

# Macro Monthly

Economic insights and asset class views

UBS Asset Management | April 2025

For global professional / qualified / institutional clients and investors



**Evan Brown**  
Head of Multi-Asset Strategy  
Active Multi-Asset

## Making diversification great again

### Highlights

- Trade policy uncertainty is likely to stick well beyond Trump's April 2 tariff announcements
- While the market environment has gotten trickier, the benefits of diversification have grown as cross-asset and regional correlations have declined
- Our base case is for economic resilience, but we hedge our equity exposure with overweights to bonds and gold which we believe is a good hedge against adverse outcomes
- Falling regional equity correlations should encourage a broadening of ex-US exposure which may improve risk-adjusted returns over time
- The US dollar is becoming a less dependable safe haven, given large unhedged foreign holdings of US equities and US policy uncertainty



**Meena Bassily**  
Director  
Active Multi-Asset

### Uncertainty is not going away

President Trump has designated April 2 for unveiling a series of tariffs on trade partners, referring to it as America's 'Liberation Day.' But businesses and investors won't be liberated from trade policy uncertainty. There will likely be many unanswered questions: To what extent will tariffs be permanent or negotiable, and how will that vary by country? What is the anticipated end state of tariffs? Will other countries respond with concessions, retaliation, or both? Will Trump counter-retaliate?

Even with perfect foresight on tariffs, it is difficult to model their potential effects on an economy. To what extent will businesses pass through higher costs to consumers vs. absorbing higher costs into their margins? How does prolonged policy uncertainty weigh on hiring and investment decisions? How will countries respond with fiscal policy? Indeed, Trump's changing strategy on the Russia-Ukraine war prompted a generational shift in German fiscal policy, helping to drive strong outperformance of European equities despite expectations for tariffs.

One thing we can say for sure: the distribution of possible outcomes across the world has widened. This creates opportunity as well as a need for conscious risk management.

We view the foundation of the US and global economy as solid, with still healthy private sector balance sheets in the aggregate. But the global economy will undergo a stress test in coming months, and we have reduced risk in portfolios accordingly. Our overweights in duration and gold continue to provide diversification, and here we stress the ongoing importance of hedging portfolios through balanced exposure across asset classes and regions.

**Bonds and gold as diversifiers**

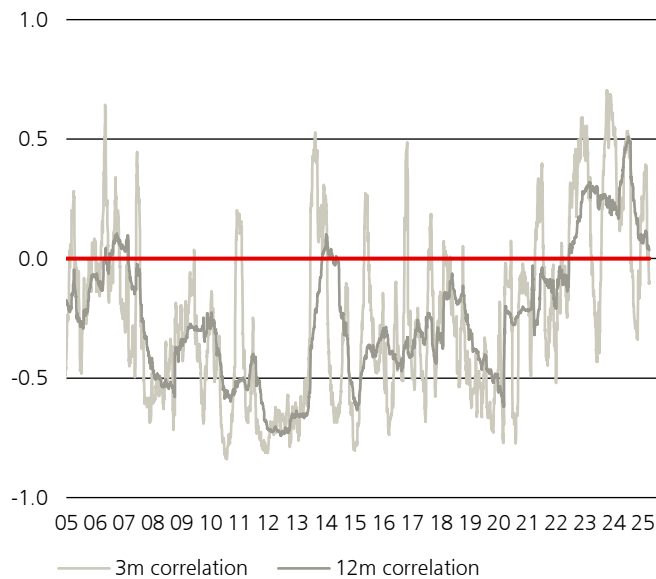
In January we bought US Treasuries, arguing that US growth expectations were likely too optimistic given underlying cooling in the economy and a policy mix that was likely to be more nuanced than at the beginning of Trump’s first term. Like many investors, we have been surprised at the scale of Trump’s tariff escalation. This tariff escalation has made owning bonds more controversial – tariffs are ultimately a supply shock, putting downward pressure on growth but also raising inflation. Does owning duration make sense given that higher prices may make the Federal Reserve (Fed) more reluctant to cut rates.

Our view is yes. While higher prices may lead the Fed to delay easing for a couple of meetings, we think any delay in easing – due to large scale tariffs – will prompt the rates market to price in a need for further rate cuts later on. Tariff hikes are one-off rises in the price level and will weigh on real incomes. A slowdown in consumption can soften the labor market and create slack in the economy, ultimately bringing inflation lower. Encouragingly Fed Chair Powell appears to believe in this view, noting tariffs represent ‘one-time’ increases in the price level that the Fed could ‘look through.’

