(UBS)

Uncertainty and market volatility could persist as Trump’s policies take shape

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President-elect Donald Trump denied a recent newspaper report that said his aides were exploring tariff plans that would only cover critical imports, deepening uncertainty about future US trade policies. The US dollar pared declines against a basket of other currencies following Trump's statement.

A Trump presidency in the US, coupled with Republican control of Congress, has the potential to reshape the global economic and geopolitical landscape. Key policy areas in focus for investors include tariffs, fiscal policy, deregulation, monetary policy, and international relations. The resulting market volatility could create opportunities for investors to boost long-term returns.

Donald Trump is readying his second presidential term.

- Trump campaigned on a platform of extending personal income tax cuts, lower corporate taxes, deregulation, trade tariffs, immigration controls, and reassessing America’s role in global affairs.
- Since winning the election, Trump has threatened tariffs on China, Mexico, Canada, and the BRICS countries.

Yet, some policy measures could be constrained.

- With current large federal budget deficits, fiscal hawks in Congress might resist policies that further expand the deficit.

- Potential legal and congressional challenges mean the Trump administration is more likely to implement bilateral and selective tariffs, in our view.
- Although tariffs could temporarily increase inflation, we believe the Fed will continue its path of rate cuts toward achieving a neutral policy stance.

We see wide-ranging implications for global markets.

- We expect US equities to benefit from solid economic growth and AI advancements, while international markets could face greater headwinds from tariffs. Nevertheless, the world is better prepared today for trade tensions.
- US Treasury yields are likely to be volatile amid uncertainty over fiscal and trade policies. But with the Fed still on a rate-cutting path, we expect modestly lower yields by the end of 2025 (versus the current 10-year Treasury yield of 4.6%).
- Gold will likely remain an effective hedge against geopolitical tensions.

Investment view

The outlook for US equities remains positive amid US economic strength, AI optimism, and pro-growth US policies ahead. We expect the S&P 500 to reach 6,600 by the end of 2025. Investors can consider using structured strategies to navigate volatility. We believe gold remains an effective portfolio hedge amid geopolitical tensions.

Did you know?

- We expect the US tariff rate on all mainland Chinese goods to be hiked in stages to around 30% from 10% in effective terms by end-2026. Alongside this, product-specific tariffs could also be extended to certain other EMs with high US trade surpluses, such as Mexico, Vietnam, Taiwan, and maybe South Korea.
- Beijing's potential stimulus in response to tariffs could help mitigate the impact on mainland China, while US imports from markets like Taiwan and South Korea are not easily replaceable. In addition, most US sales by European companies are from goods and services made in the US.

For more, see **What will President Trump mean for markets?**, published 7 January, 2025.

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