UBS House View

Monthly Letter | 24 April 2025 | Chief Investment Office GWM, Investment Research

Still exceptional?

The concept of US exceptionalism is facing scrutiny. Policy uncertainty has added to the recent market volatility.

Scope for a rebound

We expect the S&P 500 to recover over the balance of the year as tariff uncertainty eases and the Fed likely cuts interest rates.

Balance risk and opportunity

Investors should consider regional diversification to balance innovation opportunities in the US with the risks to the market.

Asset allocation

We rate US equities as Attractive. We also like quality bonds, and see gold and hedge funds as appealing portfolio diversifiers.

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Managing exceptionalism

Throughout history, US exceptionalism has been a significant theme in financial markets. However, this concept is facing scrutiny in 2025.

According to the Global Investment Returns Yearbook 2025, an investment of one dollar in US equities in 1900 would have grown to USD 2,911 in real (after inflation) terms by the end of 2024, compared to USD 194 for ex-US equities over the same period. From 2020 to 2024, US equities (MSCI USA) outperformed ex-US equities (MSCI AC World ex-US) by 72 percentage points, driven by a post-pandemic boom that saw nominal US GDP rise roughly 35% alongside strong corporate earnings growth and rapid technological advances.

Yet, US equities have underperformed ex-US equities by around 15 percentage points year to date. The US dollar and US Treasuries have deviated from historical patterns and declined amid recent volatility. The relative steepening of the US Treasury yield curve indicates that investors are demanding an additional risk premium on longer-term US government debt.

On the economic front, trade tariffs are expected to affect the US more significantly than most other global economies. Additional restrictions may limit the operations of US multinational companies globally. Beyond tariffs, Europe and China appear to be better positioned to provide monetary and fiscal stimulus, given the US deficit and central bank policy complications caused by tariff-driven inflation.

At the same time, the many innovative companies present in the US equity market are likely to remain a key driver of global profit growth in the years ahead. A well-diversified global portfolio should still include substantial exposure to the world's largest economy and most developed financial market. And nearer term, we see scope for a tactical recovery in US risk assets, as has often been the case historically following periods of high volatility and investor pessimism.

In the remainder of this letter, I consider the risks to US exceptionalism, why we believe US assets should nonetheless remain at the core of well-diversified global portfolios, and how investors can balance the risks and opportunities currently present in US assets.

Investors who are underexposed to US stocks can use the recent sell-off to progressively build strategic exposure.

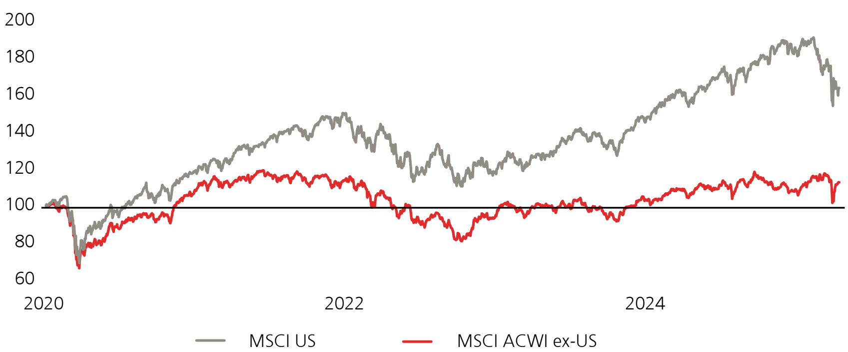
Changes in the global landscape should be a time for investors to pause, take stock, and consider their asset allocations. In short, we believe investors who entered 2025 underexposed to US stocks should use the recent sell-off to progressively build strategic exposure, while those with outsized exposure should look at global diversification opportunities.

To manage near-term volatility, we believe that investors should take advantage of attractive yields on US quality bonds to lock in durable income, while also considering diversifying to include gold, hedge funds, and other global fixed income markets. Finally, though the US dollar looks oversold in the near term, we believe investors should prepare to reduce US dollar exposure (including by hedging USD assets) in the event of near-term rallies, to improve the long-term risk-return profile of portfolios.

