P/E ratio range from 2004



Note: PE ratios cover between 10th and 90th percentile starting from 2004.
Source: Bloomberg, UBS, as of 5 May 2025

UBS

M&A: Great expectations met with lower sentiment and uncertainty

Dealmakers were hoping for a breakout 2025, buffeted by a more business-friendly administration and rate cut execrations; now, tariff concerns and higher-for-longer rates weigh on dealmaking conditions

M&A Heatmap	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**	**Mar-21**	**Jun-21**	**Sep-21**	**Dec-21**	**Mar-22**	**Jun-22**	**Sep-22**	**Dec-22**	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**	**Sep-24**	**Dec-24**	**Mar-25**
Sentiment	93	80	119	119	115	125	124	128	105	90	81	66	75	75	75	73	77	76	79	84	66
FCI	-5.3	-0.9	-0.4	0.3	0.9	1.2	0.7	0.9	-0.2	-1.2	-1.1	-0.1	-0.3	0.3	0.2	0.9	1.1	1.0	0.7	0.7	0.1
Vistage CEO Confidence	7.0	6.5	6.9	6.9	7.1	6.9	6.7	6.5	6.7	5.6	5.9	5.9	6.1	6.6	6.1	6.3	7.0	6.7	6.5	7.0	5.0
NFIB Small Business Confidence	96.4	100.6	104.0	95.9	98.2	102.5	99.1	98.9	93.2	89.5	92.1	89.8	90.1	91.0	90.8	91.9	88.5	91.5	91.5	105.1	97.4
Markets																					
SPX	-9%	5%	13%	16%	54%	39%	28%	27%	14%	-12%	-17%	-19%	-9%	18%	20%	24%	28%	23%	34%	23%	7%
NASDAQ	6%	32%	47%	48%	68%	43%	29%	27%	13%	-21%	-25%	-33%	-11%	32%	34%	54%	38%	30%	36%	25%	6%
Midcap	-24%	-8%	-4%	12%	81%	51%	42%	23%	3%	-16%	-17%	-14%	-7%	16%	14%	14%	21%	12%	25%	12%	-4%
Smallcap	-25%	-8%	-1%	18%	93%	60%	46%	14%	-7%	-26%	-24%	-22%	-13%	11%	7%	15%	18%	8%	25%	10%	-5%
Rates																					
10Y rate	0.67	0.66	0.68	0.91	1.74	1.47	1.49	1.51	2.34	3.01	3.83	3.87	3.47	3.84	4.57	3.88	4.20	4.40	3.78	4.57	4.21
Federal Funds Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.75	3.25	4.50	5.00	5.25	5.50	5.50	5.50	5.50	5.00	4.50	4.50
2s10s Spread	42	50	55	79	158	122	121	77	0	5	-45	-56	-56	-106	-48	-37	-42	-36	14	33	32
Financing																					
IG Spread	2.7	1.5	1.4	1.0	0.9	0.8	0.8	0.9	1.2	1.6	1.6	1.3	1.4	1.2	1.2	1.0	0.9	0.9	0.9	0.8	0.9
HY Spread	8.8	6.3	5.2	3.6	3.1	2.7	2.9	2.8	3.3	5.7	5.5	4.7	4.6	3.9	3.9	3.2	3.0	3.1	3.0	2.9	3.5
SLOS Large	0	42	71	38	6	-15	-32	-18	-15	-2	24	39	45	46	51	34	15	16	8	0	6
SLOS Mid/Small	-1	40	70	31	11	-13	-26	-11	-9	0	22	32	44	47	49	30	19	20	8	13	11
IG Issuance	14%	64%	60%	62%	37%	-18%	-23%	-20%	-17%	-4%	-4%	-15%	-22%	-12%	-8%	1%	17%	14%	24%	25%	15%
HY Issuance	60%	75%	81%	52%	81%	52%	27%	15%	-26%	-50%	-66%	-77%	-73%	-49%	-11%	64%	124%	92%	94%	64%	26%
Volatility																					
MOVE	83.9	54.1	39.2	49.0	71.3	57.3	61.1	77.1	106.9	135.5	141.9	121.6	135.9	110.6	113.6	114.6	86.4	98.6	94.6	98.8	101.4
VIX	53.5	30.4	26.4	22.8	19.4	15.8	23.1	17.2	20.6	28.7	31.6	21.7	18.7	13.6	17.5	12.5	13.0	12.4	16.7	17.4	22.3

