23 May 2025, 10:01 UTC
Chief Investment Office GWM
Investment Research

Seek sell-off opportunities

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- **Why** (1) The potential for a protracted global trade conflict has caused a steep fall in stocks with signs of indiscriminate selling. (2) For investors willing to look through near-term volatility, we see opportunities in select companies with beaten-down valuations but solid business models. (3) Beyond the US market, the sell-off has also created better entry points for more defensive parts of the European market that could benefit from increased government spending by Germany, especially on defense.
- **Why now** (1) Although we expect stocks to remain volatile, we do expect the broad equity rally to resume as trade deals are reached to bring down tariffs. (2) Assuming confidence returns, valuations of quality companies that were sold off unfairly may not remain depressed for long. (3) In Asia, we believe India's economy is starting to show signs of recovery, while the Taiwanese market appears well placed to benefit from rising spending on AI by big tech firms.

Source: After a sharp fall in stocks, we believe many companies with good long-term prospects are now looking attractive.

Sell-off opportunities in the US

US equities have been under pressure since investors started to worry about the implications of President Trump's tariff policies. Since the White House tariff announcements on 2 April, which was more aggressive than expected, markets have been highly volatile, with bouts of indiscriminate selling. At the recent low for the S&P 500 on 8 April, the index was only around 1 percentage point away from meeting the common definition of a bear market of a 20% fall from its peak. We believe the market became oversold and should rebound further as uncertainty abates over President Trump's trade policy. But we also believe it is worth looking for opportunities in the market. We therefore identified 20 US stocks that are high quality, have solid business models, and now offer, in our view, good longer-term value.

Ways to invest in Europe

After a strong start to the year, European equities have recently corrected due to the new tariff risks and uncertainties surrounding economic and earnings growth forecasts. While we maintain our Neutral stance on the region overall given the ongoing uncertainties, we continue to identify select single-stock opportunities that should benefit from emerging trends.

We see the following catalysts and corresponding trends in Europe: (i) more defense spending overall, (ii) a new German government that puts a greater emphasis on fiscal stimulus, (iii) a possible Russia/Ukraine ceasefire/peace deal, and (iv) a trade war that typically leads to higher market volatility. We have adjusted the six key equity drivers arising from these catalysts and replaced "A cyclical economic recovery ahead in Europe" with "Defensive champions that benefit from increased market volatility." Please refer to our report "Six ways to invest in Europe - update," published 10 April 2025, for further details.

We recommend investing in a diversified manner across all six segments. The sub-themes are:
1) Defensive champions that benefit from increased market volatility,
2) Post-election beneficiaries in Germany,
3) Rising security investments (defense and cyber),
4) Rebuilding Ukraine and recovery in Eastern Europe,
5) Beneficiaries of lower energy costs in Europe,
6) Globally active European companies with limited global trade risks.

In addition, we like European small- and mid-cap equities given their significant price-to-earnings (P/E) discount to large caps—the largest in more than 20 years. Better manufacturing growth in 2025, driven by rising wages and falling inflation, favors smaller companies sensitive to domestic conditions, in our view. Structural growth trends in industrials, electrification, and decarbonization should further support these stocks. We favor stocks with high corporate quality, self-help strategies, and diversified business models to mitigate risks

Upside in Asia
Asia has arguably been hit hardest with unexpectedly high tariffs, but at the same time, we observe attempts for solutions and expect an eventual resumption of discussions with at least some rewinding of tariffs between the US and China. We present stocks from many markets in the region, including defensive names as well as industry and technology leaders. The rationale for the latter is that these companies are either not directly affected by US tariffs or, if they are (e.g., in Taiwan), have strong product positioning that limits consumer substitution and have already signaled increased US investment to help mitigate risks. Despite current tensions, we also include stocks from mainland China and recommend some defensive picks offering attractive yields and valuations.

In Asia, we favor markets where we believe long-term local stocks drivers, structurally high GDP growth, and healthy earnings growth prospects can weather US tariff threats. In particular, we like Taiwan equities, as the expected acceleration in AI capital spending by US megacap technology companies should support Taiwan's IT sector, which accounts for close to 80% of the MSCI Taiwan Index by market cap. We also like Indian equities. India's economy is beginning to show signs of recovery. GDP growth is expected to stabilize around 6.3% in FY26 (starting 1 April 2025). The Nifty has corrected since late last year, but we maintain our view that FY26 will see a meaningful improvement in earnings growth. We currently see the greatest opportunities in financial and consumer stocks, while we maintain a cautious stance on the pharma sector.

Yield-generating structured strategies
Yield-generating strategies provide investors with alternative access to underlying stocks—an approach that is especially attractive when market volatility is elevated. At present, most measures of equity volatility—such as the CBOE VIX index for the US stock market—are trading well above their historical averages. These strategies enable investors to capitalize on heightened volatility by generating income and, in some cases, also allowing investors to wait for a more favorable entry point to gain direct exposure to stocks.

Appendix

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Version A/2025. CIO82652744