



CIO continues to like technology, utilities, and financials, and sees value in utilizing structured strategies to navigate near-term volatility. (UBS)

# US equities have room to grind higher as growth momentum continues

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**US President Donald Trump on Tuesday said 1 February is the date his administration is considering to levy a 10% punitive duty on Chinese imports owing to the flow of fentanyl from the country. He added that the European Union is “going to be in for tariffs” given the region’s USD 350bn trade surplus with the US.**

The latest threats came after Trump said on his first day of taking office that he intended to hit Canada and Mexico with 25% tariffs over fentanyl and immigration issues starting next month.

We continue to expect near-term volatility as markets react to incoming Trump headlines, and see a negative impact on targeted regions if the proposed tariffs are implemented. But we also believe US equities have room to grind higher as growth momentum continues.

**Ongoing investment in artificial intelligence (AI) should continue to boost growth in the coming years.** Along with the tariff plans against China and the EU, Trump on Tuesday also announced a private sector investment of up to USD 500bn to fund AI infrastructure, led by a joint venture between OpenAI, SoftBank, and Oracle called Stargate. Softbank’s Masayoshi Son said the venture will deploy USD 100bn “immediately,” and Oracle Chairman Larry Ellison said the first of the project’s data centers are already under construction in Texas. We view the latest announcement as another positive catalyst to the AI growth story.

**The current earnings season should set a positive tone to corporate profits.** Several big tech companies are scheduled to release their fourth quarter results next week, and we believe further upward revisions in their capital spending are likely. We also expect a narrowing gap between AI revenue and capex to drive big tech's 25% earnings growth for the December 2024 quarter. More broadly, we anticipate 7-9% earnings growth for the S&P 500 for the three months to December, supported by resilient economic growth. For 2025, we forecast a healthy 9% earnings growth to drive the S&P 500 to 6,600 by year-end.

**The US economy is expanding while the Federal Reserve is easing.** The yield on the 10-year US Treasury has fallen over 20 basis points since inflation data last week came out tamer than expected. In our base case, Trump's tariff measures should not prevent inflation from moderating further. We therefore expect the 10-year yields to come down toward 4% this year as the Federal Reserve reduces policy rates by another 50 basis points. Historically, Fed rate cuts in non-recessionary periods have been favorable for equities overall.

So while we continue to watch the new administration's next moves closely, investor should not lose sight of the fundamentals that remain favorable for US equities. Without taking any single-name views, we continue to like technology, utilities, and financials, and see value in utilizing structured strategies to navigate near-term volatility.

Original report: [US equities have room to rally despite volatility, 22 January 2025.](#)

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