Negative ← → Positive

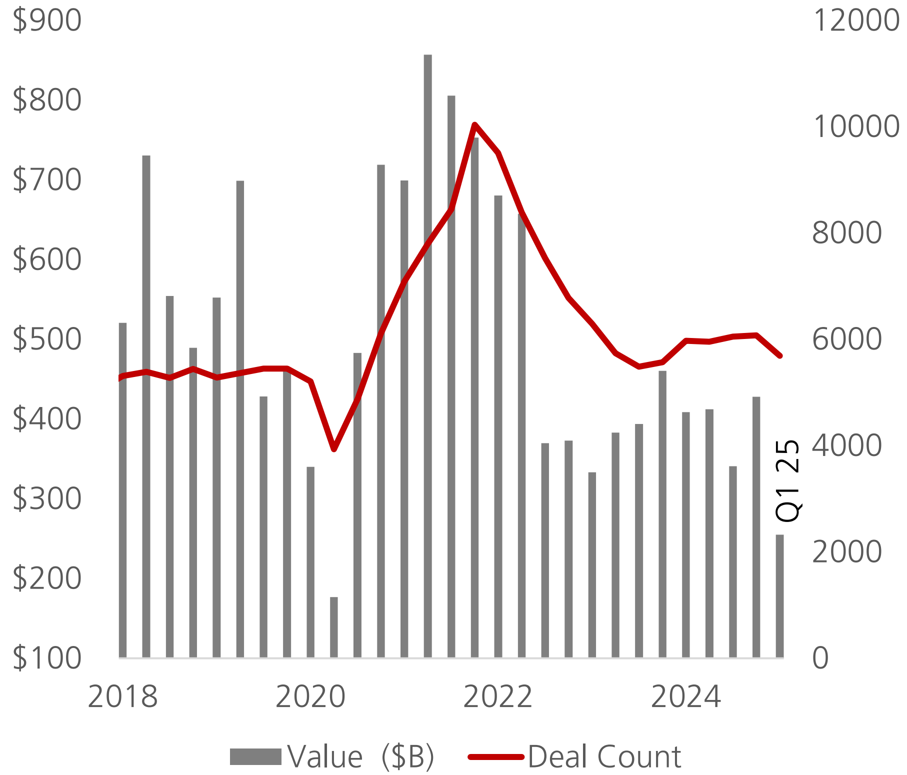
Note: SLOOS Large and SLOOS Mid/Small measure the change in tightening standards
Source: Bloomberg, UBS, as of 5 May 2025

M&A: High expectations for 2025 tempered by tariffs

Dealmaking in 2025 off to a sluggish start due to volatile tariff policy and slower economy; M&A optimism fell after election to lowest reading in a decade.

US dealmaking off to a slow start in 2025

Value ($B) and count



Source: Bloomberg, UBS, as of 5 May 2025

US M&A sentiment lowest in a decade

BCG US M&A Sentiment index

Note: A sentiment value over 100 indicates that decision makers expect M&A activity during the next approximately six months to surpass the most recent ten-year average. A value under 100 implies they expect below-average activity,
Source: BCG, UBS, as of 5 May 2025