Figure 1

US equities outperformed ex-US equities since the start of the decade before underperforming in 2025

MSCI US and MSCI ACWI ex-US index, rebased, 31 December 2019 = 100



Source: Bloomberg, UBS, as of April 2025

Exceptionalism under question

No longer "exceptional" growth

US economic growth has outpaced that of other developed economies over the past 25 years.

Over the past 25 years, US economic growth has outpaced that of other developed economies, helped by relatively strong productivity gains, higher population growth, and rising investment. From 2000 to 2024, US real GDP grew at an average annual rate of approximately 2.2%, compared to 1.4% for the Eurozone and 0.7% for Japan.

Tariffs are likely to slow US economic growth.

Looking forward, we believe that tariffs are likely to have a relatively larger impact on the US economy than on most other large global economies. In our base case, we now expect US economic growth of 1.5% in 2025 versus the expectation of more than 2% growth we held earlier this year. We expect growth of 0.7% for the Eurozone in 2025 (around 0.2 ppt weaker than when we entered the year) and below 4% for China (roughly 0.5 ppt weaker).

If maintained, tariffs are also likely to adversely affect the US's long-term growth potential. The imposition of tariffs not only disrupts current trade flows, but is also likely to discourage investment and erode productivity in the US tradeable goods sector.

US policy more constrained

The ability for the US to provide additional fiscal and monetary stimulus appears more limited.

The US economy outperformed developed market peers after both the global financial crisis and the pandemic in part owing to the effective combined use of monetary and fiscal stimulus. The US government's fiscal response to the pandemic totaled an estimated USD 5 trillion and the Federal Reserve cut interest rates to just 0.00-0.25%. But the ability for the US to provide additional fiscal and monetary stimulus to offset the current shock is more limited.

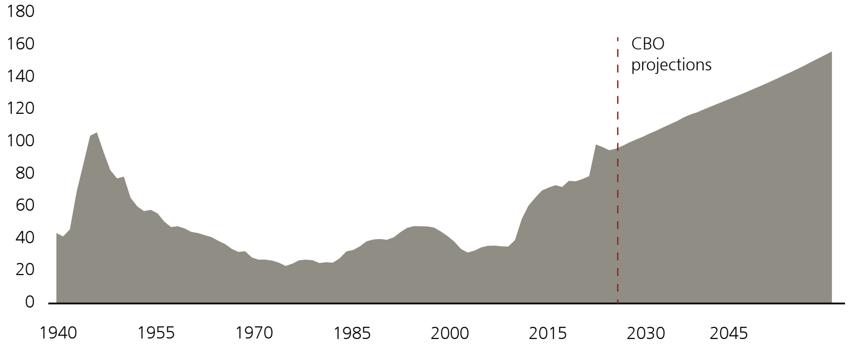
Our base case is that the Fed will cut interest rates by 75-100 basis points this year. But in the near term, the Fed's policy flexibility appears to be more limited as it has to balance growth concerns against the risk of a resurgence in inflation. Fed Chair Jerome Powell has stressed that he is keen to ensure that one-off price increases arising from higher tariffs do not drive second-round effects, which could lead to more sustained inflation. So, while the European Central Bank, Swiss National Bank, and Bank of England have cut rates already this year, it is likely that the Fed will need to wait until September for its next cut.

We also do not expect additional US fiscal stimulus this year. The US has run fiscal deficits of 5.3-6.3% of GDP for the past three years. With the US debt-to-GDP ratio at 123% as of December 2024, and amid growing concerns about the US fiscal trajectory both in Washington and on Wall Street, we do not expect the fiscal deficit to rise significantly. In our base case, we do see tax cuts introduced in 2017 being extended, but doing this would only represent the absence of fiscal tightening, rather than fresh stimulus.