Most importantly, we believe the behavior of the rates market suggests it is embracing this take. The stock-bond correlation has shifted more negatively of late. While tariffs have boosted market-implied one-year inflation expectations, bonds have typically rallied on days where the market sells off due to tariff fears. It is understandable for investors to be wary of bonds given the generally positive stock-bond correlation seen over recent years, but downside growth risks have risen enough to shift it back into negative territory (Exhibit 1).

**Exhibit 1: The equity-bond correlation is declining as growth risks increase**

S&P 500 vs. US Treasury, correlation

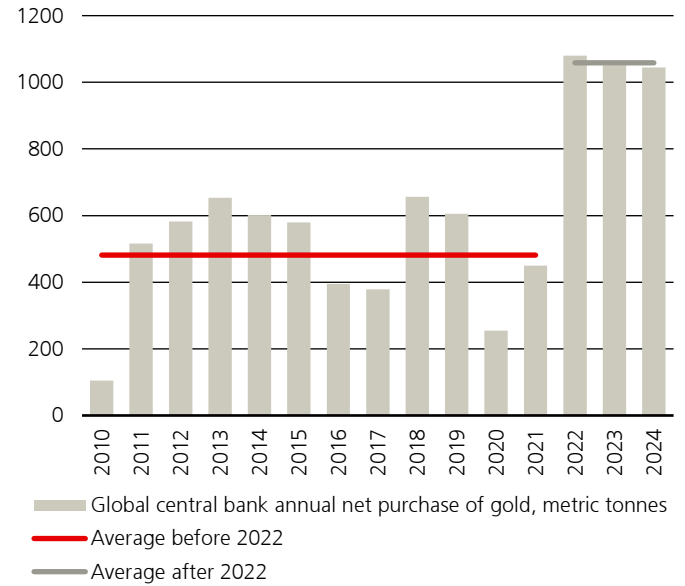


Source: UBS Asset Management, Macrobond. Data as of March 2025.

That said, we acknowledge (as has Chair Powell) that in a scenario where longer-term inflation expectations become unanchored, the Fed may be forced into a more hawkish

position. In an environment where the stock-bond correlation shifts higher again due to sustained inflation fears, we believe gold will continue to prove a useful diversifying asset. Gold has been driven higher in part because of steady emerging market central bank accumulation in the aftermath of Western sanctions on Russian FX reserve holdings. This structural support alone is a powerful reason to hold the yellow metal; but more tactically, gold tends to hold up well in periods of low growth and high inflation.

**Exhibit 2: Gold demand from reserve managers remains strong**



Source: UBS Asset Management, Bloomberg. Data as of March 2025.

**The curious case of the US dollar**

Just as we monitor and project shifting correlations that may improve diversification, we also must be prudent on assets that may be losing diversifying properties. The USD was widely expected to strengthen in response to more aggressive trade policy. This view was based on the idea that tariffs would disproportionately hurt countries more dependent on trade than the US.

This thesis has been proven wrong so far this year, with the dollar index down four percent. We see a few reasons for this.

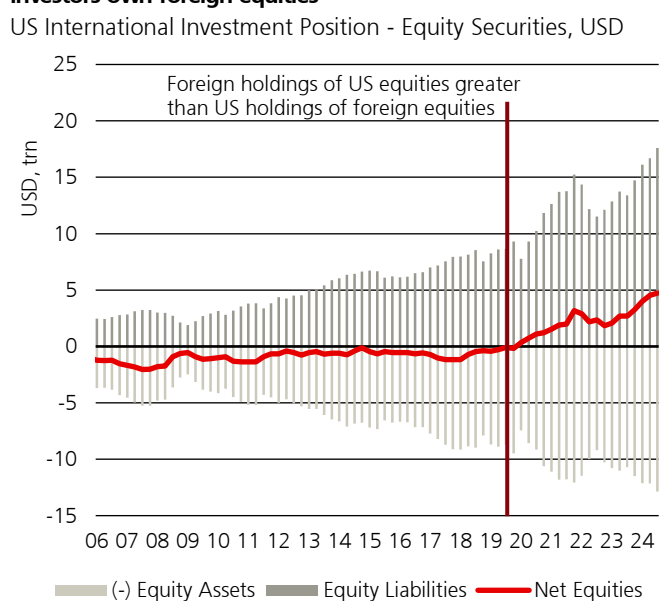
First, broad policy uncertainty (related to reduction in federal spending, slower immigration and tariffs), as well as a scale back in tax cut expectations, led to a widespread downgrading of US growth forecasts. Moreover, the Trump administration’s focus on Canada and Mexico was ultimately viewed as more costly for the US economy given tight interlinkages in supply chains. Second, China has been reluctant to let its currency weaken despite a 20 percent increase in US tariffs, preferring to maintain stability and focus on domestic stimulus. Third, the aforementioned German fiscal response bolstered European rates, supporting the euro. And finally, weakness in US tech, due in part to more scrutiny on the sustainability of and return on capex spending, led to a broader shift in capital flows outside the US and into other regions.