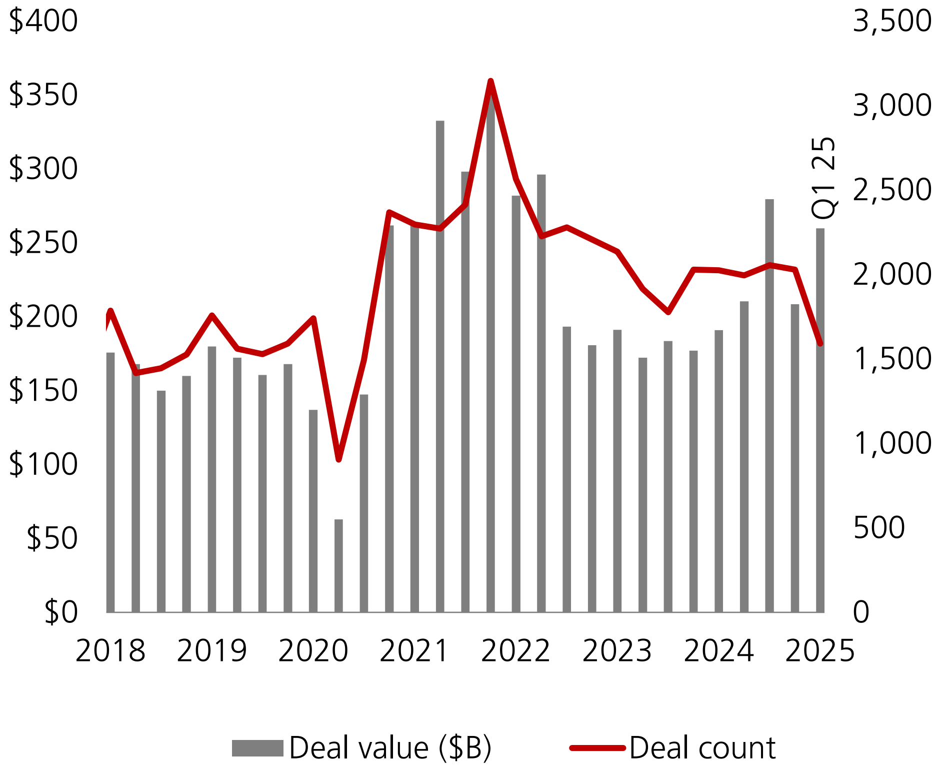
UBS

Private Equity: PE started 2025 on a strong note

Ample dry powder and dealmakers eager to sustain momentum from 2024 now take a more cautious tone. 1Q25 exit value driven higher by one giant exit and may encourage more in the near term.

