While CIO still expects US equities to rise over the next 12 months, near-term gains are likely to be limited amid volatility. (UBS)

Near-term equity gains are likely to be limited amid volatility

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Investor sentiment cooled slightly late on Thursday and into Friday after news regarding legal challenges to President Trump's authority to impose tariffs in the event of an economic emergency. Earlier in the week, a US trade court ruled that about half of President Trump's trade tax increases are illegal.

However, a federal appeals court issued a temporary, administrative stay on Thursday, allowing the tariffs to remain in effect while the legal process continues.

Uncertainty remains elevated, and the health of the US economy comes into focus. We expect bouts of market volatility ahead as investors continue to navigate a range of market, economic, and geopolitical risks.

All tariffs remain in effect at this stage, pending further legal review. It is unclear whether the courts will ultimately uphold the earlier decision from the trade court to strike down US tariffs based on an economic emergency. But White House officials stressed that President Trump has options to pursue similar tariffs through other authorities if appeals go against the administration. We expect the court battle over tariffs will play out in the coming weeks and months, and tariffs will remain an important focus as the US administration continues to investigate product-specific tariffs.

The Federal Reserve is watchful of inflation risks. Given the critical role tariffs play in Trump's trade policy and the various venues the administration seeks to levy import duties, their impact on inflation remains a focus for markets. It is too soon for the full impact of tariffs to show up in inflation data especially since many US companies boosted stocks of imports in anticipation of higher import costs and so may not need to hike prices immediately.

That said, investors will be watching today's release of the personal consumption expenditure (PCE) price index—the Federal Reserve's preferred gauge of inflation—to assess the progress toward disinflation ahead of tariffs. San Francisco Fed President Mary Daly said on Thursday that the Fed could still cut interest rates twice this year as it projected in March, although for now rates should remain steady to make sure inflation is on track to reach the Fed's 2% goal. A separate Fed statement said that Chair Jerome Powell told Trump the central bank will make rate decisions based "solely on careful, objective, and non-political analysis" in his meeting with the president on Thursday.

Geopolitical tensions remain high. While the White House on Thursday said Israel has agreed to a US ceasefire proposal, no details on the plan were provided. Hamas said the terms did not meet the group's demand and that it was still reviewing it. The Russia-Ukraine war intensified following a recent barrage of missile and drone attacks from Russia, while nuclear talks between the US and Iran have encountered headwinds. Separately, US-China tensions resurfaced this week after the Trump administration announced it would start revoking Chinese student visas and would introduce new restrictions on the sales of chip design software to China. US Treasury Secretary Scott Bessent said trade talks with China are "a bit stalled."

So, while we still expect US equities to rise over the next 12 months, near-term gains are likely to be limited amid volatility. Investors should ensure portfolio diversification and hold sufficient exposure to gold and hedge funds, in our view. Capital preservation strategies can also be used for more defensive equity positioning.

Original report: **Markets on tariff and inflation watch amid volatility, 30 May 2025.**

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