We think the USD’s sudden positive correlation with US risk assets is an important development. Historically, US investors have held more ex-US equities than foreign investors have held

in US equities. But this has changed in the last few years, as growing US exceptionalism led to a large build up in largely FX unhedged exposures to US equity from foreign investors. Foreign investors retained a natural diversification in holding US equities unhedged, as typically the USD would strengthen when US equities sold off, limiting the damage.

However, the recent experience of USD equities and the USD selling off at the same time may prompt foreign investors to increase hedge ratios on their risky assets, which could weigh on the USD in future. The correlation breakdown may also signal weaker safe-haven properties of USD in further US equity sell-offs.

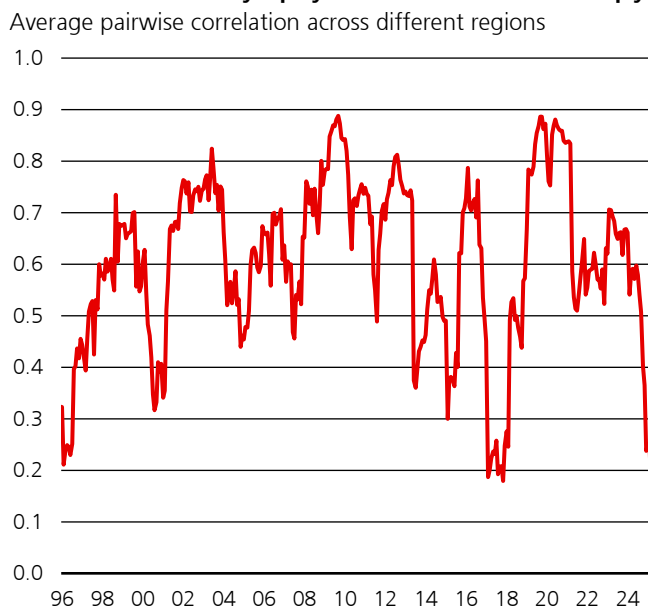
**Exhibit 3: Ex-US investors now own more US equities than US investors own foreign equities**



Source: UBS Asset Management, Bloomberg, Macrobond. Data as of July 2024.

Last month, we explored the benefits of less US-centric regional exposure ([American 'Un'-exceptionalism?](#)), and there has indeed been a dramatic shift in regional leadership year-to-date. Idiosyncratic stories like Germany's fiscal response and the DeepSeek surprise have triggered a rotation of flows from US tech into Europe and China respectively. Dramatic shifts in regional policy have accelerated the decline in correlations across equity regions.

**Exhibit 4: Cross-country equity correlations have fallen sharply**



Source: UBS Asset Management, Bloomberg. Data as of March 2025.

This is important, because it enhances the benefits of diversification in reducing the overall volatility of equity and multi-asset portfolios. Suppose that the American 'Unexceptionalism' theme has become too stretched tactically, and US equities resume their outperformance trend for the rest of the year. While a more globally balanced equity portfolio might underperform one heavily concentrated in the US, low correlations could mean that the overall risk-adjusted returns would potentially be higher than a concentrated US portfolio, likely resulting in lower overall portfolio volatility.

Of course, in the case of a recession regional equity correlations would be expected to rise. But were that to happen, the case for adding exposure to bonds and gold would help the portfolio weather the storm.

























**Asset allocation**

The investment environment has become trickier due to sharp changes in policy, largely (but not only) driven by the Trump administration. At the same time, the benefits of diversification have increased, with correlations breaking down across assets and regions.