Figure 2

The US federal debt to GDP ratio is at the highest level since 1946

Federal debt held by the public (i.e., debt excluding intragovernmental debt), % of GDP



Source: Congressional Budget Office, UBS, as of April 2025

Shifting growth narratives elsewhere?

There are signs of the structural outlook improving outside the US.

Part of the US "exceptionalism" narrative in recent years has also arisen from Europe and China facing structural growth challenges at the same time as the US was delivering robust growth. Part of the shift in the "exceptionalism" narrative in 2025 has been due to signs of improvements in the structural outlook for both Europe and China.

Recent developments point to a more constructive structural outlook for Europe, particularly as the US steps back from its traditional geopolitical leadership role. A key turning point has been Germany's decision to amend its debt brake, signaling a willingness to embrace more flexible fiscal policy to invest in defense and infrastructure. While it is early, this shift could also catalyze broader reforms across the Eurozone.

In the financial sphere, rising global demand for an "alternative reserve asset" and the need to fund higher defense spending may prompt the Eurozone to reconsider common bond issuance, a move that could deepen capital markets and strengthen the euro's international role. The recent Draghi report on EU competitiveness, which advocates for productivity-enhancing reforms, offers a blueprint for change.

China is accelerating its push for self-reliance.

Meanwhile, China is accelerating its push for even greater self-reliance, emphasizing advancements in high-tech industries, artificial intelligence, and clean energy. The government has also gone further in recent months to acknowledge the critical role of the private sector in driving technological innovation.

Why the US cannot be ignored

The world's biggest growth opportunities

The US tech sector has been a major driver of equity performance in recent years.

In recent years, a key driver of US equity market exceptionalism has been the performance of the US technology sector. Since the launch of ChatGPT in November 2022, the Magnificent 7 stocks have accounted for close to 60% of the S&P 500's gains.

Looking forward, we believe that the trend of innovation as a driver of long-term US—and, by extension, global—equity market performance will continue, despite potential near-term economic challenges and tariff headwinds.

We expect US companies to remain among the leaders in driving global corporate profit growth as they supply innovative products to the global economy. We have identified AI, Power and resources, and Longevity as three themes that will likely deliver a significant share of global corporate profit growth in the years ahead. US companies comprise about 80% of our AI, just over 50% of our Power and resources, and more than 70% of our Longevity Transformational Innovation Opportunities.

We see attractive opportunities in AI, Power and resources, and Longevity.

Following the recent sell-off, many of these companies are now more attractive, in our view. Global tech's 12-month forward price-to-earnings ratio is now approaching the low 20s, around 20% below last year's peak.

While tariffs will be a near-term overhang, it is important to see this in the context of strong longer-term growth. For technology, we expect tariffs to contribute to earnings per share cuts of 3-5% for 2025. But this means tech earnings should still grow by a mid-teens percentage this year, in our view. We expect strong global AI spend to continue, growing by 60% in 2025 to reach USD 360bn, and 33% in 2026 to reach USD 480bn.

Companies in our Power and resources opportunity currently trade on a forward P/E of 18x compared to the MSCI ACWI's 23x, despite our expectations for superior and more durable profit growth. Several formerly well-performing electrical equipment stocks in the strategy now trade at or below their respective sector averages, which we believe is unmerited taking into account a wide range of AI data center capex scenarios. We note that both Microsoft and Apple have reiterated their 2025 capex figures for data center infrastructure buildout.

In our Longevity opportunity, we note that US firms remain at the cutting edge of innovations in treating metabolic diseases like obesity and diabetes, particularly through GLP-1 drugs. Metabolic disease revenue is expected to grow at a 12% compound annualized growth rate (CAGR) through 2030. The health care sector is a primary beneficiary of the longevity trend, with a projected market opportunity of USD 2.2 trillion by 2030, according to UBS estimates.

USD quality fixed income remains an important part of portfolio diversification.

Deep fixed income markets
USD quality fixed income will also remain an important part of portfolio diversification for investors, providing liquidity, income, and portfolio stability, in our view.

