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US stocks should see support amid volatility

Weekly Global

Mark Haefele, Global Wealth Management Chief Investment Officer, UBS AG

US stocks have recouped all losses since President Donald Trump's "reciprocal" tariff announcement, with the latest 9-day rally bringing the S&P 500 index 0.3% higher (as of Friday's close) than where it stood on 2 April. Better-than-feared first-quarter earnings and progress on tariff negotiations have been key drivers of the recent equity strength, while Friday's solid labor report eased investor worries over an immediate recession.

We believe these factors should continue to support US equities, and maintain our view that the S&P 500 will end the year higher than its current level.

First-quarter corporate profits are better than our expectations. Companies that represent over 75% of the S&P 500 market capitalization have reported their first-quarter earnings, and corporate profits are likely to grow by 9% for the first three months of the year, better than our initial expectations of around 5%. Nearly 60% of the companies are beating sales estimates and 70% are beating earnings forecasts, only slightly softer than historical averages. Guidance has also been reasonably good, in our view. Last week's highlights include better-than-expected mega-cap tech earnings amid intact AI fundamentals, as well as "resilient" consumer spending according to MasterCard and Visa. While we do expect trends to weaken in the coming months once higher-priced tariffed goods start to hit the shelves, we believe markets are likely to look through near-term economic weakness amid signs of progress on trade negotiations. We expect a return to earnings growth of 10% in 2026.

Ongoing tariff negotiations should lead to more positive headlines. Trump on Sunday suggested that his administration could strike trade deals with some countries as soon as this week, as trade talks with India, Japan, and South Korea appeared to be making progress. In a television interview aired over the weekend, he also said he is willing to lower tariffs on China at some point, following comments from Beijing last week that its doors are open for discussions. While uncertainty remains elevated, we think tariff extremes have likely peaked. We expect a variety of deals or sector carve-outs to materialize before the 90-day pause period ends in July, and that the effective US tariff rate should settle closer to 15% by year-end.

Recent labor data points to near-term resilience amid a weakening trend. Friday's US labor report showed an increase of 177,000 jobs in April, above market consensus but lower than a downwardly revised 185,000 in March. While the unemployment rate was unchanged at 4.2%, average hourly earnings growth was relatively soft at 0.2%. The report is in line with

From the studio

Podcast: **Investors' Club: Tech earnings, AI growth, and investment strategies** (12:39)

Podcast: **Jump Start: Recession fears, trade negotiations, and tech earnings** (5:14)

Questions for the week ahead

Will the US unveil its first trade deals? Encouraging tariff headlines contributed to higher US stocks last week, including remarks from US Trade Representative Greer that "we have deals that are close," Chinese comments that its doors are "open" for discussions, and Bloomberg reports that the European Union was poised to make new proposals to the US on trade. Investors will be closely watching for details of any trade deals, the nature of any exemptions, and the concessions offered, especially for signs of possible "off-ramps" for the US-China trade impasse.

How will central banks respond to growth and inflation uncertainty? The Federal Reserve meets this week amid heightened uncertainty over how tariffs will affect the outlook for US growth and inflation. President Trump has repeatedly called for the central bank to cut interest rates. However, we expect the Fed to remain on hold until September. The Bank of England, Norway's Norges Bank, and Sweden's Riksbank are also scheduled to conclude monetary policy meetings this week.

Will demand for US Treasuries remain robust? US Treasury market activity has calmed after April's volatility, especially on longer-dated government debt, which was other recent jobs data, which includes falling job openings and higher initial jobless claims, suggesting a still broadly healthy job market that is showing some signs of weakness. We think this will allow the Federal Reserve to resume easing in the second half of the year, cutting interest rates by 75-100 basis points this year to support US economic activity. We expect the US economy to avoid a full-blown recession, though growth is likely to slow this year.

Still, uncertainty remains elevated and economic data will likely weaken in the coming months, meaning further bouts of volatility are likely. With investor positioning less depressed following the latest rally, there may be less fuel to propel stocks significantly higher in the near term. Phasing into the equity market can be an effective way to position for medium- and longer-term equity upside while managing timing risks, while capital preservation strategies can be another way to manage near-term downside risks. We maintain a high conviction in our longer-term Transformational Innovation Opportunities (TRIOs) of *AI, Power and resources,* and *Longevity*.

triggered by policy uncertainty and worries over US fiscal sustainability. The week ahead will see the US Treasury auctioning 10- and 30-year bonds, as well as short-term bills. Investors will be watching the depth of investor demand (bid-to-cover ratios).

Key Messages

Taking stock of Trump 2.0's first 100 days

Last week marked the anniversary of President Donald Trump's first 100 days of office in his second presidential term. Trump's second presidency began with an unprecedented pace of executive action, as he signed over 140 executive orders—more than any recent predecessor—aimed at reshaping US government, trade, and foreign policy, and reversing many Biden-era initiatives. This rapid policy rollout included sweeping tariffs, significant government spending cuts, and aggressive immigration measures.

