



CIO maintains the view that the S&P 500 should rise to 6,600 by year-end, and reiterates the importance of portfolio diversification and hedging to navigate volatility ahead. (UBS)

Consider broader US economic health when reading tariff headlines

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US equities were down for a third consecutive trading day on Monday, marking the longest losing streak for the S&P 500 this year.

President Donald Trump's comments on tariffs against both Canada and Mexico as well as NVIDIA's earnings due later this week have kept investors on the cautious side.

But while we continue to expect volatility ahead as investors grapple with the potential impact of Trump's proposed policies, we believe markets are likely to refocus on fundamentals that should support the equity rally further.

Tariff headlines should be considered in the context of broader US economic health. Trump on Monday reminded markets that the 25% additional tariffs scheduled to hit Canada and Mexico from 4 March are "on time" and "moving along very rapidly." He also called on Mexican officials to place their own levies on Chinese imports as some firms have shifted production to the US neighbor to avoid duties enacted during Trump's first term. However, a White House official cautioned the timeline on the tariffs could be less certain. While highly aggressive US tariffs would likely add to inflation pressure and market volatility, our base case remains for selective, targeted measures to be imposed, given the potential economic damage they may cause to the US.

China internet remains Attractive on solid fundamentals. Trump in recent days signed a memorandum instructing a key government committee at curbing Chinese investment in tech, energy, and other strategic American sectors. The memo also called for new and expanded limits on investment from US pension and endowment funds in high-tech sectors in China. This could complicate a deal to reduce China's trade surplus with the US, and added to concerns over investor interest in Chinese internet names after their recent rally. While ongoing US-China tensions and the health of China's economy are likely to weigh on sentiment in the near term, we think China's internet sector should outperform amid early signs of success in AI innovation.

The AI rally has further to go. Investors will be looking to NVIDIA's results on Wednesday for clues on the demand for its pricey AI chips following the emergence of China's DeepSeek. But recent earnings and capex plans from big tech companies suggest the global AI growth story remains intact. We expect 2025 capex from the Big 4 US tech firms to grow by 35% to USD 302bn, and we see ongoing strong demand for frontier models. With improving AI adoption trends boosting monetization, we expect mid-teens returns for global AI stocks this year using our market capitalization opportunity framework.

So, we maintain our view that the S&P 500 should rise to 6,600 by year-end, and reiterate the importance of portfolio diversification and hedging to navigate volatility ahead. Investors can consider capital preservation strategies to potentially help limit portfolio losses. Those who want to build up long-term AI exposure can also utilize structured strategies or buy the dip in quality AI stocks.

Original report: [Stocks should rebound despite investor caution, 25 February 2025.](#)

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