



Markets are likely to be volatile in the near term as investors navigate US policy and economic uncertainty. (UBS)

# CIO reduces year-end target for the S&P 500 to 6,400

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**The Chief Investment Office (CIO) have been advising investors to brace for heightened market volatility in the weeks ahead.**

On 2 April, CIO expects the US to announce tariffs on most major trading partners and trigger a potential tit-for-tat cycle of escalation in the weeks thereafter. The situation appears fluid, with the WSJ on Sunday reporting “Trump has pushed his team to be more aggressive,” but that policy was not yet been agreed or set, and that a 20% tariff on virtually all US trading partners is under consideration.

The first-quarter US earnings season, starting in late April, is likely to be heavily focused on the potential direct and indirect effects of tariffs. Friday’s inflation and consumer sentiment data also demonstrate how economic data can contribute to volatility. However, CIO believes the news flow could become more supportive as we approach the second half of the year. Once tariffs are announced on 2 April, negotiations to soften them can begin. Progress toward a budget reconciliation bill could refocus attention on market-positive aspects of the Trump policy agenda. CIO also expects the Federal Reserve to cut interest rates in June if there are signs of labor market weakness.

Fed Chair Jerome Powell said recently that tariffs would likely only generate “transitory” price pressures, leaving the door open for further rate cuts in response to a slowing economy. CIO’s view is that the Fed will be willing to respond to any signs of weakness in the labor market with rate cuts, even if inflation remains somewhat above target. The Fed’s economic models should suggest that tariffs create risks to its full employment mandate.

With nonfarm payrolls continuing to rise, wages growing at a robust pace of around 4%, and layoffs still low, CIO sees a reasonable base of support for consumer spending. The personal savings rate also rebounded to 4.6% in February,

the highest level since June 2024, offering hope that spending will rise in line with income in the months ahead. CIO's base case calls for GDP growth to slow to around 2.0% in 2025, down from 2.8% last year but still around the long-term trend rate.

After considering the effects of tariffs and slower growth data so far in 2025, CIO now expects 6% S&P 500 earnings per share growth, and we have accordingly reduced our year-end target for the index to 6,400 (from 6,600). But this also means that there is still meaningful potential for broad US equity gains by year-end, according to CIO's view.

### How do we invest?

- *Take advantage of US volatility.* Markets are likely to be volatile in the near term as investors navigate US policy and economic uncertainty. But we expect news flow to become more positive toward the second half of the year. We think investors can use market swings to build long-term exposure. Investors should therefore consider taking advantage of market dips to buy into broad US equities and companies exposed to AI. Our analysis suggests that entering the US market after a 10% peak-to-trough decline has tended to yield higher returns compared to waiting for 15% or 20% drops, and we believe that investors should accelerate phasing in strategies at levels below 5,500 on the S&P 500.
- *Navigate political risks.* Tariff-related uncertainty and trade policy shifts reinforce the need for portfolio diversification and risk management. In equities, capital preservation strategies can help manage the risks of equity market declines. Investors should also ensure portfolios are well diversified with gold and alternatives assets like hedge funds.
- *Seek durable income.* With bond yields remaining high despite equity market volatility, we believe investors should seek durable portfolio income and optimize cash returns. High grade and investment grade bonds offer attractive risk-reward, in our view, and can help diversify portfolios against equity market volatility. We also like diversified fixed income strategies, including senior loans, private credit, and equity income strategies.

Original report: [Risk-off mood takes hold ahead of 2 April, 31 March 2025.](#)

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