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Chief Investment Office GWM
Investment Research

US equity bull market remains intact despite fragile sentiment

UBS House View - Daily US

Ulrike Hoffmann-Burchardi, Head CIO Global Equities, UBS Financial Services Inc. (UBS FS)
Solita Marcelli, GWM Chief Investment Officer Americas, UBS Financial Services Inc. (UBS FS)
Mark Haefele, Global Wealth Management Chief Investment Officer, UBS AG
David Lefkowitz, CFA, CIO Head of US Equities, UBS Financial Services Inc. (UBS FS)
Sundeep Gantori, CFA, CAIA, Equity Strategist, UBS AG Singapore Branch
Daisy Tseng, Strategist, UBS AG Singapore Branch

From the studio:

Video: CIO Mark Haefele's on investing through heightened political uncertainty (3:40)
Podcast: The AI sector playbook after NVIDIA's results, with Sundeep, Wayne, and Jon (11:10)

Thought of the day

Investor sentiment took another hit on Thursday amid fresh tariff headlines and concerns over NVIDIA's near-term growth outlook, with the S&P 500 falling 1.6%, erasing all of its gains for the year. The Nasdaq was down 2.8%.

US President Donald Trump said his proposed 25% tariffs on Mexican and Canadian goods will take effect on 4 March, alongside an extra 10% duty on Chinese imports on top of the 10% tariffs that went into effect early February. He added that fentanyl was still coming into the US from these countries "at very high and unacceptable levels."

Investors have had to contend with fast-moving headlines over the past few weeks and months—the Federal Reserve's signal of a slower pace of monetary easing, sticky inflation readings, the emergence of low-cost AI models like DeepSeek, weaker consumer confidence, and still-elevated geopolitical uncertainty in the Middle East and over the war in Ukraine.

Indeed, data points are showing that investor sentiment is poor. Earlier this week, the American Association of Individual Investors (AAII) reported that only 19% of respondents to their weekly survey are expecting stocks to be higher over the next six months. This is lower than 98% of all observations since the survey started in 1987. More technical measures of investor sentiment, such as the put-call ratio, also suggest high levels of investor fear.

But while we have cautioned that volatility is likely to be higher this year due to policy uncertainty and trade frictions, we reiterate our view that the bull market is intact, and we expect US equities to end the year higher.

Very low sentiment readings tend to be a contrarian indicator. Perhaps somewhat counterintuitively, stocks typically perform well after poor

What to watch: 3 March 2025

- US ISM manufacturing survey
- Eurozone flash estimate of consumer price inflation for February

sentiment readings. Based on historical data over the past 38 years, when less than 25% of respondents to AAII survey were bullish, the S&P 500 average return for the following 12 months stood at over 15%. This compares with an average return of around 9% in all periods. In fact, not only do returns tend to be higher, there is also a higher probability of a market gain—stocks are higher 85% of the time a year later.

While some tariffs are likely to be enacted, they remain part of Trump's negotiation approach. We don't think the Trump administration will take measures that have long-lasting negative impacts on economic growth or inflation, given it is not a winning political strategy. What we do expect is for bilateral negotiations between the US and its trading partners to continue in the background as tariff-related headlines persist. More countries are likely to be threatened with tariffs in the coming weeks and months, but we expect various deals to be struck to limit their overall breadth and scale. In fact, we believe that President Trump could be actively seeking deals in the first 100 days of his administration, particularly if US economic activity is potentially at risk from failure to agree.

The fundamentals remain favorable for stocks to rise further. We have highlighted that healthy economic and profit growth, supportive Fed policy, and sustained AI spending and adoption will underpin the rally in US equities this year, and we think these drivers remain intact. Inflation should moderate further, allowing the Fed to resume cutting rates later this year, and big tech's spending commitments remain strong and growing. We continue to expect solid earnings growth of 8% for the S&P 500 this year.

So, instead of retreating from the markets in the face of uncertainty, we believe hedges are worth considering for investors to navigate volatility ahead. Capital preservation strategies can help manage downside risks in equities, while exposure to quality bonds and gold can help stabilize and diversify portfolios.

Caught our attention

Trump: US-UK bilateral trade deal in progress. US President Donald Trump announced on Thursday that he is working on a trade deal with UK Prime Minister Keir Starmer's government, and hinted Britain might avoid higher US import tariffs. During a joint press conference, Starmer suggested that a phased deal, rather than a comprehensive FTA, is being considered, with "advanced technology at its core." The Trump-Starmer meeting in Washington was notably cordial, and coincides with increased efforts by Starmer, France's President Emmanuel Macron, and other regional leaders to secure a role in Ukraine-Russia negotiations.

