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Investment Research

Positioning for longer-term equity gains despite trade uncertainty

Weekly Global

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Equity markets performed strongly in May, extending the rebound from their early-April lows following signs of a de-escalation in the trade war. The S&P 500 rose over 6% and registered the largest monthly gain since November 2023. But investors are starting June in a cautious mood amid signs of renewed trade tensions. Equity markets in Asia edged lower in the first trading session of the month. At the time of writing, gold was 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 its 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.

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

From the studio

Video: **Allocating Assets – portfolio strategy with Adrian Zuercher and Mark Andersen** (8:35)

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.

Questions for the week ahead

What comes next in the tariff conflict? Market hopes that the tariff conflict was entering a calmer phase took a hit late last week. Investors will be looking for signs that a doubling of US tariffs on steel and aluminum may be reversed. Markets will also be awaiting any news on the progress of legal challenges to the administration's authority to impose tariffs. Finally, any signs of progress in trade talks with China and the EU would likely help support recent market gains.

Is the global easing cycle still on track? Last week's Fed minutes reinforced growing economic uncertainty, with officials underscoring that they are in no rush to reduce rates further. Attention will now shift to this week's ECB monetary policy meeting. Ongoing tariff uncertainty has dampened regional growth, though inflation remains near target. We now expect the ECB to cut rates in June—its seventh consecutive reduction—bringing the deposit rate to 1.75%.

Will employment data shine more light on the US economic outlook? The ongoing trade debate has injected 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.

considerable uncertainty into the outlook for US consumer and business confidence. Investors will be closely watching this week's US employment report for May for further insight into the health of the labor market—a key focus for the Federal Reserve, given its dual mandate of price stability and maximum employment.

Key Messages

Tariff uncertainty reignites volatility risks

Last week was characterized by further twists and turns in the tariff conflict, keeping markets on edge. Although the week began on a positive note, with signs of progress in US-EU relations and speculation that tensions with China might ease, the tone of talks soured. President Trump accused Beijing of failing to honor its commitments under the current trade framework. Then, after markets closed Friday, Trump said he would double tariffs on steel and aluminum imports to 50%. There were also twists in the course of legal challenges to the authority of the Trump administration to base tariffs on an economic emergency. A federal trade court struck down such tariffs, though an appeals court later reinstated these levies pending further judicial review.

Given the US president's willingness to use forceful rhetoric in trade negotiations, further episodes of volatility most likely lie ahead as talks continue between the US and its top trading partners, most notably China and the EU. We do not expect a smooth path to agreement, or a swift resolution to legal challenges to tariffs. With the S&P 500 now just 3.8% from its record high in February, we believe further gains this year are likely to be relatively limited.

But the latest developments remain in line with our base case that pragmatism will ultimately prevail over confrontation. So far, the Trump administration has appeared to temper its more strident tariff policies in response to signs of distress in markets. More moderate voices in the administration have also been playing a more prominent role in talks. As a result, we expect the effective US tariff rate to end the year around 15%. Assuming trade tensions continue to ease, we see room for the equity market rally to resume into 2026, with the S&P reaching around 6,400 by June, up from 5,912 at present.

Takeaway: Phasing into equities allows investors to limit the risks from the fast-moving tariff conflict while positioning for longer-term gains as uncertainty abates.

AI momentum continues amid near-term volatility

NVIDIA reported solid results for the quarter ending in April, with both revenue and profits exceeding consensus estimates. The chipmaker's sales forecast for the July quarter included an expected loss of roughly USD 8bn following the latest US restrictions on exports of its H20 model to China, although the overall guidance of around USD 45bn was largely in line with market expectations.

We expect further tech sector volatility in the near term given the uncertain trade and economic macro-economic outlook. Potential tariffs on the semiconductor industry remain a risk. In addition, media reports indicated that the Trump administration had instructed leading US chip design software companies to halve shipments to Chinese customers—adding to existing restrictions and elevating geopolitical uncertainty.

But despite these headwinds, we remain convinced that AI innovation will be a key driver of long-term equity performance. Underlying demand for

AI chips is not in question and we see any potential short-term earnings blips more to do with the restrictions imposed by Washington rather than softening demand.

Takeaway: Without taking any single stock views, we believe the secular growth in AI will continue, but we favor a more balanced exposure between semis and software stocks in the near term to navigate volatility. Investors can also consider structured strategies for more defensive positioning.

Bonds should benefit from Fed cuts later this year

The latest Fed minutes pointed to continued concern over the impact of tariffs on price stability, and "almost all participants commented on the risk that inflation could prove to be more persistent than expected." Participants acknowledged the risk of difficult trade-offs between controlling inflation and maintaining growth. Markets largely ignored further signs of moderating price pressures in April, with the core personal consumption expenditures index rising by a monthly 0.1%, since the data has yet to reflect the impact of higher tariffs. Weaker visibility in the economic data has made policy planning more complicated for the Fed.

Despite these headwinds, we still expect the Fed to begin easing later this year. As growth moderates, we believe the central bank will remain focused on its dual mandate of price stability and full employment. Data on Friday showed some signs that Americans are becoming more cautious. Consumer spending rose just 0.2% in April, from 0.7% in the prior month. A rise in the personal savings rate climbed to its highest level in a year and suggests households may be bolstering their rainy day funds. It remains to be seen whether this trend will persist in coming months, given that the latest Conference Board survey indicated recovery in sentiment in May.

Takeaway: The mood in bond markets improved last week after a recent sell-off on rising concerns over the sustainability of government debt in many parts of the world. We believe policymakers will seek to head off instability in fixed income markets. With Fed cuts likely to resume later in the year, we still like quality bonds as part of a broader strategy of seeking durable income. Our base case is for the 10-year Treasury yield to end the year at 4%, from 4.43% at the time of writing.

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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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