Phasing into the market can be an effective way to position for medium- and longer-term upside while managing timing risks. (UBS)

Can the temporary tariff fix be turned into a lasting agreement?

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The S&P 500 rose to start the week, supported by news that the US and China have reached an agreement to lower tariffs for 90 days as talks continue.

The levy on most Chinese goods entering the US will be cut to 30% from 145%, while China will reduce the tax on US imports to 10% from 125%. “We are in agreement that neither side wants to decouple,” said US Treasury Secretary Scott Bessent. He also emphasized that talks over the weekend had led to the creation of a mechanism for continued discussions, aimed at avoiding a renewed escalation in trade tensions between the world's two largest economies.

The news on Monday followed encouraging signs over the weekend of a thawing in relations, with US officials signaling “significant progress” during talks between the two nations in Switzerland.

Meanwhile, the start of US court challenges to the Trump administration’s tariffs this week points to another potential off-ramp from high import levies. Separately, momentum appears to be building for ceasefire efforts in the Russia/Ukraine war, with Ukraine's leader vowing to personally travel to Türkiye on Thursday for direct talks with his Russian counterpart.

Challenges certainly lie ahead in forging a durable agreement between the US and China, which could lead to further bouts of volatility. But we also see opportunities for investors prepared to look through market swings and to invest selectively:

After a better-than-expected outcome to US-China talks, investors will be focused on whether a more durable deal can be struck. During a 90-day cooling-off period, tariffs between the two nations will return closer to the levels prevailing prior to the 2 April “Liberation Day” announcement from President Trump. The risk-on move in markets suggests that investors had not expected such a positive outcome to come so quickly. The deal is consistent with our base case that the effective US tariff on Chinese imports will settle around 30-40%. The tone from President Trump and top officials, as well as from China, has also been positive. Investors will now be focused on signs that the temporary fix can be turned into a lasting agreement.

Early conciliatory signs in the Russia/Ukraine conflict. European leaders including from Germany, France, the UK, and Poland this weekend called on Russia to agree to an unconditional 30-day ceasefire starting Monday or face new sanctions. President Vladimir Putin responded by offering direct peace talks with Ukraine on Thursday. Ukrainian President Volodymyr Zelenskyy later said he would travel to Türkiye personally for talks, and pushed on Putin to join him. President Trump, who has been pressuring both sides to negotiate, welcomed signs of a peace process.

Our base case is that a ceasefire deal will be reached this year, though likely with relatively weak security guarantees for Ukraine. We expect increased defense spending in Europe, which alongside a new German government focused on fiscal stimulus should be supportive for European equities, as discussed in our "Six ways to invest in Europe" theme.

During periods of recent market volatility, the temptation has been for investors to retreat from risk assets, but we continue to view US equities as Attractive, with a year-end S&P 500 target of 5,800. Phasing into the market can be an effective way to position for medium- and longer-term upside while managing timing risks. Capital preservation strategies can be another approach to help manage near-term downside.

Original report - **Stocks climb after US and China roll back tariffs, 12 May 2025.**