**2 June 2025, 09:54 UTC**
Chief Investment Office GWM
Investment Research

# Position for longer-term gains amid renewed caution

## UBS House View - Daily US

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### From the studio

**Video:** **Allocating Assets — portfolio strategy with Adrian Zuercher and Mark Andersen** (8:35)
**Video:** **Tech analyst Sundeep Gantori on earnings and US tech export controls** (1:54)
**Podcast:** **Kurt Reiman on Trump's tariffs after the IEEPA court ruling** (13:06)
**Podcast:** **Across the Pond: Trump's trade rollercoaster**CIO Eurozone and UK economist Dean Turner discusses what comes next for trade talks with Europe and Switzerland.
**Podcast:** **Across the Pond: Is gold's remarkable run over?** Giovanni Staunovo and Wayne Gordon from CIO's commodities team discuss what comes next for the precious metal.

### Thought of the day

Financial markets started June with caution, after the S&P 500 registered the largest monthly gain in May since November 2023. The Hang Seng Index fell 0.6% on Monday amid renewed trade tensions, while US equity futures are pointing lower before the market open. At the time of writing, gold is up 2% to USD 3,353/oz.

US President Donald Trump said late on Friday that he would double the tariffs on steel and aluminum to 50% starting this week and accused China of breaching their trade agreement reached in Geneva last month. Beijing on Monday rebuked the claim, saying the US violated the trade truce and that China will take "resolute and forceful measures to safeguard its legitimate rights and interests." Earlier last week, a federal trade court ruled the bulk of Trump's tariffs unlawful, although an appeals court offered a temporary stay for the levies to remain in place for now.

We continue to expect market volatility as investors digest fresh tariff headlines and incoming US economic data. Fiscal worries remain, and geopolitical tensions are heating up. But we also expect US stocks to move higher over the next 12 months and see ways to manage near-term volatility for longer-term gains.

### What to watch: 3 June 2025

- Various Fed speakers, including Chair Jerome Powell
- US Factory Orders for April and JOLTS job opening report for May
- China May Caixin manufacturing business activity survey

**The effective US tariff rate should remain lower than what was announced two months ago.** Tariffs remain a strategic focus of the Trump administration, and investors should continue to expect an aggressive, tariff-based trade policy from this government. Trump's latest threat on the steel and aluminum levies underscores our view that product-specific tariffs could take on more significance while the administration seeks to appeal the ruling from the Court of International Trade. But developments over the past two months showed that the Trump administration is sensitive to short-term market risks, and that it remains incentivized to reach deals with the country's trading partners. Our base case remains that the effective US tariff rate should slow US real GDP growth to around 1.5% this year, not a big enough impact to drive the economy into a recession.

**The corporate earnings backdrop remains supportive.** The recent first-quarter reporting season was stronger than expected, and we now forecast earnings per share for S&P 500 companies to rise 4% this year, up from our previous forecast of no growth. We also expect earnings to grow 8% in 2026, supported by a pickup in real wage growth, clarity on tax policy, deregulation, and the resumption of Federal Reserve interest rate cuts later this year. Historically, forward returns have been strong when implied stock volatility is high and sentiment is low. We see the S&P 500 at 6,400 by June next year.

**Our Transformational Innovation Opportunity (TRIO) themes offer compelling long-term opportunities.** Innovation remains a key driver of long-term equity performance, and we maintain strong conviction in the potential of our TRIOs, including *Artificial intelligence (AI)*, *Power and resources*, and *Longevity*. Recent company earnings point to strong underlying AI demand, steady cloud growth, and significant investments in compute and power to drive AI data centers. In the health care sector, we believe a combination of policy clarity over time, attractive valuations, and potential upside to earnings estimates should lead to good performance. Historically, longer-term and diversified investors have been rewarded for staying invested or deploying capital in uncertain markets.

So, we think investors can use periods of volatility or pullbacks to gradually add to US equities or balanced portfolios, as 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 approach to help manage near-term downside.

## Caught our attention

**Stocks rebound in May.** The S&P 500 and the MSCI All Country World both registered their largest monthly gains in May since November 2023, returning 6.3% and 5.7% respectively. That broke a three-month losing streak that began in February for both indices. Investor confidence improved in May as the Trump administration appeared more attuned to political, market, and policy pressures. Notably, progress in US-China trade talks—with both sides agreeing to a 90-day pause on tariffs—helped reassure markets that the world's two largest economies were not moving toward isolation. Trade tensions resurfaced later in the month, though investors overall have so far continued to assume that pragmatism will prevail. Legal challenges to the president's authority to impose tariffs based on the idea of an economic emergency also helped the mood in markets—though the final judgement of the courts remains uncertain.

*Our view:* Trading in June has started on a more cautious note, after an announcement that the US plans to double tariffs on steel and aluminum imports to 50% starting this week pushed S&P 500 futures lower. This is in line with our view that investors should prepare for a bumpy path for trade talks. The Trump administration's public and unpredictable negotiating style may continue to drive sporadic market swings, though our base case remains that the effective US tariff rate will settle well below the levels announced in Trump's 2 April "Liberation Day" speech. Against this backdrop, we favor phasing into equities to position for further potential gains into 2026.

**Market update**

02.06.2025

Percent change. For volatility indices, net change in points. For valuation, change in price to earnings per share. For yields, net change in bps

| | Current (*) | 1D | 5D | 1M | YTD |
|---|---|---|---|---|---|
| VIX Index | 19.8 | +1 | -2 | -3 | +2 |
| MOVE Index | 92 | -1 | -9 | -9 | -7 |
| S&P 500 | 5912 | -0.0% | +1.2% | +4.0% | +0.5% |
| S&P 500 trailing P/E (**) | 23.2x | | -0.4x | +2.1x | -1.4x |
| S&P 500 forward P/E (**) | 21.1x | | -0.3x | +2.0x | -0.4x |
| S&P 500 forward P/E ex-Mag 7 (**) | 19.3x | | -0.3x | +1.3x | +0.4x |
| Russell 2000 | 2066 | -0.4% | +1.0% | +2.3% | -7.3% |
| Euro Stoxx 600 | 548 | -0.2% | -0.5% | +2.1% | +7.9% |
| Shanghai Composite | 3347 | -0.5% | -0.0% | +2.1% | -0.1% |
| US 10-year Treasury | 4.43 | +3 | -8 | +13 | -14 |
| US 2-year Treasury | 3.91 | +1 | -8 | +9 | -33 |
| Germany's 10-year Bund | 2.54 | +5 | -1 | +1 | +18 |
| Germany's 2-year Bund | 1.79 | +2 | +2 | +4 | -28 |
| EURUSD | 1.141 | +0.6% | +0.2% | +1.0% | +10.2% |
| EURCHF | 0.94 | -0.2% | +0.0% | +0.5% | +0.7% |
| USDCHF | 0.82 | -0.4% | -0.2% | -1.0% | -9.7% |
| USDJPY | 143 | -0.7% | +0.2% | -1.3% | -9.0% |
| Brent crude, USD/bbl | 64 | +2.5% | -0.6% | +5.0% | -13.8% |
| Gold, USD/oz | 3356 | +2.0% | -0.3% | +3.5% | +27.1% |

(*) or last close if not available, (**) weekly update

**Source: Bloomberg, Factset, UBS**

## Non-Traditional Assets

**Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments).** Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

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# Appendix

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Version A/2025. CIO82652744