With a base case of economic resiliency, we maintain a modest overweight to equities and keep overweight positions in duration and gold for diversification against different economic outcomes. Regionally, we favor a balanced approach, combining quality (predominantly US) equities with right tail opportunities in European banks and Chinese tech. As the USD's safe haven properties have weakened, we have reduced exposure and maintain JPY longs which should outperform should the economic outlook deteriorate.

## Asset class views

The chart below shows the views of our Asset Allocation team on overall asset class attractiveness as of 31 March 2025. The colored circles provide our overall signal for global equities, rates, and credit. The rest of the ratings pertain to the relative attractiveness of certain regions within the asset classes of equities, bonds, credit and currencies. Because the Asset Class Views table does not include all asset classes, the net overall signal may be somewhat negative or positive.

	Underweight	Neutral	Overweight	
				
<b>Global Equities</b>				Global equities still have support by resilient economic growth and improving earnings outside of the US, but policy developments warrant risk reduction. Tariff uncertainty represents the largest risk to economic growth and equity valuations.
US				US equities continue to have upside on healthy earnings growth. However, high concentration and increased policy uncertainty are downside risks.
Europe				European growth has shown signs of stabilizing while earnings revisions have turned higher from a low level. Fiscal turnaround a game changer long term but near-term tariffs represent a key risk to this trade-dependent region and market.
Japan				Solid earnings and higher nominal growth may be offset by BoJ tightening and JPY strength.
Emerging Markets				China tech has seen a strong revival helped by AI advancements and signs of more political support for the sector. Still, we see challenges for broader Chinese markets given subdued growth.
<b>Global Government Bonds</b>				We expect cooling US growth will allow further Fed easing later this year, despite one-off price hikes due to tariffs. Outside the US, we continue to think inflation will decelerate this year, supporting continued easing by central banks (ex Japan). Duration remains an important hedge for downside growth surprises.
US Treasuries				US duration has been helped by a downward shift in the economic outlook amid slowing immigration, DOGE cuts and tariff uncertainty. US Treasuries offer an important downside hedge to risk assets, though other regions are more attractive.
Bunds				Multi-year fiscal stimulus supports a steep German yield curve. The ECB is set to ease further from here, but the fiscal support makes it less likely the central bank will move into active accommodation.
Gilts				Valuations have improved, and we think the government will avoid a disorderly widening of the deficit.
JGBs				Wages and underlying inflation are accelerating while we expect the BoJ to continue tightening policy.
Swiss				Valuations are historically expensive and the SNB is already priced to cut rates to near zero.
<b>Global Credit</b>				Credit spreads remain tight, but we still look for positive total returns in global high yield amid resilient growth. We see Asia HY offering the best carry opportunities.
Investment Grade Credit				Demand for credit remains strong as cash becomes less attractive. Still, valuations are expensive, and we expect returns to be primarily driven by carry and duration.
High Yield Credit				Decent credit quality and a resilient macro backdrop justify tight spreads, but compensation for downside risks is modest. Asia HY offers more attractive valuations and carry.
EMD Hard Currency				Many distressed EM issuers managed restructuring and important reforms in 2024, clearing the way for lower default risk. Valuations are relatively better than those of DM, but less attractive after a strong run.
<b>FX</b>				
USD				We are neutral on the USD as downside risks to US growth are offset by increased concerns on the impact of tariffs on the rest of the world. At the same time, any further rotation away from US equities may weaken the USD.
EUR				We are neutral as tariff risks offset an improving structural outlook that is supported by increased fiscal spending.
JPY				BoJ rate hikes, cheap valuations, and diversifying properties make us favor JPY vs. USD and CNH.
CHF				We are negative CHF as low rates make it an attractive funding currency.
EM FX				EM FX is caught between higher external volatility and signs of US slowdown. We remain underweight CNH on tariff risk.
<b>Commodities</b>				We remain constructive on gold, supported by steady central bank buying and ongoing policy uncertainty, while are neutral on oil due to rising supply and a mixed outlook for global growth, balanced against geopolitical risks.

Source: UBS Asset Management Investment Solutions Macro Asset Allocation Strategy team as of 31 March 2025. Views are provided on the basis of a 3-12 month investment horizon, are not necessarily reflective of actual portfolio positioning and are subject to change at any time without notice.

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