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Monthly Letter: Prepare for Trump 2.0

03 February 2025, 1:08 pm CET, written by UBS Editorial Team

As President Trump's second term begins, our latest monthly letter considers how US policy changes under the new administration may affect the outlook for the year ahead—and what steps investors can take to prepare their portfolios. While tariffs are a risk, we still expect a solid US economy, healthy earnings growth, and gradual Fed rate cuts to create a favorable backdrop for equities.

Since Donald Trump won the US presidential election and the Republicans gained control of Congress, long-end government bond yields have increased, the dollar has strengthened, and equity markets have become more volatile. The challenge for investors now is to understand the implications of potential changes in US policy.

Tariffs are top of mind for many investors because it is the area where the president has the most unilateral authority to alter the market consensus around continued growth and receding inflation.

In our new monthly letter, we detail our latest tariff scenarios, consider how they may affect our broader investment scenarios for the year ahead, and address the implications for investors.

In short, we believe investors should prepare for the Trump administration to pursue aggressive tariffs. On his first day in office, the president announced and signed a flurry of executive orders and other actions. The most tangible trade-related action came in the form of a memorandum directing federal agencies to investigate and address “unfair” trade and currency policies by other countries. China’s adherence to the 2020 trade deal and the US-Mexico-Canada Agreement (USMCA) were singled out.

The scope and severity of possible tariff outcomes remains uncertain. Our base case, to which we assign a 50% probability, is for the US effective tariff rate on China to rise to 30%, and for China to retaliate. We also expect efforts to limit transshipments, protect US technology interests, and impose tariffs on some EU exports.

We are also monitoring for a risk case, which could include 10-20% universal tariffs on all US goods imports, a larger tariff of around 60% on China, or sustained, broad, and large tariffs against Mexico and Canada. This scenario would have a more negative impact on markets and the economy.

These tariff scenarios are a key determinant in our broader investment scenarios. We think the most likely outcome (50% probability) is for growth despite tariffs. US growth momentum is currently strong, we continue to believe the Federal Reserve will cut interest rates by 50bps in 2025, and we see a limited overall macroeconomic impact from an effective tariff rate of 30% on direct imports from China.

What does all this mean for investors from here?

We believe that the risk-reward for equities is attractive, although investors should prepare for near-term tariff-related volatility. We expect around 10% upside for US stocks over the balance of 2025 thanks to strong economic growth, AI tailwinds, and gradually falling yields.

We also view the outlook for high grade and investment grade bonds as positive. In our base case, we expect the 10-year Treasury yield to fall to 4.0% by the end of 2025 as growth and inflation gradually slow, and as the Fed cuts rates.

We expect EURUSD to rise to 1.06 by the end of 2025, but given likely near-term volatility we like to harvest volatility in major currency pairs, rather than taking strong directional views. We see upside to gold both in our base case and in our bear case risk scenarios.

The coming weeks are likely to see volatility in markets, so we reemphasize the importance of diversification. But while the path ahead may be uncertain, we continue to see opportunities for investors who are well prepared and adaptable.

Read more in the latest monthly letter, "[Prepare for Trump 2.0](#)"

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