



Tariff-related uncertainty and trade policy shifts reinforce the need for portfolio diversification and risk management. (UBS)

CIO's core message remains to stay invested in stocks

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US stocks rallied on Monday, with the S&P 500 and the tech-heavy Nasdaq both climbing following media reports that the Trump administration's policy announcement due on 2 April would be less severe than feared.

This recovery comes after the S&P 500's first weekly gain in five weeks last week, when markets were reassured by Federal Reserve Chair Jerome Powell's view that the potential impact of tariffs on US inflation is likely to be "transitory." That added to confidence that rate cuts can resume after the recent hiatus. Business survey data on Monday painted a mixed picture, with activity accelerating in March but confidence over the outlook weakening, based on the S&P global purchasing managers' index reading. Respondents cited rising input costs, worries over tariffs, and concerns over the impact of federal spending cuts.

President Trump had initially announced plans to impose tariffs matching those of its trading partners on US goods. But recent reports suggest that the administration's reciprocal action will be more selective, focusing on those nations with persistent trade imbalances with the US, referred to as the "dirty 15" by Treasury Secretary Scott Bessent.

Still, uncertainty remains elevated. Trump on Monday said he will announce tariffs on automobile imports in the coming days, but indicated some trading partners will receive breaks from next week's reciprocal tariffs. He also said he planned to proceed with sector-specific tariffs on lumber and semiconductors "down the road," and duties on pharmaceutical drugs in "the very near future." Separately, he issued an order allowing a 25% tariff to be imposed on any economy purchasing oil and gas from Venezuela.

What do we think?

Recent news suggesting the possibility of a more targeted approach to tariffs has alleviated some concerns about the severity of the trade conflict. Of course, this would need to be confirmed by the administration, which can shift course abruptly as it negotiates with trading partners. Our base case remains that while the Trump administration will be aggressive on tariffs, it will stop short of measures that would lead to a renewed period of elevated inflation or push the US economy into recession. This potential shift in policy could support a more stable environment for equities, allowing investors to focus on underlying economic fundamentals.

In addition, we expect Federal Reserve policy to be supportive. During his FOMC press conference last week, Fed Chair Powell acknowledged that although sentiment indicators have weakened recently, hard data continue to suggest that economic conditions, including the labor market, are solid. However, he did indicate that policymakers were not expecting higher tariffs to lead to a sustained acceleration in inflation. This was supported by the dot plot, which still has the median forecast from top Fed officials for two 25-basis-point cuts in 2025. This outcome, which is also consistent with our base case, adds another layer of support for markets, as lower rates could stimulate economic activity and bolster corporate earnings.

Our analysis indicates a strategy that buys the S&P 500 after a 10% drawdown is more likely to deliver higher returns than those waiting for 15% or 20% declines. Historical performance is no guarantee of future results, but waiting for larger drawdowns risks being out of the market should it bounce back quickly. Our back-testing analysis of the S&P 500 since 1990 showed that a strategy that increases equity exposure after a 10% correction has historically delivered the highest return and Sharpe ratio (which measures the risk-adjusted returns of a portfolio) compared to those that wait for a 15% or 20% drop. Even though losses can be significant at a -10% entry, they have historically been more than offset by other periods when equities rebound quickly.

The threat of further tariff escalation remains a key concern, but our economic forecasts do not call for a recession in the US. In our base case, a wide range of selective tariffs and counteractions are likely to lead to slower economic growth compared to last year, but they should not prevent the US economy from expanding by around 2%—its historical trend rate—this year.

How do we invest?

Our core message remains to stay invested in stocks. We expect a period of further stock market volatility in April. In the coming weeks, we would view levels in the S&P 500 starting at a peak-to-trough drawdown of -10% as a potential buying opportunity. Investors should ensure portfolios are well diversified with assets such as quality bonds, gold, and alternatives to effectively navigate current challenges.

Original report: [US stocks rise as tariff concerns ease, 25 March 2025.](#)

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