Uncertainty remains elevated and economic data will likely weaken in the coming months, meaning further bouts of volatility are likely. (UBS)

CIO maintains view that S&P 500 will end the year higher than its current level

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US stocks have recouped all losses since President Donald Trump's "reciprocal" tariff announcement, with the latest nine-day rally bringing the S&P 500 index 0.3% higher than where it stood on 2 April.

Better-than-feared first-quarter earnings and progress on tariff negotiations were key drivers of the recent equity strength, while Friday's solid US labor report eased investor worries over an immediate recession.

CIO believes these factors should continue to support US equities, and maintains its view that the S&P 500 will end the year higher than its current level.

First-quarter corporate profits have been better than we expected. Companies representing over 75% of the S&P 500 market capitalization have reported their first-quarter earnings, and corporate profits are likely to grow by 9% for the first three months of the year—better than our initial expectations of around 5%. Nearly 60% of the companies are beating sales estimates and 70% are beating earnings forecasts, only slightly softer than historical averages. Guidance has also been reasonably good, in our view. Last week's highlights include better-than-expected mega-cap tech earnings amid intact AI fundamentals, as well as "resilient" consumer spending, according to MasterCard and Visa. While we expect trends to weaken in the coming months once higher-priced tariffed goods start to hit shelves, we believe markets are likely to look through near-term economic weakness amid signs of progress on trade negotiations. We expect a return to earnings growth of 10% in 2026.

Ongoing tariff negotiations should lead to more positive headlines. On Sunday, Trump suggested that his administration could strike trade deals with some countries as soon as this week, as trade talks with India, Japan, and South Korea appeared to be making progress. In a television interview aired over the weekend, he also signaled a willingness to lower tariffs on China at some point, following comments from Beijing last week that its doors are open for discussions. While uncertainty remains elevated, we believe tariff extremes have likely peaked. We expect a variety of deals or sector carve-outs to materialize before the 90-day pause period ends in July, with the effective US tariff likely settling closer to 15% by year-end.

Recent labor data points to near-term resilience amid a weakening trend. Friday's US labor report showed an increase of 177,000 jobs in April, above market consensus but lower than a downwardly revised 185,000 in March. While the unemployment rate was unchanged at 4.2%, average hourly earnings growth was relatively soft at 0.2%. The report is in line with other recent jobs data, which includes falling job openings and higher initial jobless claims, suggesting a still healthy job market that is showing some signs of weakness. We think this will allow the Federal Reserve to resume easing in the second half of the year, cutting interest rates by 75-100 basis points this year to support US economic activity. We expect the US economy to avoid a full-blown recession, though growth is likely to slow this year.

Still, uncertainty remains elevated and economic data will likely weaken in the coming months, meaning further bouts of volatility are likely. With investor positioning less depressed following the latest rally, there may be less fuel to propel stocks significantly higher in the near term. Phasing into the equity market can be an effective way to position for medium- and longer-term equity upside while managing timing risks, while capital preservation strategies can provide a way to manage near-term downside risks.

Original report: **US equities to see support amid volatility, 5 May 2025.**

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