



CIO continues to expect a range of trade agreements to be reached to sustain the tariff rate at roughly the level during the pause period, while ongoing uncertainty could trigger further bouts of market volatility. (UBS)

Ongoing tariff uncertainty could trigger further bouts of market volatility

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The S&P 500 index has edged back into positive territory for 2025 in recent days, having rebounded by more than 18% from its 2025 low on 8 April. The revival has largely reflected confidence that the most acute phase of the trade conflict is over, especially following news that the US and China would roll back tariffs for 90 days and continue talks to reach a permanent deal.

While we have been heartened by the positive news, which aligned with our base case, the outlook remains uncertain.

The US effective tariff rate remains significantly higher than it was at the start of the year. After the volatility from the sudden shift in tariffs, it is easy to lose sight of the fact that the US effective tariff rate—at around 15%—is now six times higher than the 2.5% rate that prevailed in January before US President Donald Trump returned to the White House. This is assuming that the rolled back tariffs during the 90-day pause can be maintained beyond the deadline. As the Trump administration has indicated that the 10% baseline tariff is unlikely to be negotiated lower, these higher tariffs could slow the US economy and push up prices.

Price pressures may increase in the coming months. While a benign April consumer price index release came as a relief for markets this week, the inflationary effects of the tariffs may become more apparent in the coming months. Many companies have built up inventories ahead of the policy changes earlier this year and have yet to pass on higher costs to consumers. As these stockpiles are drawn down, upward pressure on prices could resurface. Our base case is that one-

off price increases arising from higher tariffs should not lead to more sustained inflation, but the Federal Reserve has cautioned on the risk of stagflation.

Not all tariffs look to be headed lower. Given the progress in trade negotiations so far, we believe the range of potential outcomes for US tariffs from here is likely narrower than the moves that buffeted financial markets over the past several weeks. A growing number of legal challenges and the steady erosion in the president's job approval could prompt a further rollback of tariffs or limit their increase. Republican lawmakers could also fear that high tariffs may actually reduce tax revenues by slowing economic growth and diverting trade. Moreover, in the event of an escalating trade war, elected officials could come under pressure to provide fiscal support for industries harmed by retaliatory tariffs from other nations.

But despite these pressures to lower tariffs, the Trump administration is also preparing the groundwork for a more surgical increase in tariffs beginning this summer, following trade investigations into strategic industries like pharmaceuticals, critical minerals, lumber, copper, and semiconductors. We think the product tariffs are likely to be more durable and feature fewer carveouts and country exemptions because they are focused on strategic sectors. We estimate a 25% tariff on these sectors could raise the US effective tariff rate by an additional 4 percentage points.

So, while we continue to expect a range of trade agreements to be reached to sustain the tariff rate at roughly the level during the pause period, ongoing uncertainty could trigger further bouts of market volatility. Phasing into the market can be an effective way for underallocated investors to position for potential medium- and longer-term gains in US equities, while capital preservation strategies can help manage near-term risks of stock market declines.

For more thoughts on the outlook for trade, read our latest research, "[Global risk radar: A pause in the trade war.](#)"

Original report - [Risks remain despite a pause in the trade war, 15 May 2025.](#)

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