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Chief Investment Office GWM
Investment Research

Outlook for US equities remains favorable despite correction

UBS House View - Daily Europe

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From the studio:
C1 Video: CIO's Wayne Gordon on why the gold rally isn't done yet(1:40)
C1 Video: Asset allocation amid tariffs with CIO's Mark Andersen (11:01)

Podcast: Paul Donovan on whether Germany's chancellor-in-waiting is the comeback kid (25:00)

Thought of the day

The S&P 500 last week passed an inauspicious threshold, entering correction territory with a more than 10% decline from its peak. This took just 22 days, faster than the average of 75 days, based on data going back to the 1940s. Despite a 2.1% rebound on Friday, the largest daily gain since the immediate aftermath of the US presidential election in November, the index also lost ground for a fourth consecutive week.

Further volatility could lie ahead, given uncertainty over US policy. The Trump administration has recently indicated more tolerance for disruptions to the economy or markets, with Treasury Secretary Scott Bessent saying he's not worried about the market volatility and calling the correction healthy. Investors should also brace for further market swings ahead of 2 April, when US President Donald Trump has said he will impose broad reciprocal tariffs and additional sector-specific levies.

But while details of the tariffs are unclear and it is not certain whether agreements can be reached to avoid them, we think the risk-reward for stocks still looks favorable in the months to come.

More policy clarity may emerge in the coming weeks. With the sell-off largely driven by tariff uncertainty, the likely announcement on reciprocal tariffs on 2 April could potentially alleviate some of the unknowns. We continue to believe that it would be politically counterproductive for the White House to pursue policies that risk pushing the economy into recession, so we expect negotiations to reduce or eliminate some of the tariffs to begin after they are imposed. While tariffs bring their own economic pain, if they're known uncertainty is reduced consumers and businesses can at least plan accordingly. Applying the tariffs first and then engaging in negotiations to

What to watch: 18 March 2025

- US industrial production
- German parliamentary vote on spending limits is expected
- Various ECB speakers

reduce them also would allow Trump to satisfy a campaign promise and claim victory that he got concessions from other countries if he reduces the tariffs.

Historically, corrections that occur within a bull market tend to be good buying opportunities. Corrections historically have occurred once every three years. For an investor who buys after stocks have fallen 10% but did not ultimately drop more than 20%, the average S&P 500 return over the next three, six, and 12 months is 8%, 13%, and 19%, respectively. Bear markets, technically defined as a 20% decline from the peak, are not common and only occur every seven years on average, with last one three years ago. After the market has fallen into a bear market returns are not great, with the S&P 500 posting average returns over the next 3, 6, and 12 months of -4%, -4%, and -7%. But while we expect aggressive trade policy to weigh on US economic growth, we do not think the Trump administration will drive the US toward a recession; hence, a bear market is not our base case.

Reduced investor positioning should shift market focus back to fundamentals. The spike in policy uncertainty also hit the market at a time when investor positioning was elevated, with the S&P 500 at an all-time high after rallying over 20% for two consecutive years. Over the past month, momentum stocks have experienced one of their worst performance periods in the last 20+ years, suggesting the sell-off has been exacerbated by the unwinding of extended investor positioning in certain market segments. We think the latest correction should see some normalization in positioning and help markets refocus on fundamentals. We continue to expect solid earnings growth of 8% for the S&P 500 this year.

In our view, if more policy clarity does emerge, this should set the stage for positive catalysts that can restart the equity rally. We also wouldn’t lose sight of the pro-growth elements of the Trump administration agenda that are likely on the horizon. Investors should stay invested in stocks, in our view, and utilize hedges such as capital preservation strategies to manage volatility. Portfolio diversification remains key, and we like quality bonds, gold, and alternatives for those able to manage risks such as illiquidity.

Caught our attention

US retail sales report indicates moderate recovery in February. US retail sales edged up 0.2% in February, falling short of consensus estimates of 0.6%, while January’s decline was revised lower to a 1.2% drop. Excluding autos, sales rose 0.3%, in line with expectations. Weakness was broad-based, with seven of the 13 retail categories posting declines. Notably, restaurant and bar sales fell by the most in a year, signaling softer discretionary spending. Meanwhile, the control group sales, which flows directly into GDP consumption estimates, rose 1%, well above the 0.4% forecast, signaling a bright spot in an otherwise weak report.