A mixture of rapid policy announcements and, at times, recalibration contributed to a decline in Trump's approval ratings (a recent CNN poll conducted by SSRS found that 59% of respondents said the president's policies have worsened economic conditions in the country, up from 51% in March) and triggered pronounced volatility across stock, bond, and currency markets. The S&P 500 briefly neared bear market territory after the announcement of "reciprocal" tariffs in early April but has since recovered to above its pre-2 April levels.

Entering the next 100 days of the second Trump administration, trade policy remains in flux, but the administration has shown some willingness to moderate its stance in response to market stress. Negotiations with trading partners are ongoing, and the first major bilateral deal—potentially with India—could set the tone for future agreements. Meanwhile, legislative progress has been slow due to narrow Republican majorities and competing fiscal priorities, while legal and economic headwinds, including labor shortages and inflation risks, continue to challenge the administration's agenda.

Takeaway: *In a continued environment of uncertainty where investors should expect bouts of further volatility, we recommend that investors use market turbulence as an opportunity to phase into US equities or balanced portfolios, positioning for potential medium- and long-term gains as policy clarity improves. Historically, periods of bearish sentiment and high volatility have preceded strong equity returns in the subsequent 12 months. Investors should selectively add quality stocks and build exposure to long-term growth themes like artificial intelligence, longevity, and power and resources.*

US economic data point to further Fed easing

Over the past week, US economic data painted a mixed picture. On the discouraging side came a negative first-quarter GDP release, as the economy contracted 0.3% quarter over quarter (annualized), the first decline since early 2022, as front-loaded imports ahead of tariffs subtracted 4.8 percentage points from growth and also led to the US trade deficit widening to a record USD 162bn in March. The Conference Board's consumer confidence gauge for April added to the gloom, falling for a fifth straight month to its lowest level since the pandemic. The proportion of consumers expecting fewer jobs in the next six months stood close to its highs in the financial crisis in April 2009, while expectations about future income prospects turned negative for the first time in five years.

But the details on US activity were less concerning: consumption (+1.8%) and fixed investment (+7.8%) remained solid, and the Employment Cost Index showed steady wage growth. Labor market data also demonstrated resilience: while the JOLTS releases showed job openings falling to their lowest since December 2020, layoffs also declined, indicating employers' reluctance to cut staff. Nonfarm payrolls increased by 177,000 jobs in April, slightly lower than a downwardly revised 185,000 in March but above the Reuters consensus for 130,000. The unemployment rate held steady at 4.2%. For reference, the US economy needs roughly 100,000 new jobs per month to match growth in the working-age population. And encouragingly for the Federal Reserve, one of its preferred inflation gauges, the core PCE price index, eased to 2.6% year on year in March (albeit one-tenth above expectations) and down from a prior 3% in February.

Takeaway: Recent data support our view of a decelerating but still resilient US economy, with tariff uncertainty and mixed sentiment likely to weigh on growth in the coming months. We do expect US economic growth to slow this year, but tariff-related uncertainty and softer sentiment should not trigger a sharp downturn if trade deals emerge. The moderation in inflation and labor market data gives the Federal Reserve scope to cut rates by 75-100 basis points this year, in our view. Against this backdrop, we continue to advocate seeking durable income: US Treasuries offer potential diversification and should perform well if growth slows, while complementing quality bonds with select short- and medium-duration riskier credit investments (such as high yield, emerging market bonds, or senior loans) can enhance diversification and potential returns.

Tech earnings highlight resilient growth supported by AI trend

First-quarter earnings from global tech companies have shown some impact of US trade policy. Apple warned the tariffs could add about USD 900mn in costs this quarter, while most companies have revisited their supply chain strategy. We have therefore trimmed our 2025 earnings growth forecast for global tech companies from 16% to 12% amid elevated macro uncertainty, as we expect some margin headwinds from accelerating supply chain relocations and higher depreciation expenses from ongoing AI capex.

However, we view this set of tech earnings as better than expected, as it highlights the resilient growth profile of global tech thanks to the secular AI trend that remains fundamentally solid.

Mega-cap tech names have largely maintained their spending outlook. Meta highlighted that the upward revision in its capex this year reflects additional data center investments to support its AI efforts, adding that the company is having a hard time meeting its demand for compute resources. Cloud growth across major platforms remains steady, and we expect revenues at the top three cloud service providers to reach USD 265bn this year.

Overall, we expect global AI capex spending to grow by 60% this year to USD 360bn, and by another 33% in 2026 to USD 480bn. We also expect the gap between AI capex and revenues to narrow further, supported by strong cloud growth, rising AI adoption, and AI-enabled productivity gains.

Takeaway: The ongoing tariff-related uncertainty and semiconductor export controls may weigh on the tech sector. But, without taking any single-name views, we maintain strong conviction in AI's long-term potential and expect the rebound in tech shares to continue. We favor a diversified exposure across leading internet and software companies and AI semiconductors, *and recommend investors consider structured strategies to navigate volatility ahead.*

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