UBS

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Investment Research

What to watch in the week ahead

Weekly Global

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Will the upcoming tariff deadline reignite trade tensions?

US stocks reached new record highs last week, supported by the surprising resilience of the US economy, the approval of an expansionary fiscal package, and continued confidence that the worst of the trade war may be behind us (for more, read our HV Daily: Tech stocks have more to go despite all-time highs). However, optimism over the trade outlook faces a key test as the White House's 90-day pause on "reciprocal" tariffs—primarily targeting countries with large goods trade surpluses with the US—expires on Tuesday (for more, read our HV Daily: Markets count down to tariff deadline).

While a trade deal was reached with Vietnam last week, most recent agreements remain preliminary rather than comprehensive. With only a handful of such agreements concluded so far, President Trump said that the US would start dispatching letters to trading partners outlining the level of tariffs they will face ranging from "maybe 60% to 70%" to "10% and 20%." Investors will be hoping that this latest threat is a negotiating tactic and that the White House will not end up implementing such elevated levies.

Our base case remains that cooler heads will prevail on trade, especially given the recent record of President Trump in shifting toward a more moderate position. If the US effective tariff rate settles around 15%, as we expect, this should allow investors to maintain their focus on US economic strength and the positive outlook for AI. That said, with uncertainty over trade likely to persist, even after this week, our view is that the rise in stocks that we project over the coming year is unlikely to be smooth. To manage this risk, we recommend phasing into equities by gradually increasing exposure to diversified global equities or balanced portfolios to position for stronger returns in the years ahead.

How will bond investors assess the impact of OBBBA?

President Trump has overcome significant concerns within the Republican Party that the One Big Beautiful Bill Act (OBBBA) would cause further deterioration of public finances. Worries about US fiscal sustainability also caused a sell off in US Treasuries in May when an earlier version of the bill passed the US House of Representatives (for more, read our HV Daily: Republicans push through Trump's One Big Beautiful Bill). Anxiety among bond investors has since calmed with 10-year and 30-year Treasury yields now 25 and 23 basis points below their May peaks, respectively. However, the Committee for a Responsible Federal Budget estimates the bill could add USD 4.1 trillion to the deficit over the next decade—or USD 5.5 trillion if all

Explore more about US trade and the equity outlook

- Tune into our latest Across the Pond episode for insights on global AI investment opportunities beyond the US with CIO equity strategist Sundeep Gantori.
- Tune into Five things to watch in the second half, with CIO's Kiran Ganesh to know more about key market themes that will shape investment outcomes in the second half of 2025.
- Watch our latest CIO mid-year checklist – your next equity moves with Crystal Zhao to know more about equity views in the current environment.
- Read the Global risk radar: The end of the "reciprocal" tariff pause to know more about the implications of the tariff pause ending.

Explore more about the US fiscal outlook

- Listen to our Monday Jump Start for insights on the upcoming tariff deadline, the impact of the OBBBA, and the resilience of the labor market.
- Tune into CIO mid-year checklist – credit strategies for the second half with Timothy Tay to know more about credit opportunities amid fiscal policy changes.
- Read the Blog: Republicans pass the OBBB to know more about the fiscal implications of the One Big Beautiful Bill Act.

Explore more about the Fed

tax cuts are made permanent. As these developments settle in, investors will be alert for renewed signs of strain in the US Treasury market, this week and beyond.

Our view is that while the US fiscal outlook still requires careful monitoring, the fundamentals for the Treasury market remain solid. US debt remains sustainable, supported by the dollar's perceived safe-haven status, deep and liquid markets, and policymakers'—especially the Fed's—commitment to addressing market disruptions. We expect bond yields to trend lower over the remainder of the year as the Fed resumes its easing cycle, with a total of around 100 basis points in rate cuts anticipated, beginning in September (for more, read our HV Daily: Bond yields should continue to decline despite fiscal concerns). Against this backdrop, we favor high-quality investment grade bonds in the intermediate part of the yield curve, which we believe offer attractive risk-return profiles and the chance to lock in compelling yields.

Could labor market resilience further delay Fed rate cuts?

Fears that uncertainty over tariffs would cause companies to cut back on hiring have so far proved unfounded, as last week's jobs data illustrated. Not only did job growth beat expectations for June, the unemployment rate also unexpectedly edged down from 4.2% to 4.1%. This reminder of US economic resilience was positive for US equities. But it also led investors to scale back expectations for the timing of Fed rate cuts. While there are few scheduled Fed appearances this week, investors will be watching for comments from San Francisco Fed President Mary Daly for insights into policymakers' latest views on the US economy. The minutes from the Fed's last meeting may also offer clues.

Overall, we expect the Fed to wait for further signs of labor market cooling before moving to cut rates—especially as the full impact of higher tariffs has yet to appear in inflation data. That said, our base case is that evidence of a cooling labor market will pave the way for rate cuts starting in September, with further easing likely over the next 12 months. In this lower rate environment, we recommend reducing excess cash and allocating to diversified portfolios, fixed income, or equity income strategies to enhance long-term returns and income potential.

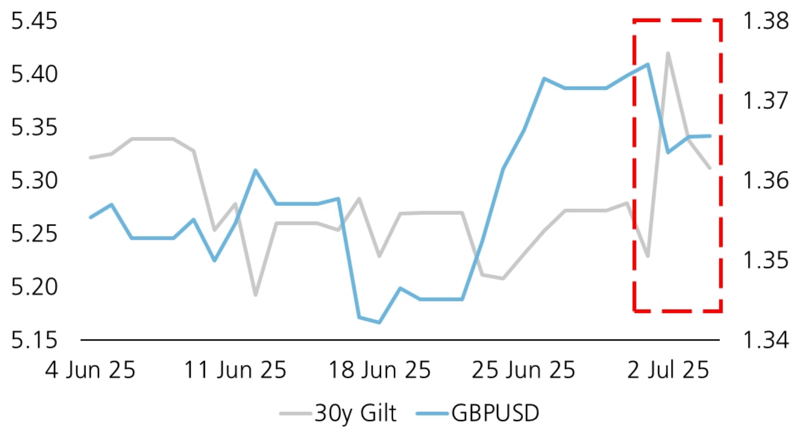
- Read the Blog: Mixed labor report leaves Fed on hold for commentary on how labor data is influencing Fed policy.
- Check out the Blog: Is AI undermining labor market intelligence? for a perspective on the impact of AI on labor market analysis.

Chart of the week

UK PM Starmer pledged not to relax his government's borrowing targets and backed Chancellor Reeves in response to a sharp rise in gilt yields. This followed the government abandoning a planned GBP 5 billion of cuts to welfare spending, which brought the UK's ongoing fiscal challenges back in focus. Despite the latest bout of volatility, we believe gilts can move lower, especially given our view that the Bank of England will cut rates at least two more times this year.

Gilts and GBP sold off, but recovered partially

30-year gilt yield (%) and GBPUSD spot



Source: Bloomberg, UBS, as of July 2025

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In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

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Appendix

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