



Markets are likely to remain volatile in the near term as investors navigate policy and economic uncertainty, but CIO believes the outlook for US stocks is appealing. (UBS)

High volatility has historically been followed by higher-than-normal returns

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Equity volatility is likely to remain elevated in the coming weeks as markets assess the latest tariff news and the implications for growth, inflation, and monetary policy.

CIO believes the outlook is positive for US stocks, supported by likely tariff moderation, Federal Reserve rate cuts, and structural growth themes. We expect the S&P 500 to reach 5,800 by year-end in our base case.

Equities have been volatile amid shifting tariff policies.

- The S&P 500 fell by around 12% in the four sessions after President Trump announced “reciprocal” tariffs on 2 April.
- Since “reciprocal” tariffs on most trading partners were paused, the S&P 500 has rebounded by around 5% as of 17 April. However, the index is still down 10% year to date.
- The VIX index of implied US equity volatility spiked to 60 on 8 April, well above its long-term average of around 20.

Near-term volatility is likely to remain elevated, but we believe the outlook is positive for US stocks.

- President Trump's policy shift has reduced extreme economic and market tail risks, in our view. We expect the Fed to cut rates by 75-100bps in 2025 to support growth.
- We believe incremental news flow is likely to improve as tariff "deals" are negotiated. Progress on negotiations should provide encouragement for investors to look through near-term tariff-induced economic weakness and toward a return to S&P 500 earnings growth in 2026.
- In our base case, we forecast the S&P 500 reaching 5,800 by year-end.

Investors can consider strategies to manage, utilize, or look through volatility.

- We view US equities as Attractive.
- Investors can use volatility to build long-term exposure to structural growth themes (like AI, power and resources, and longevity).
- Investors looking to manage near-term volatility can hedge downside risks through capital preservation strategies.

Did you know?

- Since 1990, when the VIX index was launched, the S&P 500 has delivered 9.3% returns on average over a 12-month period.
- High volatility has historically been followed by higher-than-normal returns. While each case is different, levels of the VIX above 40 have historically been followed on average by 30% one-year returns on the S&P 500, with a 95% chance of a gain.
- The S&P 500's 9.5% rally on 9 April was the largest one-day rise since 2008. Since 1950, there have been 13 previous one-day rallies of 6% or more; subsequent one-year returns have all been positive with gains ranging from 10-63%.

Investment view

Volatility is likely to remain elevated in the coming weeks, but we believe the medium-term outlook is positive for US stocks as tariffs moderate, the Fed likely cuts rates, and focus begins to shift toward the prospect of positive earnings growth in 2026. We continue to like structural growth themes (including AI, power and resources, and longevity). In Europe, we see thematic opportunities (see "Six ways to invest in Europe"). In Asia, we like Taiwan for its structural growth opportunities and favor defensive strategies centered on state-owned enterprises in mainland China.

Original report: [What's next for equities?, 21 April 2025.](#)

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