



CIO recommends staying invested, along with various strategies to manage volatility, as they expect the S&P 500 to edge higher over the next 12 months and the 10-year Treasury yield to fall. (UBS)

Potential market volatility ahead with uncertainty on several fronts

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Markets will likely stay focused on the progress of ongoing trade negotiations, while US President Donald Trump's meeting with House Republicans could be key for his sweeping tax and spending cut package to pass in a House vote before the Memorial Day recess on 26 May.

We expect volatility ahead as investors contend with uncertainty on several fronts.

Further progress seems necessary for trade deals to last, despite recent developments. Even after the recent deescalation in trade tensions and ongoing negotiations, the outlook of Trump's tariff policy remains uncertain. Treasury Secretary Scott Bessent said in television interviews over the weekend that the paused "reciprocal" tariffs could be reimposed on trading partners that do not negotiate in "good faith," while Beijing accused the Trump administration of undermining recent trade talks in Geneva by limiting the use of Huawei's AI chips. In addition, strategic industries such as semiconductors, pharmaceuticals, and lumber could still face potential sectoral tariffs. Our base case is that the US effective tariff rate will eventually settle in the region of 15%, still significantly higher than the 2.5% rate that prevailed before Trump returned to the White House.

Trump's tax cuts could add pressure to the bond market. While the selling of US Treasuries in the immediate aftermath of the Moody's downgrade was relatively modest, Treasury yields have climbed steadily since the end of April as budget negotiations have come to the fore. Trump's "one big, beautiful bill" is likely to see various amendments before it is

passed in the two chambers of Congress and signed into law, but it nonetheless is expected to add trillions of dollars to the country's USD 36tr deficit over the next decade. This will likely lead to an increase in the supply of Treasury debt, exerting pressure on the bond market.

The Federal Reserve is likely to resist rate cuts in the near term while economic headwinds mount. The Conference Board's Leading Economic Index for April registered its largest monthly drop in more than two years, suggesting a weakening trajectory of overall US economic activity. We believe the US economy will avoid a recession this year, and the Fed is taking a "patient" approach in cutting interest rates as policymakers monitor the inflationary effect of Trump's tariffs. On Monday, New York Fed President John Williams said the US central bank may not be ready to lower rates before September, while Atlanta Fed Chief Raphael Bostic signaled an unwillingness to move rates for some time.

Still, we recommend staying invested, along with various strategies to manage volatility, as we expect the S&P 500 to edge higher over the next 12 months and the 10-year Treasury yield to fall. We believe phasing into the stock market can be an effective way to position for medium- and longer-term equity gains while managing timing risks, and capital preservation strategies can help navigate near-term risks of stock declines. Investors should also consider quality bonds, gold, and hedge funds to ensure portfolio diversification.

Original report - [Markets face further volatility amid uncertainty, 20 May 2025.](#)

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