US Treasuries sold off in tandem with equities following President Trump's "reciprocal" tariff announcements in early April. Question marks about Fed independence have also contributed to volatility in recent days. But although a "risk premium" is being priced into Treasuries, we believe there is a limit to how far this will rise, and we do not believe that Treasuries have fundamentally become a "risk asset."

In the event of a steeper slowdown in US growth, we believe that Treasuries would rally sharply and target a yield of 2.5% on the 10-year Treasury in our downside scenario (4.0% in our base case). The market also remains far more liquid than global alternatives, and Fed officials have signaled their readiness to intervene if market functioning were to become impaired.

We see scope for a recovery in US risk assets over the balance of the year.

Scope for a tactical recovery
Over the balance of 2025, we also see scope for a tactical recovery in US risk assets.

We believe the fact that the Trump administration changed its tariff stance in response to equity and bond market turbulence indicates some sensitivity to market stress, and points to the existence of a "Trump put" in some form. With many countries expressing a desire to negotiate with the US on tariff policy, and the Trump administration now somewhat pressured to demonstrate "success," we expect a variety of deals or sector carveouts to materialize within the 90-day pause period. The latest CNBC All-America economic survey found that President Trump now has a net negative approval rating on the economy (43% approval, 55% disapproval) for the first time.

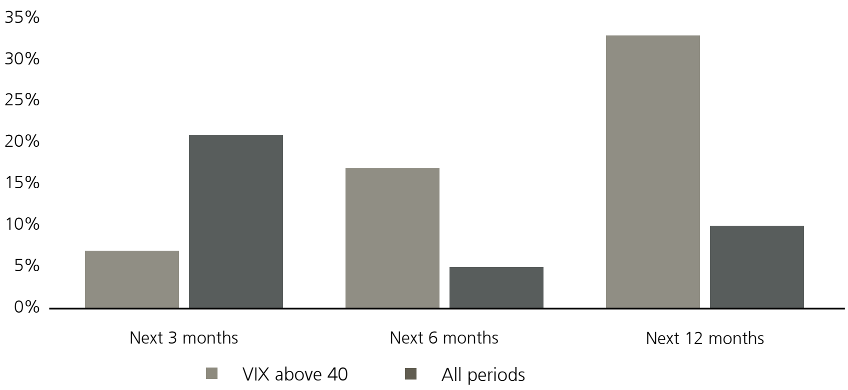
Negative sentiment toward US equities also suggests scope for a rally over the next 12 months. In March, the American Association of Individual Investors' (AAII) weekly survey showed that, on average, only 22% of investors expected stocks to rise over the next six months. Historically, the S&P 500 has averaged a 16% return in the 12 months following instances where bullish sentiment readings were below 25%, compared with an average return of just over 9% in all periods.

The S&P 500 has also performed well historically after periods of elevated market volatility. While each case is different, based on data going back to 1990, levels of the VIX above 40 (the index reached a high of 60 in early April) have been followed on average by one-year returns of more than 30% on the S&P 500.

Figure 3

S&P 500 forward returns have historically been strong when the VIX is high

Average S&P 500 price return when VIX above 40 vs. all periods, data since 1990



Source: Bloomberg, UBS, as of April 2025

Investment views: balancing risks with opportunities

Look through volatility to build strategic exposure

We believe investors who entered 2025 with low strategic exposure to US equities should use volatility to grow allocations.

With US companies likely to remain key drivers of global profit growth in the years ahead, we believe investors who entered 2025 with low strategic exposure to US equities should use continuing volatility to grow allocations. We expect the S&P 500 to rise to 5,800 by the end of 2025 as tariff uncertainty eases, the Fed cuts interest rates, and investors' focus shifts toward the prospect of a rebound in US earnings growth in 2026. We believe that phasing-in or capital preservation approaches can allow investors to benefit from medium-term growth while managing near-term timing risks.