PE activity in the US

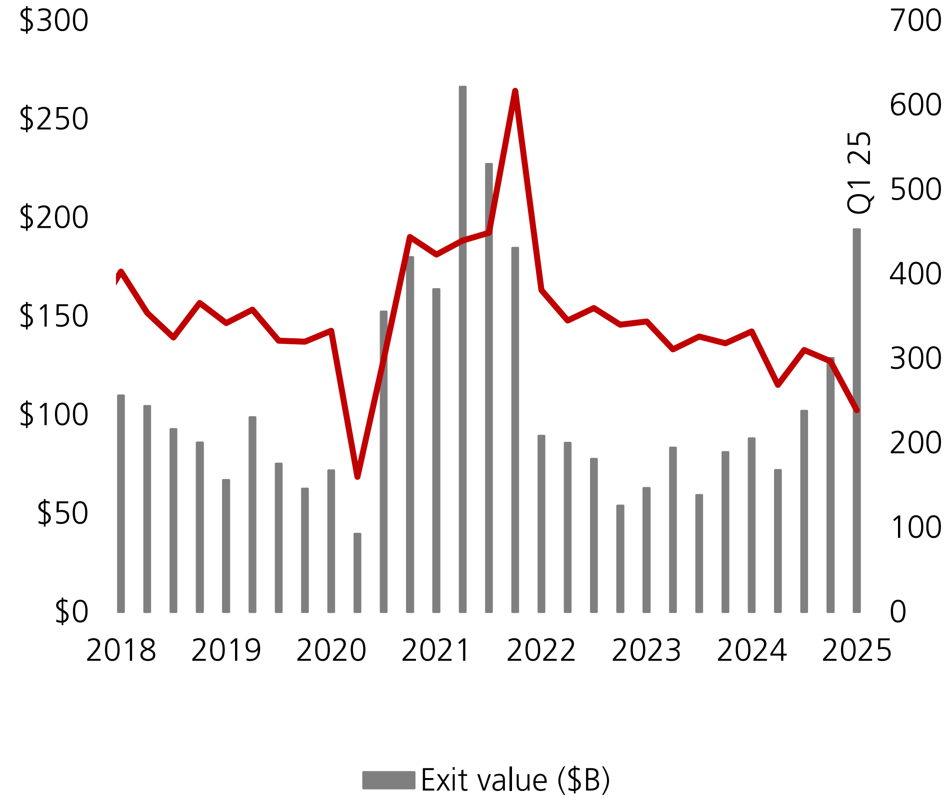
Value (USD bn) and count



Source: Pitchbook, UBS, as of 5 May 2025

Exits also off to an encouraging start in 2025

Value (USD bn) and count



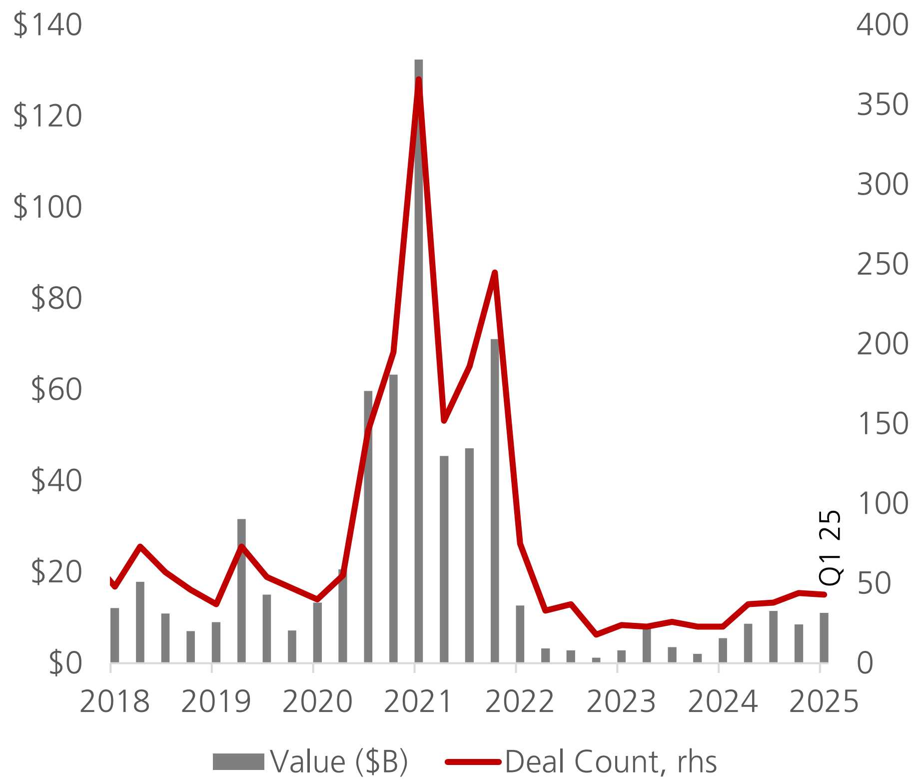
Source: Pitchbook, UBS, as of 5 May 2025

IPOs: Market volatility weighing on IPO listings

Before the announcement of fresh global tariffs in April, IPO outlook looked positive and aimed to build on 2024 momentum. Since then, some listings have been paused as founders reassess valuation impact.

