



(UBS)

# Time to lock in more durable sources of income?

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**US economic data have so far shown limited impact from President Donald Trump's trade policies. The latest labor data suggest that US companies have yet to start laying off workers, and investor sentiment has remained resilient, with the S&P 500 near its all-time high.**

The Chief Investment Office's base case remains for the US central bank to resume policy easing in September, bringing interest rates 100 basis points lower over the next 12 months.

**Trump's tariffs should only be a modest boost to inflation.** While the June inflation data showed mixed evidence of tariff-related price pressures, we believe the US effective tariff rate will settle at around 15%, lifting inflation only modestly. Tariffs are gradually impacting retail prices—a trend we expect to persist through 2026, and any upward surprises in inflation could complicate the Fed's ability to justify rate cuts. However, core services inflation, despite flattening recently, should start trending lower again, helping to prevent overall inflation from rising sharply—even if some tariffs are increased further on 1 August. Notably, shelter inflation, which accounts for over 35% of the CPI and has been the biggest single driver of overall inflation, is expected to continue slowing. This, coupled with a weaker labor market, should allow the central bank to cut rates later this year.

**The labor market has shown signs of weakening.** While the US economy added more jobs than expected last month, the details of the labor report were weaker than the headline numbers. Private sector payrolls increased at the slowest pace since October last year, while average hourly earnings rose at the lower end of the post-pandemic range. The labor participation rate also fell to its lowest level since December 2022. These data points suggest that labor demand is deteriorating, as businesses are cautious about long-term hiring plans amid trade and economic headwinds.

**Fed comments suggest rate cuts are on track this year.** We do not expect a rate cut at the Fed's policy meeting later this month. However, the fact that some officials favored a reduction as soon as July suggests that policymakers are alert to softening economic activity and falling consumer confidence. We continue to expect the Fed to react according to available data, while speeches by a number of Fed officials later this week may give markets additional insights into the US central bank's path toward further easing.

So, we think the appeal of cash will be further eroded as rates fall later this year. Investors should lock in more durable sources of income, including through high grade and investment grade bonds. Long-term investors can also consider diversified fixed income strategies.

Original report - [Tariffs begin to impact US inflation, 16 July 2025.](#)

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