



Equity market volatility should create attractive entry points and investors with longer horizons who are able to look through currently elevated volatility should begin to phase into equities. (UBS)

Why we are neutral on value versus growth in US equities

3 July 2025, 16:02 UTC, written by UBS Editorial Team

Markets have recently focused on US policy decisions, from debate on the One Big, Beautiful, Bill (OB BB), to US entry in the conflict between Israel and Iran. The next couple weeks will see a renewed focus on tariff policy as the initial 90-day pause is set to end and decisions will have to be made to either grant additional pauses or increase pressure on nations that haven't struck a deal.

While these decisions and the uncertainty on policy direction have been major drivers of recent market moves, we think the focus will shift toward the macroeconomic data and how the growth and inflation trajectories are playing out.

We expect US economic growth to slow, but not enough to trigger a recession. As inflation is increasingly passed on to end consumers, spending should pull back, dampening growth. We expect to start seeing meaningful tariff impacts on inflation data starting in the next couple months. Given there is typically a lag between higher prices and the pullback on consumption, we anticipate weaker growth into the end of the year.

Turning to the Fed, we expect the first rate cut in September as FOMC participants have expressed the view that tariff-induced inflation should be a one-off price increase and not begin a pattern of higher prices going forward. Given that view and the likely weaker growth, we forecast the FOMC to cut by 25bps at four consecutive meetings starting in September. This is under our assumption that there will be volatile headlines around tariffs, but the ultimate effective rate will settle around the current level of 15%. In our view, this won't be high enough to trigger a recession.

In the months ahead we expect volatility to normalize as policy becomes increasingly clear and investors begin to price market-friendly initiatives, like the budget reconciliation bill that extends personal tax cuts and provides additional

corporate tax breaks. Given this outlook, we recommend investors prepare for near-term volatility while positioning for upside into 2026.

We think investors should continue to use positions in gold as a hedge to help **navigate political risks**. Headline risks can cause quick sell-offs in risk asset markets, boosting the appeal of safe havens in this environment. We also think investors should **seek durable income** to help manage portfolio volatility. High-quality fixed income like Agency MBS or investment grade corporate bonds remain Attractive in our view, and the high yields currently available can help produce portfolio income and hedge against equity market declines.

Equity market volatility should create attractive entry points and investors with longer horizons who are able to look through currently elevated volatility should begin to **phase into equities**. As the tariff picture becomes clearer, the Fed resumes cutting rates, and investors begin to price in 2026 earnings growth, markets should find support and end the year higher—we expect the S&P 500 to remain volatile, but to grind higher toward 6,200 by the end of 2025. We expect S&P 500 earnings growth this year of 6%, bringing EPS to USD 265. We forecast a further 8% of earnings growth in 2026 and have a June 2026 price target on the S&P 500 of 6,500.

In US equities, we are neutral on value versus growth. This month we upgrade financials to Attractive. The sector should benefit from deregulatory initiatives and further capital distribution following the latest stress test results. We also keep our Attractive view on communication services, health care, utilities, and information technology. Communication services is Attractive due to solid digital advertising trends and enthusiasm around AI. Health care should benefit from policy clarity, attractive valuations, and potential earnings upside. Within the tech sector AI will be a key driver of returns in the coming years. We see the best opportunities in the enabling layer of the value chain, which is benefitting from significant investments. Within a portfolio context we also like utilities, as they are defensive and should do well in the event of weaker economic activity.

This article was based on Jason Draho's asset allocation commentary in the UBS Chief Investment Office's [Yield & Income: Cross asset ideas for yield, 2 July 2025](#).

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