We have also identified 20 US companies across a range of sectors that are higher quality, have solid business models, and which, after the recent sell-off, offer good longer-term value, in our view. We retain a high conviction view on the Transformational Innovation Opportunities of AI, Power and resources, and Longevity.

We also see diversification opportunities in Europe and Asia.

Investors who already hold adequate, or outsized, US exposure should consider diversifying into opportunities in Europe and Asia. Our "Six ways to invest in Europe" list focuses on defensive champions that can benefit from increased market volatility, as well as from likely higher European defense spending and fiscal stimulus. In Asia, we like India and Taiwan.

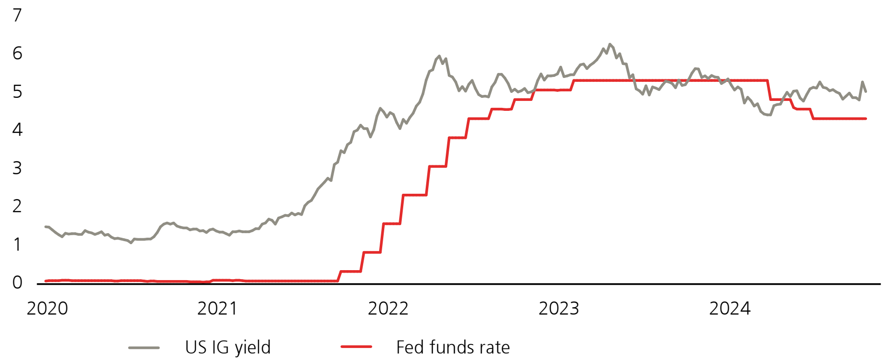
Manage volatility with fixed income, gold, and hedge funds

With bond yields relatively high, the yield curve steeper, and economic growth likely to slow, we see an opportunity for investors to switch cash into high-quality bonds and diversified fixed income portfolios to lock in yields, dampen overall portfolio volatility, and provide additional robust income. In our base case, we see the 10-year Treasury yield at 4.0% by year-end, and believe it could fall to 2.5% in a hard landing scenario.

Figure 4

US investment grade yields remain appealing

US IG (1-10 year) yield and federal funds effective rate, %



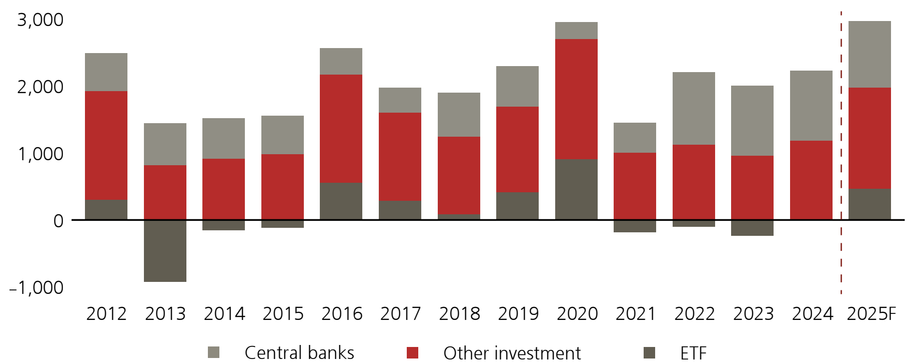
Source: Bloomberg, UBS, as of April 2025

At the same time, investors should remember that the long-term correlation between bonds and equities can vary, and the regime of consistently negative correlations between bonds and equities (which we saw through much of the 1990s, 2000s, and 2010s) has likely come to an end. This reemphasizes the importance of including alternative diversifiers into portfolios including hedge funds and gold.

Figure 5

Strong central bank demand, ETF buying are supportive of gold prices

Demand for gold from various sources, including UBS forecasts, in metric tons



Source: World Gold Council, UBS, as of April 2025

Gold has been the standout performer of 2025 so far. Purchases of exchange-traded funds (ETFs) have increased recently alongside ongoing central bank demand, supporting the precious metal. While our forecast stands at USD 3,500/oz at present, if US political uncertainty extends further, leading to greater demand for perceived "safe havens," we believe gold could rise toward our upside risk case (i.e., adverse macro scenario) of USD 3,800/oz.

