



Investors should prepare for near-term market volatility and ensure portfolio diversification. (UBS)

Ensure portfolio diversification to navigate near-term volatility

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President Trump announced one of the biggest changes in US economic policy in a generation, and we could enter a downside scenario if the White House does not take active steps to reduce tariffs.

CIO base case is that after an initial phase in which tariffs could rise further, US effective tariff rate will gradually fall as economic, political, and business pressures mount. This suggests a period of much slower US and global economic growth and extended market volatility.

US reciprocal tariffs are steeper than what markets have expected.

- The US now levies a "baseline" tariff of 10% on all imports. Select trade partners will face higher "reciprocal" rates, effective 9 April. Asian economies are among those facing the harshest penalties under the new US reciprocal approach.
- China responded by retaliating with 34% tariffs on imports from the US.
- Global equity markets fell sharply, bonds rallied, and the US dollar depreciated against most major currencies.

We see slower US and global economic growth and an extended period of market volatility.

- In the near term, we believe the effective tariff rates will be higher still, with potential tit-for-tat escalation measures.
- We expect US GDP growth for the full year of less than 1%. We also see lower earnings growth prospects amid continued uncertainty.

- Still, we believe the effective tariff rate should start to come down from 3Q as legal, business, and political pressures mount, and as deals with individual countries and industries are struck.

Investors should ensure portfolio diversification and consider ways to navigate near-term volatility.

- There are broadly three strategies investors can pursue: managing volatility, looking beyond volatility, and taking advantage of volatility.
- Investors should consider quality bonds, gold, and hedge funds to help diversify portfolios.
- We continue to see strong long-term potential in our Transformational Innovation Opportunities (TRIO)—Artificial intelligence, Longevity, and Power and Resources.

Did you know?

- We estimate that the tariffs announced will bring the US effective tariff rate (tariffs as a percentage of US imports) up to around 25%. That's up from 9% prior to the announcement and just 2.5% prior to the US election.
- Some exemptions were indicated for copper, pharmaceuticals, semiconductors, gold, select minerals, and energy, but may prove temporary pending separate Section 232 investigations, which assess if imports threaten US national security. Sector-specific auto tariffs of 25%, levied under Section 232, have now gone into effect.
- Analyzing the 12 occasions when the S&P 500 has fallen by 20% from its peak since 1945, the index has delivered a positive subsequent one-year return on 67% of occasions, with a mean return of 12.9%. Over a three-year horizon, this rises to 91% of occasions with a mean return of 29.2%.

Investment view

At times of heightened uncertainty and elevated volatility, there are three strategies investors can pursue, depending on their risk appetite: managing volatility, looking beyond volatility, and taking advantage of volatility. We believe that investors should consider a combination of all three and ensure portfolio diversification.

Original report - [What do Trump's tariffs mean for markets?, 7 April 2025.](#)

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