



CIO recommends being invested in stocks, with a focus on the US, AI, and power and resources themes, but hedging those equity exposures to manage near-term risks. (UBS)

# Consider the broader context as you navigate headlines

03 March 2025, 1:55 pm CET, written by UBS Editorial Team US Editorial Team

**Ukrainian President Volodymyr Zelenskyy's visit to the White House on Friday capped a volatile week for markets as investors contended with fast-moving geopolitical developments, tech jitters, mixed economic data, and renewed tariff threats.**

British Prime Minister Sir Keir Starmer said over the weekend that European leaders had agreed to draw up a Ukraine peace plan to discuss with the US, while European Commission President Ursula von der Leyen called for a step-up in defense investment. Meanwhile, US President Donald Trump signed a new executive order launching an investigation into the national security harm posed by lumber imports, after vowing to press ahead with the 25% tariffs on Mexican and Canadian goods from tomorrow.

The volume, breadth, and speed of President Trump's executive actions have caused elevated levels of uncertainty since his inauguration six weeks ago as markets consider a wide range of potential outcomes. Hasty policymaking across a broad range of areas could also lead to indirect risks to growth.

But we note that the US economy is entering this period of heightened uncertainty in robust health, notwithstanding the tariff-induced volatility in the trade deficit. Underlying growth in themes like artificial intelligence and electrification should also remain unaffected by the scope of the policy measures announced so far. We think investors should consider the broader context as they navigate headlines on US trade, foreign, and domestic policies.

**Trump is likely seeking trade deals to avoid putting US economic activity at risk.** US Commerce Secretary Howard Lutnick said the tariffs on Canadian and Mexican goods will go into effect tomorrow, but the exact level of the levies "is

a fluid situation.” We do not expect tariffs on Canada and Mexico to be large, broad, or sustained, as this would have a strong and direct impact on US growth and inflation that the Trump administration would want to avoid. While an average effective tariff rate of 30% on Chinese imports is within our base case, and we would expect more countries to be threatened with tariffs after Trump’s team evaluates reciprocal tariffs, we also expect various deals to be struck to limit their overall breadth and scale. We believe Trump will be willing to seek deals in the first 100 days of his administration to demonstrate his negotiating power.

**A ceasefire in Ukraine remains likely this year amid greater European defense spending.** The US-Ukraine minerals agreement did not get signed following the clash between Presidents Trump and Zelenskyy, but we believe it is too soon to conclude what role the US will play in the potential ceasefire talks between Russia and Ukraine. We have highlighted that an imminent halt to the conflict is unlikely, but believe that a truce can be reached this year, with rising defense spending from European countries. We expect select defense stocks in the region to benefit from rising security investments, but would recommend preparing for such outcomes through structured strategies, given the still-elevated uncertainty on the outlook.

**President Trump’s domestic policies pose risks but the direct impact on the economy is limited so far.** The US government faces a potential shutdown later this month if a bipartisan deal on funding cannot be reached, while a prolonged impasse over the debt ceiling looms in the summer. But we would expect the economy to bounce back quickly once funding is restored. The longest previous shutdown was 35 days during the first Trump administration, which hit first quarter 2019 growth by 0.2%. Overall, we note the risks of slower growth and higher inflation due to the second-order effects and hasty execution of Trump’s domestic policies, but the direct impact on growth and inflation from measures announced so far has yet to be significant.

So to navigate the volatility in the weeks and months ahead, we recommend being invested in stocks, with a focus on the US, AI, and power and resources themes, but also hedging those equity exposures to manage near-term risks. Investors should also ensure portfolios are well diversified with assets including quality bonds, gold, and alternatives.

Original report: [Markets brace for volatility amid Trump policy showdown, 3 February 2025.](#)

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