IPO market in 1Q25 building on 2024 momentum

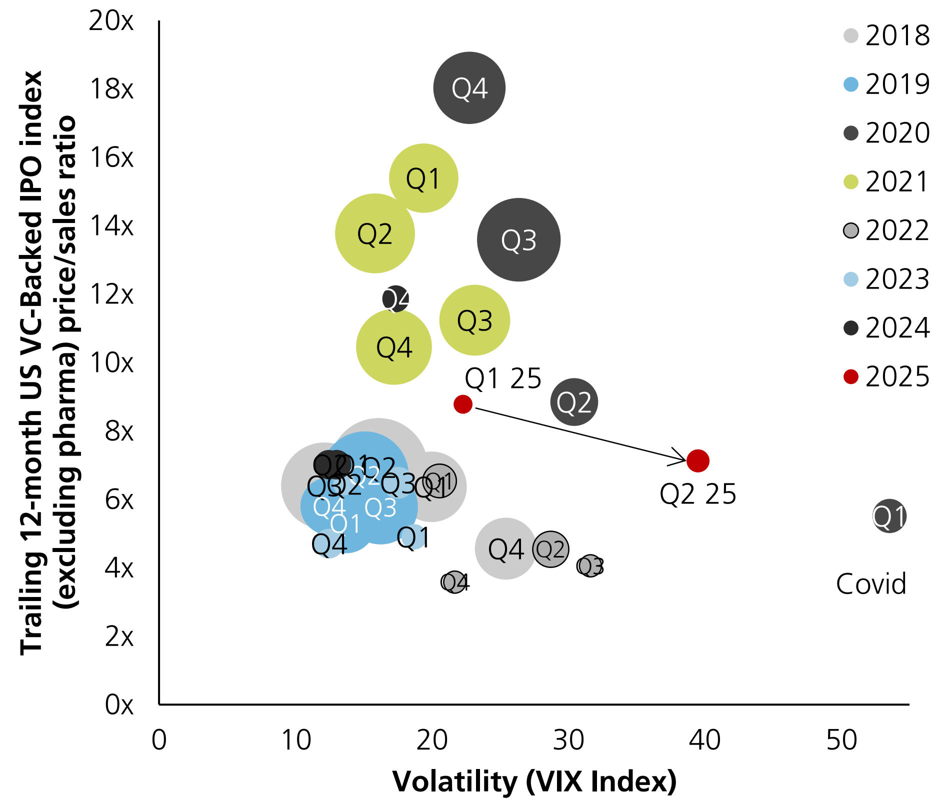
Value ($B) and count



Source: Bloomberg, UBS, as of 5 May 2025

Lower valuations and higher vol associated with fewer listings

Trailing 12M prices/sales ratio & VIX



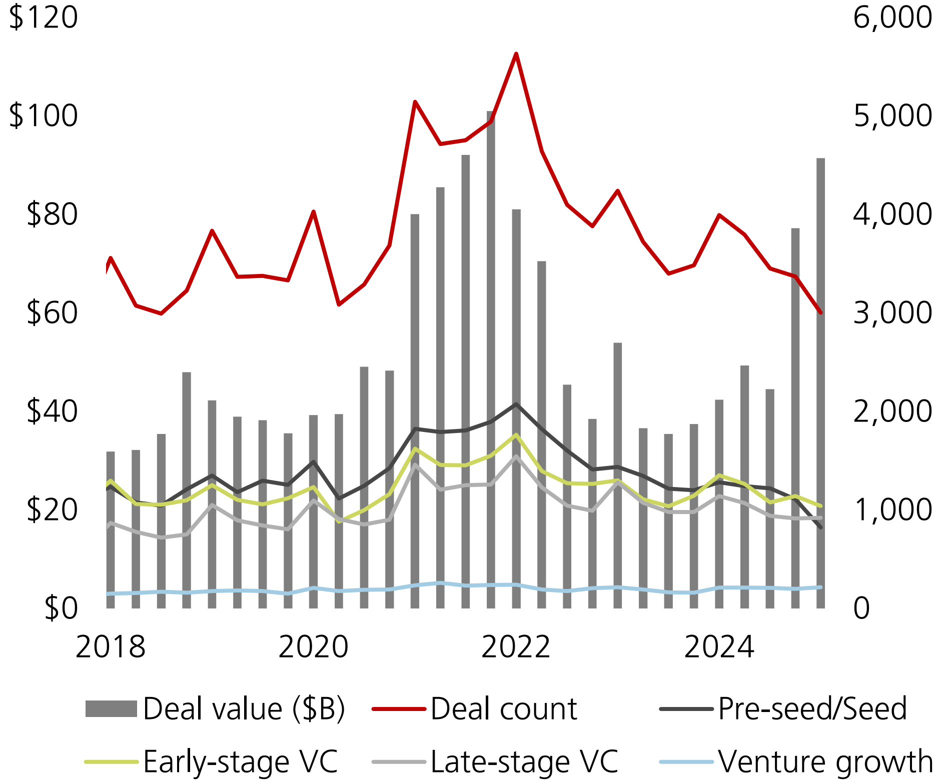
Source: Pitchbook, UBS, as of 5 May 2025