Prepare to reduce US dollar exposure

The US dollar has sold off sharply and may stabilize in the near term.

After its notable recent sell-off, the US dollar may stabilize in the near term, in our view, especially with the Fed sounding caution on rate cuts at the same time as other central banks are cutting rates in response to the deteriorating growth outlook. In the absence of even greater US political uncertainty, current USD levels would require a sharp decline in US activity to be justified, in our view.

Over the medium term, however, we believe the trend of dollar weakness is likely to resume as the US economy slows more than elsewhere and elevated US twin deficits come into greater focus. As the Fed commences interest rate cuts, global investors are also likely to increase their FX hedge ratios, adding to USD downside pressure. So, we prefer using any periods of near-term dollar strength to reduce dollar allocations in favor of the Japanese yen, euro, British pound, and Australian dollar. Meanwhile, we like to sell the USD's upside potential for yield pickup.

Mark Haefele
Chief Investment Officer
Global Wealth Management

Messages in Focus

Seek durable income
Despite the significant increase in downside risks to growth, bond yields have remained elevated. We believe this creates an opportunity for investors to seek durable portfolio income. High grade and investment grade bonds offer attractive risk-reward and can help hedge against market downturns. Wider credit spreads are improving the outlook for riskier credit; however, with economic visibility low, we prefer diversified portfolio income strategies—including senior loans, private credit, equity income, and higher quality credit.

Navigate political risks
Gold remains near record highs, reaffirming its value as a hedge amid ongoing geopolitical and political risks. With our price target raised to USD 3,500/oz through early 2026, we see gold well supported by “safe haven” demand and structural buying. We favor using dips as buying opportunities or entering defensively to protect gains. For investors seeking to preserve gains while retaining upside, capital preservation strategies can also be applied in equities. Silver, meanwhile, offers a complementary play, with investment demand expected to support prices alongside gold.

Phase into equities
While we expect near-term volatility to remain high, we anticipate equities will rise by year-end as the Trump administration strikes deals to reduce tariffs, and as rate cuts and potential fiscal support improve investor sentiment. Investors can navigate near-term volatility and position for longer-term upside by phasing into US equities or balanced portfolios, or by utilizing capital preservation strategies.

Seek sell-off opportunities
Recent volatility has created select attractive opportunities at the single stock and market level, with various companies with strong long-term prospects now trading at more attractive valuations. In the US, we have identified 20 companies across sectors that are higher quality, have solid business models, and offer good long-term value. In Europe, our “Six ways to invest in Europe” list focuses on defensive champions benefiting from market volatility, higher defense spending, and fiscal stimulus. In Asia, we favor India and Taiwan.

Sell dollar rallies
Following a recent sell-off, we expect the US dollar to stabilize in the near term, as the Federal Reserve remains cautious on rate cuts while other central banks ease policy in response to weaker growth. In our view, current dollar levels are only justified if there is a significant deterioration in US economic activity or a major increase in political uncertainty. Over the medium term, we anticipate renewed dollar weakness as the US economy slows and focus shifts to the US’s large deficits. We prefer using any periods of near-term dollar strength as an opportunity to reduce USD allocations in favor of currencies such as the yen, euro, pound, and Australian dollar.

Invest in transformational innovation
We maintain strong conviction in the long-term potential of our Transformational Innovation Opportunity themes, including Artificial intelligence, Power and resources, and Longevity. While recent market volatility has weighed on these sectors, we see this as an opportunity for long-term investors to build exposure to what we believe will be among the world’s fastest-growing industries. Phasing into investments or using capital preservation strategies can help manage short-term risks. We also see compelling opportunities for sustainability-focused investors, particularly in energy and health care, given the ongoing global emphasis on energy security and improved health outcomes.

