



(UBS)

CIO upgrades US equities to Attractive

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Recent equity market volatility is challenging even the most seasoned investors. But we think it's vital to try to take the emotions out of investment decision-making. When we do that, we think the data suggest upside for equities over the coming 6-12 months. We upgrade US equities to Attractive and maintain our year-end price target of 5,800

We think President Trump's pause in tariff implementation is an important signal. To us, it suggests that the president is attuned to the economic and market risks of tariff policies, something that was unclear to investors until that point. Said differently, we think we may have reached peak policy uncertainty. If so, that would represent an important inflection point. Stocks tend to move inversely with policy uncertainty. So if uncertainty declines from here, it will be a key tailwind for stocks. But we are clear-eyed about the path forward. Trade negotiations with US trading partners will be challenging and take time. There could be setbacks along the way. But it doesn't appear likely that we will revisit today's very elevated levels of uncertainty. CEO commentary on this point will be important in the upcoming earnings season.

Other datapoints also suggest a favorable risk-reward for stocks. As we have pointed out in the past, sentiment is terrible and volatility is extremely high. Both of these metrics tend to be contrarian indicators when they reach these extreme levels. Investor bullishness in the weekly survey from the American Association of Individual Investors has been hovering around very low levels for almost two months. Last week only 22% of respondents expected stocks to rise over the next six months. When less than 25% of respondents are bullish, stocks rise 15% on average over the next year. The story is similar with the VIX volatility index—often called Wall Street's fear gauge. Earlier this week it hit 50 but is currently at 40. When the VIX is greater than 40, the S&P 500 rises by 30% on average over the next 12 months.

The tariff-induced slowdown in economic activity, as well as the higher costs, will lead to a slowdown in corporate profit growth. We have already accounted for this in our expectations for no profit growth this year with a 2025 S&P 500 EPS estimate of USD 250. But the economy should rebound next year as businesses and consumers adjust to the tariffs, with an assist from Fed rate cuts and certainty on tax policy. We look for EPS of USD 275 (10% growth) in 2026.

So while we expect equity markets to remain choppy, the risk-reward for stocks is looking more appealing, especially now that we know that President Trump is attuned to the risks from his tariff policies. We maintain our year-end 2025 S&P 500 price target of 5,800.

For more, see the [US Equities view](#), published 10 April, 2025.

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