Venture Capital: Larger, AI-related deals dominate VC space

1Q25 kept momentum from 2024. Larger deals made up a greater share of total activity—10 transactions worth over USD 500mn made up more than 60% of total VC investment in 1Q25.

Venture capital deals keeps 2024 momentum

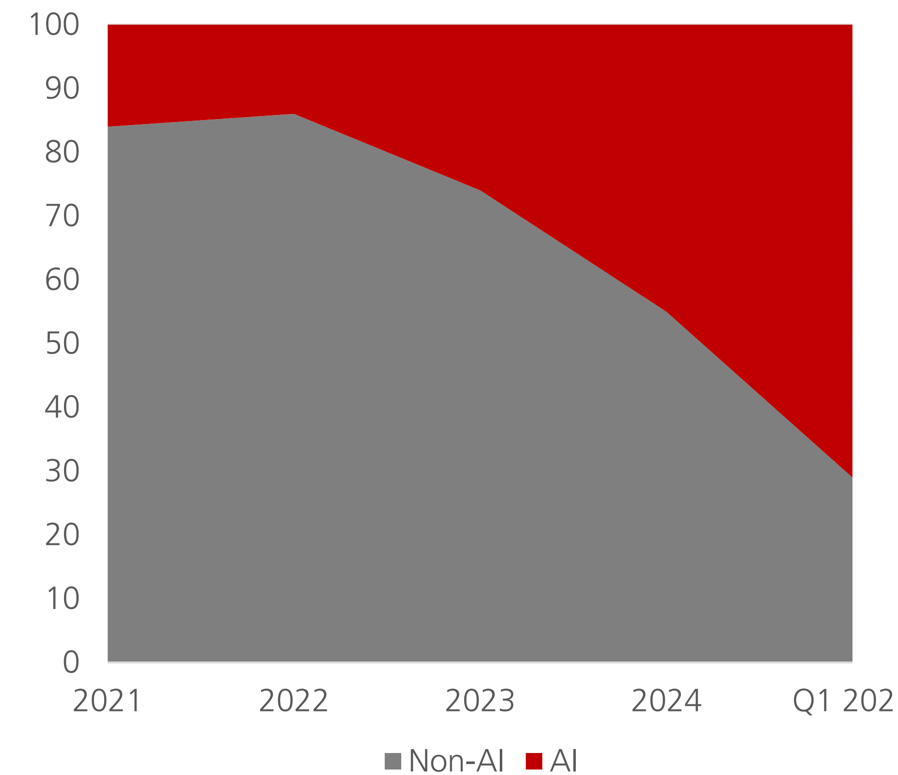
USD bn and count



Source: Pitchbook, UBS, as of 5 May 2025

More than 70% of total VC investment went to AI in 1Q25

Share of VC funding, %



Source: Crunchbase, UBS, as of 5 May 2025

Section 6

Appendix

Risk information

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.

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