



(Shutterstock)

Wait for dips to buy into medium-term positives

20 March 2025, 4:12 pm CET, written by UBS Editorial Team

Markets enjoyed a revival in optimism at the end of last week, with the VIX falling sharply and the S&P 500 ending a negative week strongly. Investors should remember that we might be on the cusp of an intensification of tariff tensions, which could lead to a rise in volatility and risk aversion. For now, investors should stay invested but focus on geographical areas and sectors that might be better able to withstand the impact of tariffs.

After around three weeks of bearishness, markets enjoyed a reprieve at the end of last week and on Monday. The VIX, after having risen from under 15 to an intraday high a little below 30, ended the week under 22. The S&P 500, meanwhile, seemed to bottom out after falling 8.6% over the 13 sessions to Monday, before ending the week up slightly after a strong 2.1% rise on Friday. This apparent bottoming out in sentiment came against the backdrop of a partial de-escalation in US-Canada trade tensions, progress toward a ceasefire in Ukraine, and the US averting a government shutdown. Because we expect the tariff uncertainty to stabilize and ebb over the coming months, should investors look to add exposure to risk assets in this rally?

The renewed volatility in markets on Tuesday serves as a reminder that confidence among investors remains fragile. Notwithstanding the likely upward trajectory over the medium term, investors can afford to be patient in the near term given the risk of volatility from additional tariffs in April. The episodic recoveries in risk appetite serve as reminders of the structural, medium-term positives that can come to the fore should the fog of the trade war dissipate. Additionally, the prospect of "policy puts" might also serve to limit the lasting impact of the trade war. We have of late adjusted our house view in preparation to buy the dips that might emerge over the coming quarter.

Narrower focus for equities. While we have raised the probability assigned to our downside scenario (of stagflation or a cyclical downturn) from 20% to 30%, our base case (at 50% probability) remains for aggressive tariff policy that still leaves the effective tariff rate for US imports below 10%, with rhetoric and action on government spending cuts cooling by 3Q25.

This in turn argues for a maintenance of global equities as Attractive, in addition to US equities, which we think will continue to rise through the year (end-2025 S&P 500 target of 6,600) on the back of robust economic momentum and AI-related investment spending. However, the rising tariff risks, especially for Asia and Europe, warrant a removal of the Attractive label from Asia ex-Japan (MXASJ) for the time being. Despite downgrading Asia ex-Japan, however, Taiwan and India remain as markets we consider Attractive given their respective strengths of exposure to the AI theme and robust domestic demand.

Focus on sectors less vulnerable to tariffs. Although the post-election rise in German equities (DAX) has led us to rescind our tactical recommendation to invest in it via structured solutions, we have nonetheless sought to maintain exposure to the improved economic and investment climate in Europe. We have opted to do this via a preference for segments within European equities that are relatively insulated against the threat of trade tariffs, offer exposure to structural growth trends, and can benefit from European monetary and fiscal support. This supports our sector preferences for industrials, IT, utilities, health care, and real estate.

Another driver is the likely rise in security investment beyond the current levels of around 2% of GDP, after years of underspending before the Ukraine war. Infrastructure and materials companies in Europe could benefit from investments in housing, transport, and energy, in our view. Additionally, a ceasefire and eventual peace deal in Ukraine could lead to lower energy costs—we believe a 50% fall in gas prices could boost European corporate earnings by 2% and raise European GDP growth by 50bps. Beneficiaries from this scenario would likely include the industrials, chemicals, and automotive sectors in Europe.

Wait for dips to buy EURUSD. The pair has been a clear beneficiary of the optimism from expectations of a wind-down in hostilities in Ukraine. The EURUSD rose 5.5% to a high of just under 1.0950 in the first seven sessions in March and was hovering around 1.08-09 through the latter half of the week. Both EURUSD sentiment and fundamental outlook have improved, so the currency pair is likely to be more resilient. We have therefore reduced the expected size of the potential tariffs-related dip in the EURUSD in 2Q25 to 1.06 from 1.02 previously. However, we advise against chasing the EURUSD rally, as the ongoing tariff risks means a material pullback is still very possible. Further out, we expect much of the actual increase in Germany's fiscal spending, and the consequent improvement in European economic data, to come in 2H25. We therefore raise our 1Q26 expectation for the EURUSD to 1.12 from 1.07; we see the EURUSD trading in a 1.05-1.12 range and look to buy the EUR on dips.

Disclaimer

This document is prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland), its subsidiaries or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. In the USA, UBS Financial Services Inc. is a subsidiary of UBS AG and a member of FINRA/SIPC. Additional Disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.

This document and the information contained herein are provided solely for your information and UBS marketing purposes. Nothing in this document constitutes investment research, investment advice, a sales prospectus, or an offer or solicitation to engage in any investment activities. This document is not a recommendation to buy or sell any security, investment instrument, or product, and does not recommend any specific investment program or service.

Information contained in this document has not been tailored to the specific investment objectives, personal and financial circumstances, or particular needs of any individual client. Certain investments referred to in this document may not be suitable or appropriate for all investors. In addition, certain services and products referred to in the document may be subject to legal restrictions and/or license or permission requirements and cannot therefore be offered worldwide on an unrestricted basis. No offer of any product will be made in any jurisdiction in which the offer, solicitation, or sale is not permitted, or to any person to whom it is unlawful to make such offer, solicitation, or sale.

Although all information and opinions expressed in this document were obtained in good faith from sources believed to be reliable, no representation or warranty, express or implied, is made as to the document's accuracy, sufficiency, completeness or reliability. All information and opinions expressed in this document are subject to change without notice and may differ from opinions expressed by other business areas or divisions of UBS Group. UBS is under no obligation to update or keep current the information contained herein. **The views and opinions expressed in this material by third parties are not those of UBS.**

Accordingly, UBS does not accept any liability over the content shared by third parties or any claims, losses or damages arising from the use or reliance of all or any part thereof.

All pictures or images ("images") herein are for illustrative, informative or documentary purposes only and may depict objects or elements which are protected by third party copyright, trademarks and other intellectual property rights. Unless expressly stated, no relationship, association, sponsorship or endorsement is suggested or implied between UBS and these third parties.

Any charts and scenarios contained in the document are for illustrative purposes only. Some charts and/or performance figures may not be based on complete 12-month periods which may reduce their comparability and significance. Historical performance is no guarantee for, and is not an indication of future performance.

Nothing in this document constitutes legal or tax advice. UBS and its employees do not provide legal or tax advice. This document may not be redistributed or reproduced in whole or in part without the prior written permission of UBS. To the extent permitted by the law, neither UBS, nor any of its directors, officers, employees or agents accepts or assumes any liability, responsibility or duty of care for any consequences, including any loss or damage, of you or anyone else acting, or refraining to act, in reliance on the information contained in this document or for any decision based on it.

Additional Disclaimer relevant to Credit Suisse Wealth Management: Except as otherwise specified herein and/or depending on the local entity from which you are receiving this document, this document is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website <https://www.credit-suisse.com>. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.

Please visit <https://www.ubs.com/global/en/wealth-management/insights/chief-investment-office/marketing-material-disclaimer.html> to read the full legal disclaimer applicable to this document.

© UBS 2025. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.