Our view: While February’s retail sales gain suggests a rebound from January's sharp decline, the overall trend remains subdued. Consumer spending is facing potential headwinds from higher prices due to tariffs, stock market volatility, and lingering uncertainty around economic policy. However, the strength in the control group provides a more encouraging signal, suggesting that underlying consumer demand may be stronger than the headline figures indicate. Steady consumer spending, supported by a solid labor market entailing rising wages and a historically low unemployment rate, should help support overall growth. In our view, the economy should grow close to its 2% trend, but tariffs are a risk to the economic outlook. Assuming our base case for tariffs, we still expect 50 basis points of easing in 2025 from the Fed. This should support a move higher in US equities, while falling returns on cash underline the importance of being invested.

New gold record as Gaza ceasefire collapses. Gold prices hit a new all-time record high of USD 3,014 per ounce early Tuesday, after Israel reportedly conducted air strikes and tank shelling across multiple locations in Gaza. Reuters reports more than 200 may have been killed, citing Palestinian officials. The Israeli prime minister's office in a statement vowed to "act against Hamas with increasing military strength." Separately, US President Trump and Russia's Putin are expected to speak later today about a ceasefire agreement for the war in Ukraine. Alongside geopolitical tumult, gold has benefited from the US dollar's decline to five-month lows, renewed Fed rate cut expectations, and US tariff fears. The Fed is expected to hold rates steady on Wednesday, but will reveal new economic projections that may examine the impact of the Trump administration's tariff policy.

Our view: Inflows into gold exchange-traded funds (ETFs) have again accelerated in recent weeks, with the surge primarily driven by investors seeking defensive assets amid geopolitical, growth and trade uncertainties. With gold having met our previous forecast, we have lifted our target to the level of our previous upside scenario of USD 3,200/oz across all tenors. With this move, we reiterate our preference for the metal, and see any pullbacks as an opportunity to build fresh long positions. We also maintain our view that a gold allocation of around 5% in a USD balanced portfolio is optimal from a longer-term diversification standpoint.

Market update

17.03.2025

Percent change. For volatility indices, net change in points. For valuation, change in price to earnings per share. For yields, net change in bps

	Current (*)	1D	5D	1M	YTD
VIX Index	20.5	-1	-7	+5	+3
MOVE Index	100	-1	-13	+15	+1
S&P 500	5675	+0.6%	+1.1%	-7.2%	-3.5%
S&P 500 trailing P/E (**)	22.2x		-0.9x	-2.7x	-2.4x
S&P 500 forward P/E (**)	19.9x		-0.8x	-2.3x	-1.6x
S&P 500 forward P/E ex-Mag 7 (**)	18.3x		-0.7x	-1.6x	-0.6x
Russell 2000	2068	+1.2%	+2.4%	-9.3%	-7.3%
Euro Stoxx 600	551	+0.8%	+0.9%	-0.8%	+8.5%
Shanghai Composite	3426	+0.2%	+1.8%	+3.1%	+2.2%
US 10-year Treasury	4.30	-1	+9	-18	-27
US 2-year Treasury	4.05	+3	+17	-21	-19
Germany's 10-year Bund	2.82	-6	-1	+33	+45
Germany's 2-year Bund	2.19	+0	-3	+5	+11
EURUSD	1.093	+0.4%	+0.8%	+4.2%	+5.5%
EURCHF	0.96	-0.1%	+0.8%	+1.9%	+3.6%
USDCHF	0.88	-0.5%	-0.1%	-2.3%	-3.0%
USDJPY	149	+0.4%	+1.3%	-1.5%	-5.1%
Brent crude, USD/bbl	71	+0.6%	+2.5%	-5.6%	-4.8%
Gold, USD/oz	3010	+0.3%	+3.8%	+4.4%	+14.0%

(*) or last close if not available, (**) weekly update

Source: Bloomberg, UBS

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

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Appendix

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