



(UBS)

Favorable fundamental picture should underpin further stock gains

10 February 2025, 2:08 pm CET, written by UBS Editorial Team US Editorial Team

Investors are starting the week in a cautious mood, expecting more headlines on tariffs alongside a slower pace of Federal Reserve easing.

Over the weekend, US President Donald Trump said he will soon announce tariffs on all imports of steel and aluminum as well as reciprocal tariffs on countries that tax US goods.

Nonfarm payrolls in January came in below consensus estimates, but a lower unemployment rate and the strong upward revisions to November and December's job growth suggested the labor market remains solid. Higher wage growth also stoked inflationary concerns, with consumers polled by the University of Michigan expecting prices to rise at an annual rate of 4.3% over the next year, a full percentage point higher from their expectations a month ago.

The inflation prints for January due later this week should provide additional hard data on the price trends, while tariff-related news is likely to be another source of market volatility. But we continue to see a favorable fundamental picture that should underpin further stock gains.

Corporate profits have been resilient. Companies that represent 75% of the S&P 500 market capitalization have reported their fourth-quarter earnings, with 60% beating sales estimates and 75% beating earnings forecasts. Encouragingly, profits are on track to increase 10% year over year in the three-month period, slightly ahead of our initial 7-9% expectations. While guidance is a touch softer compared with normal seasonal patterns due to headwinds from

the stronger dollar, consumer spending continues to be healthy. We maintain our 2025 earnings growth forecast of 9%, which should be the primary driver of equity market gains this year.

Upcoming data should allow the Fed to resume cutting rates later this year. The risk of an abrupt weakening of the labor market appears to have diminished in recent months, and core inflation has stayed well above the Fed's 2% target. But our base case remains that US economic conditions should soften somewhat this year, and that inflation should slow further in the months to come. Recent rises in rents as measured in the consumer price index have moderated on a sustained basis, adding to our confidence that annual shelter inflation will continue to decelerate. We expect the US central bank to make two more 25-basis-point rate cuts this year, likely starting in June.

Signs suggest some of Trump's planned tariffs are likely part of a negotiating strategy. Given the political costs of elevated inflation, we continue to believe that the Trump's administration will not want to jeopardize US economic growth or risk higher inflation through broad and sustained universal tariffs. While we have highlighted that investors should prepare for the White House to pursue aggressive tariffs, there are signs that certain tariff threats are utilized as a negotiation approach. We expect Trump's team to carefully calibrate the administration's economic and political priorities, and our base case is still for a healthy GDP expansion, despite moderation from the current level.

We see the S&P 500 rising to 6,600 by the end of the year, although the journey up is likely to be accompanied by heightened volatility. Portfolio diversification and hedging approaches are key, and we think capital preservation strategies can help manage drawdown risks in equities.

Original report: [Markets brace for volatility amid tariff, data uncertainty, 10 February 2025.](#)

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