



(UBS)

Brace for higher tariffs from the US

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Markets had been encouraged by the lack of instant action to boost tariffs on President Trump's first days in office, and the S&P 500 hit a fresh record high last week. The index ended the week 1.7% higher. But there was no shortage of ominous rhetoric on trade.

In an address to the World Economic Forum last week, the returning president told European executives if they don't make their products in the US then "very simply" they "will have to pay a tariff." Earlier in the week, he threatened 25% tariffs on Canada and Mexico and 10% on China starting 1 February.

Such statements reinforce our view that investors should brace for aggressive action from the US on trade. The US effective tariff rate on China—the total take from the US Treasury as a share of total Chinese imports—looks likely to increase to 30%, stepped up over time from the current 11%. This will probably be accompanied by Rules of Origin to limit a rerouting of Chinese goods via Vietnam, Mexico, and elsewhere. We also expect the US to impose tariffs on European autos, including electric vehicles. Countermeasures by both China and the European Union seem likely.

But our base case is that the US will shy away from highly aggressive measures—such as a universal 10-20% tax on all US imports with a higher rate of 60% for China—which could risk reviving inflation and undermining equity markets. Against a backdrop of strong US growth, enduring and evolving AI tailwinds, and gradually falling yields, we believe higher US tariffs will not end the equity rally.

Takeaway: We believe that the risk-reward for equities is attractive, although near-term tariff-related volatility is likely. We expect around 8% of further price gains for the S&P 500 over the balance of 2025.

For more, see the [Weekly Global: Preparing portfolios for a higher tariff world](#). 27 January, 2025.

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