Diversify with alternatives
More uncertain markets make diversification even more critical—both across and within alternative assets. In hedge funds, we favor low net equity long/short, macro, and multi-strategy approaches. Within private markets, we prefer private credit, value-oriented buyouts, and secondaries, including infrastructure. Thematically, we favor software, health, and climate. We also see a bright outlook for quality assets in global residential and commercial real estate, particularly in logistics, data centers, and multifamily housing.

Strengthen your core
Periods of market volatility can quickly reveal parts of a portfolio that may not be working effectively toward long-term goals. We generally recommend that investors implement a “core” portfolio, well-diversified across asset classes, geographies, and sectors, designed to grow wealth steadily over time. This “core” can be held alongside more opportunistic “satellite” investments, allowing investors to stay on course for long-term goals even as markets and “satellite” investments become more volatile.

Global forecasts

Economy

Real GDP y/y, in %

	2024E	2025E	2026E
US	2.8	1.5	0.8
Canada	1.2	2.0	2.0
Japan	0.1	0.8	0.3
Eurozone	0.8	0.7	1.0
UK	1.1	0.8	1.1
Switzerland	1.3	0.7	1.6
Australia	1.0	1.9	2.0
China	5.0	3.4	3.0
India	6.5	6.0	6.4
EM	4.4	3.5	3.5
World	3.3	2.5	2.5

Inflation (average CPI), y/y, in %

	2024E	2025E	2026E
US	3.0	3.2	3.8
Canada	2.4	2.2	2.1
Japan	2.7	3.0	1.2
Eurozone	2.4	2.1	1.9
UK	2.5	3.0	2.0
Switzerland	1.1	0.2	0.5
Australia	3.2	2.4	2.5
China	0.4	-0.6	-0.5
India	4.6	4.0	4.2
EM	8.1	3.8	3.0
World	5.7	3.3	2.8

Source: Bloomberg, UBS, as of 24 April 2025. Latest forecasts available in the *Global forecasts* publication, published weekly.

Asset classes

	Spot	June-25	Dec-25
Equities			
S&P 500	5,376	5,500	5,800
Eurostoxx 50	5,099	5,000	5,200
FTSE 100	8,403	8,200	8,500
SMI	11,809	12,000	12,200
MSCI Asia ex-Japan	706	678	712
MSCI China	71	68	70
Topix	2,584	2,500	2,600
MSCI EM	1,096	1,050	1,100
MSCI AC World	968	980	1,030
Currencies			
EURUSD	1.14	1.14	1.16
GBPUSD	1.33	1.36	1.38
USDCHF	0.83	0.83	0.82
USDCAD	1.38	1.40	1.38
AUDUSD	0.64	0.64	0.68
EURCHF	0.94	0.95	0.95
NZDUSD	0.60	0.60	0.62
USDJPY	143	144	140
USDCNY	7.30	7.30	7.20

	Spot	June-25	Dec-25
Yields, in %			
USD 2y Treasury	3.87	4.00	3.75
USD 10 year Treasury	4.38	4.25	4.00
CHF 2y Eidg.	0.00	0.00	0.00
CHF 10y Eidg.	0.47	0.50	0.50
EUR 2y Bund	1.75	2.00	2.00
EUR 10y Bund	2.50	2.50	2.50
GBP 2y Gilt	3.92	3.75	3.50
GBP 10y Gilt	4.55	4.00	4.00
JPY 2y JGB	0.70	0.70	0.80
JPY 10y JGB	1.34	1.20	1.20
Commodities			
Brent crude, USD/bbl	66.1	68	68
Gold, USD/oz	3,288	3,500	3,500

Source: Bloomberg, UBS, as of 24 April 2025. Latest forecasts available in the *Global forecasts* publication, published weekly.

Disclaimer / Risk Information

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.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- Hedge Fund Risk: There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-US securities and illiquid investments.
- Managed Futures: There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- Real Estate: There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- Private Equity: There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- Foreign Exchange/Currency Risk: Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a US investor.

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