



CIO thinks it would be politically counter-productive for the Trump administration to pursue policies that damage the economy. (UBS)

CIO still thinks US stocks can recover and post gains for the year

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The past month has been challenging for US equity investors. The Trump administration's tariffs and tariff threats (as well as cuts to government spending from the Department of Government Efficiency, or DOGE) have sent consumer, business, and investor sentiment into a tailspin. And it now appears that this policy uncertainty has driven some pullback in consumer spending.

As a result, the S&P 500 fell into a correction, at one point posting a decline of more than 10% from its 19 February peak.

It seems likely that the policy uncertainty will lead to further weakness in economic and corporate profit readings in the next several weeks. This could cause continued volatility in US equity markets in the short term. However, the market swoon does suggest that investors are already braced for a downshift in economic readings, which should help limit further downside.

The good news is that economic fundamentals were generally healthy before the tariff concerns started to have an impact. Consumer and corporate balance sheets remain in good shape, there are more available jobs than unemployed people, and so far, layoffs have not spiked. So, if the policy uncertainty begins to improve, economic activity should bounce back.

The next few months will likely be crucial for the path forward. In our base case, tariff policy will start to come into focus on the heels of the Trump administration's plans for "reciprocal" tariffs—which are slated to be announced on 2 April. If the tariffs are not too onerous, policy uncertainty should start to improve. That would be good news for investors. As we show

in the left-hand chart on previous page, higher policy uncertainty tends to weigh on stocks, while a fall in uncertainty leads to market gains. Importantly, we think it would be politically counter-productive for the Trump administration to pursue policies that damage the economy. Notably, President Trump's approval ratings have fallen since the stock market peak.

As a result, we still believe US stocks can recover and post gains for the year. However, given the recent economic weakness and our expectation that it will continue for a few months, we lower our full-year S&P 500 EPS estimate from USD 270 (8% growth) to USD 265 (6% growth). We therefore trim our year-end S&P 500 price target from 6,600 to 6,400.

We also remind investors that stocks tend to perform well after corrections (a 10% drop) that occur within a bull market. There have been 27 bull market corrections in the S&P 500 since 1943. In the right-hand chart on previous page we show average S&P 500 performance in the months after stocks cross the -10% threshold. So even if the market declines further in the near term, investors tend to enjoy healthy gains from current levels when looking out over the next three, six, and 12 months.

Aside from macro issues, we still have high confidence in the structural drivers like AI that have a disproportionate impact on the US market. As we discuss in more detail in the "AI" and "Power and resources" sections of the report, investment spending remains intact and we expect solid growth for companies leveraged to these trends.

Original report: [UBS Equity Compass: April showers bring May flowers, 27 March 2025.](#)

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