



Portfolio diversification and hedging approaches are key, and CIO thinks capital preservation strategies can help manage drawdown risks in equities. (UBS)

More to go in stocks, as equity pullbacks provide a buying opportunity

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US stocks fell on Friday as weaker-than-expected economic data fueled concerns that business and consumer sentiment is deteriorating amid rising tariff uncertainty.

The headline S&P Global US purchasing managers' index composite output index for services and manufacturers showed that US business activity slowed to a 17-month low, with businesses citing concerns over tariffs, federal spending cuts, and geopolitical risks as reasons for their deteriorating outlook. The services index pointed to a contraction in activity for the first time in just over a year.

Additionally, according to the University of Michigan survey, US consumer sentiment dropped to a 15-month low in February. Inflation expectations jumped to 4.3% from 3.3% last month, the highest level since November 2023, as households brace for potential price hikes tied to new trade policies.

While volatility may persist, we expect more to go in stocks and view equity pullbacks as a buying opportunity.

Consumers are bracing for higher inflation, but price pressures should moderate. Concerns over potential tariffs driving up costs contributed to the shift in consumer sentiment; however, we expect tariffs to cause a one-off price shock rather than triggering sustained higher inflation over the medium term. And while inflation remains above the Federal Reserve's 2% target, shelter inflation has continued to moderate as reflected in January's consumer price index (CPI) data. With rising housing supply and slower rent growth in real-time data, we expect overall inflation to trend lower in the

months ahead, keeping the Fed on track for further easing in 2025. This should provide a tailwind for equities, particularly in rate-sensitive sectors.

While tariff risks remain, the outcome may be less disruptive. The S&P global business activity report highlighted how policy uncertainty is already weighing on corporate sentiment, with companies citing rising costs from tariffs and weaker sales tied to shifting trade policies. While this creates short-term pressure, recent developments suggest tariff threats are often used as leverage in negotiations rather than immediately implemented at full scale. Aside from the additional 10% tariffs imposed on Chinese imports earlier this month, most of President Trump's proposed tariffs have yet to be enacted. While investors should prepare for aggressive US trade policies, we don't think all tariff plans will be followed through, given the potential damage they may cause to US growth and inflation.

Robust earnings growth should underpin further gains in US stocks. We continue to believe that eventual US tariffs are likely to be targeted measures rather than blanket levies, given the White House's focus on growth and lower inflation. We therefore see room for the US equity rally to continue, supported by a resilient economy, healthy earnings, AI tailwinds, and monetary policy easing. Fourth-quarter results so far suggest corporate profits are on track to grow by around 10% for the three-month period, and we expect another 9% growth in earnings for 2025.

So, 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: [US equities fall amid economic uncertainty, 24 February 2025.](#)

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