Our view: Potential tariff relief could provide UK equities with positive momentum, especially as the EU faces a tougher stance from Washington on possible levies. We maintain a Neutral stance on UK equities but recently raised our FTSE 100 index target to 9,000 by year-end. We anticipate earnings and dividends will be the main drivers of total returns, forecasting 5% earnings growth this year and 8% growth in 2026. UK equities continue to trade at about half the P/E valuation of US stocks, nearing the largest trailing P/E gap in over 50 years. We favor sectors that are relatively shielded from trade tariff threats, align with structural growth trends, or benefit from further rate cuts, such as IT, utilities, industrials, health care, and real estate.

Regarding the Russia-Ukraine war, we believe a quick agreement is unlikely due to mistrust and differing objectives between Moscow and Kyiv. A more positive outcome of a lasting ceasefire would likely serve as a supportive catalyst for European equities and the euro. Nonetheless, we expect select defense stocks to gain from increased security investments.

New tariff threat triggers China selloff. China's main equity markets joined the global selloff on Friday, with the offshore Hang Seng Index down 3.3% and the onshore CSI 300 index slipping 2%. The Hang Seng's Tech and China Enterprise subindices fared worse. Alongside NVIDIA-related pressure, sentiment soured on US President Donald Trump's threat of an additional 10% tariff on Chinese imports from 4 March over fentanyl-related issues. The Chinese yuan was fairly stable, supported by a strong official CNY fixing. The new tariffs are set to take effect just before China's closely-watched Two Sessions on 5 March, where the government is expected to raise its budget deficit to around 4% and unveil new stimulus measures. Beyond Trump's 4 March deadline, a separate USTR trade review report ordered by the White House is due on 1 April, posing incremental risk.

Our view: This new 10% tariff on Chinese imports still falls within our base case for a rise in the average effective rate to 30%, albeit ahead of our mid-year timeline. As with prior rounds of tariffs, we expect China to respond with only measured and targeted retaliation. However, the sharp reaction in Chinese risk assets could encourage policymakers at the Two Sessions to opt for more forceful stimulus at the higher-end of expectations. As of Thursday's close, MSCI China was trading about 3% below our June target of 78 points, with Friday's selloff likely to widen this gap to mid-single digits. While the direct impact of higher tariffs on MSCI China's earnings per share (EPS) will be minimal (given the low single-digit US revenue exposure), equity sentiment and valuations remain vulnerable to tariff and policy headlines. Into this backdrop, we keep a Neutral allocation to Chinese equities. We have become marginally less bearish on the USDCNY amid stronger-than-expected official fixings and improving domestic sentiment, with a near-term target of 7.4 (previously 7.5), though any tariff overshoot could challenge this.

Market update

28.02.2025

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	21.2	+0	+3	+5	+4
MOVE Index	96	-1	+4	+5	-3
S&P 500	5862	-1.6%	-4.2%	-3.0%	-0.3%
S&P 500 trailing P/E (**)	24.9x		-0.1x	+0.0x	+0.3x
S&P 500 forward P/E (**)	22.2x		+0.0x	+0.4x	+0.7x
S&P 500 forward P/E ex-Mag 7 (**)	19.9x		+0.0x	+0.6x	+1.0x
Russell 2000	2140	-1.6%	-5.4%	-6.5%	-4.1%
Euro Stoxx 600	553	-0.8%	-0.2%	+2.4%	+8.9%
Shanghai Composite	3321	-2.0%	-1.7%	+2.2%	-0.9%
US 10-year Treasury	4.24	-2	-19	-29	-33
US 2-year Treasury	4.05	-0	-15	-15	-19
Germany's 10-year Bund	2.39	-3	-8	-7	+2
Germany's 2-year Bund	2.01	-2	-9	-10	-7
EURUSD	1.040	+0.0%	-0.6%	+0.4%	+0.4%
EURCHF	0.94	-0.3%	-0.2%	-0.7%	+1.0%
USDCHF	0.90	+0.2%	+0.4%	-1.0%	-0.6%
USDJPY	151	+0.6%	+0.9%	-2.9%	-4.1%
Brent crude, USD/bbl	73	-0.9%	-1.5%	-4.4%	-1.7%
Gold, USD/oz	2865	-1.1%	-2.5%	+1.9%	+8.5%

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

Source: Bloomberg, Factset, UBS

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Appendix

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