



CIO expects US growth to slow this year, but the economy is likely to avoid a full-blown recession. (UBS)

Why market fundamentals remain constructive

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Trade-related developments continue to dominate headlines as investors assess the next catalysts for markets.

Reuters reported that the Trump administration has asked its trading partners to put forward their best offer on trade negotiations by Wednesday in a bid to accelerate talks with multiple countries; Commerce Secretary Howard Lutnick said he's "very optimistic" about prospects for a deal between the US and India "in the not-too-distant future;" and the White House said Trump and Chinese President Xi Jinping are likely to speak this week despite the renewed tensions in recent days. Separately, European Trade Commissioner Maroš Šefčovič is meeting US Trade Representative Jamieson Greer in Paris on Wednesday.

These headlines suggest that the administration remains keen to reach trade agreements that would avoid tariffs going back up to the levels announced on "Liberation Day," in our view. The market volatility in early April has shown that using tariffs as an instrument to drive long-term economic transformation has the potential to cause the US significant short-term pain.

Our base case is that the eventual effective tariff rate may settle around 15%, although sectoral levies may now have heavier weighting than the "reciprocal" tariffs following the court challenge last week. We expect US growth to slow this year, but the economy is likely to avoid a full-blown recession.

With markets having priced in better policy, economic, and earnings news as equities rebounded from the early-April low, the near-term risk is that these expectations are not met. Nonetheless, on a one-year outlook, the fundamentals remain constructive.

Against this backdrop, we believe investors should view near-term corrections in equities as a buying opportunity, boost portfolio income via quality bonds, and strengthen portfolio resilience with gold and alternatives like hedge funds.

Phase into equities for medium- to longer-term gains. Investors should review their current allocation to equities and consider using periods of volatility or pullbacks to progressively address portfolio gaps relative to strategic allocations, including by phasing into global equities or balanced portfolios. In addition to US equities, we see opportunities in Europe under our “Six ways to invest” theme and EMU small- and mid-caps. We also like mainland China tech stocks, Taiwan, and India in Asia.

Seek durable income with medium-duration quality bonds. The Senate is likely to take up Trump’s “One, Big, Beautiful Bill” this week following the passage in the House last month. While the Senate will make some modifications to the bill, changes that would substantively alter the potential fiscal impulse in 2026 or deficits are unlikely, in our view. The final bill, therefore, shouldn’t be the catalyst for the long end of Treasury yields to move significantly higher, based on what is already known and priced in. We think medium-duration quality bonds offer attractive risk-reward at current yield levels.

Hold sufficient exposure to gold and hedge funds for better diversification. Gold has risen in recent days amid renewed trade tensions, and we continue to see value in the metal as a longer-term portfolio diversifier against adverse scenarios. For investors who are able to tolerate the associated risks with alternatives, we believe allocations to hedge funds can help cushion drawdowns when traditional stock and bond exposures lose value, enhancing portfolio resilience and smoothing overall return outcomes.

Original report - [Strengthen portfolios amid tariff headlines, 3 June 2025.](#)

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