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CIO lowers view on US equities from Attractive to Neutral

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President Trump surprised us and the markets by announcing much more aggressive tariffs than expected. While we believe these tariff rates will eventually be negotiated lower, we don't expect a quick reversal in tariff policy. As a result, our economics team has downgraded their growth expectations to reflect anemic GDP growth this year of less than 1%.

Central scenario

Slower economic growth prompts us to lower our 2025 S&P 500 EPS estimate from USD 265 to USD 250, which corresponds to no growth in S&P 500 profits for the year. We expect earnings growth to resume in 2026. The lower growth outlook drives a reduction in our 2025 year-end S&P 500 price target from 6,400 to 5,800.

While we have lowered our view on US equities from Attractive to Neutral, we think the risk-reward for stocks gets more appealing if, all things being equal, the S&P 500 dips into the low 5,000s. We also note that there are a number of indicators that suggest that the market is setting up for a rebound. Sentiment is poor, positioning is getting depressed, volatility is elevated, and the S&P 500 is already down 12% from its high. All of these indicators suggest to us that a rally is a growing possibility.

Since tariff fears are what drove us into the sell-off, any softening in tariff expectations would likely be a key ingredient for a market rebound. This could unfold across multiple different angles. For example, President Trump could pivot to agreeing to lower tariff rates, whether due to successful business lobbying, political pressure, or concessions from trading partners. It's also possible the courts could block the implementation.

A further modest weakening in economic activity could prompt market expectations of more aggressive Fed rate cuts as well, which would likely be welcomed by equity investors.

From this perspective, we wouldn't get overly cautious right now. Instead, we think it is prudent to start to look for opportunities to buy on further weakness. Bear in mind, at the time of this publication, there is high-single-digit upside to our 5,800 year-end price target.

Upside scenario: Positive surprise

- **S&P 500 December 2025 target: 6,500**
- **More benign tariff policy:** The Trump administration significantly reverses its proposed very high tariffs. Business and consumer confidence rebounds sharply driving better than expected economic and corporate profit growth.
- **Artificial intelligence is a game-changer:** The impact of artificial intelligence on productivity and earnings growth is larger and comes sooner than investors expect.

Downside scenario: Hard landing

- **S&P 500 December 2025 target: 4,500**
- **Hard landing:** Economic growth falls sharply over the next 12 months due to persistent, highly aggressive tariffs which drives a fall in consumer spending and business investment.
- **Geopolitical turmoil:** Escalation in geopolitical tensions—including the Israel-Hamas war potentially turning into a regional conflict, the war in Ukraine, or heightened US-China tensions—leads to a risk-off environment and flight to quality.

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