



CIO sees a smaller chance for a “tariff shock” bear case, in which Trump imposes large, blanket tariffs on most US imports, triggering significant retaliation from trading partners and pushing inflation higher. (UBS)

Trump 2.0 will likely usher in renewed headline volatility

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Global equities rose, Treasury yields fell, and the US dollar retreated over the past 24 hours after the Washington Post reported Trump aides were considering universal tariffs “that would be applied to every country, but only cover critical imports.” The report suggested that if implemented, the new approach would “pare back the most sweeping element of Trump’s campaign plan.”

President-elect Trump quickly denied the story via social media, and criticized the Washington Post’s reporting. This helped reverse some of the pressure on the dollar and Treasury yields, though equities remained well bid, and Asian stocks broadly advanced on Tuesday even after Trump’s denial.

While it is uncertain how incoming tariff policy and negotiations will play out, we do see several clear takeaways for investors:

The US negotiating stance will differ from the end outcome. President-elect Trump’s denial of the report is unsurprising. He wants the threat of universal tariffs as credible leverage into bilateral trade negotiations, and taking this off the table now would obviously limit his bargaining power. We view this report as an indication of the difference between a bargaining position and policy goals. It’s worth remembering Trump’s late November threat to impose tariffs over non-trade issues, in which he confirmed a willingness to use tariffs as a transactional tool.

The Trump economic team understands its mandate, in our view. While media criticism may see Trump dig in on his pledge for harsher tariffs, we doubt the administration will pursue the kinds of extreme policies that would send inflation higher, create major supply disruptions, or risk broader economic fallout. There is also a political calculation here, with

the Republican House majority already extremely thin. A "shock therapy" approach could significantly harm Republican chances in the 2026 midterms.

Trump 2.0 will likely usher in renewed headline volatility. The market whiplash from Monday's tariffs agenda story and denial may offer a taste of the trading year ahead, with a return to policymaking-by-tweet suggesting a new period of heightened cross-asset volatility. The dollar move is less surprising, given over-crowded long positions. Still, big intraday moves in other tariff-sensitive assets like the Hang Seng could be a preview on market conditions for global investors.

So, while tariffs talks are worth monitoring, we think a constructive stance is still warranted on both global equities and on US stocks in particular. We expect the bull market to continue with the S&P 500 reaching 6,600 by the end of the year, primarily driven by healthy profit growth of 9%.

Our base case remains for selective new tariffs under Trump 2.0, likely causing one-time price increases in the US without triggering a more damaging inflationary spiral. We see a smaller chance for a "tariff shock" bear case, in which Trump imposes large, blanket tariffs on most US imports, triggering significant retaliation from trading partners and pushing inflation higher. We suggest investors who are underallocated to US equities consider using any near-term turbulence to add exposure, including through structured strategies. We also see merit in diversifying with alternative investments, including hedge funds and private markets.

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Original report: [Tariff threats should spark volatility, not panic, 7 January 2025.](#)

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