UBP House View

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MARKETING COMMUNICATION

Union Bancaire Privée

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Editorial

Riding out market instability

Sharp swings, rising uncertainty, and growing unpredictability are rattling investors as they gauge the tariffs' impact on the global economy. By sweeping away the post-1945 global trade order, Donald Trump is ushering in a new regime of heightened risks – one that demands faster, more agile portfolio management.

The implementation of tariffs is mechanically introducing macroeconomic risks by altering the trajectory of the economy. A loss of confidence among businesses, investors and consumers could act as a brake on activity, potentially triggering a self-reinforcing downward spiral. In our view, this consequence remains underappreciated by the market.

In this low-visibility environment, risk management backed by tactical operations is our top priority. We pivoted from a strategic stance on US equities to a tactical approach focused on actively managed options strategies. We are also prioritising gold and cash as safe haven.

Contents

The opinions expressed in this document are as at 14 April 2025 and are subject to change without notice.

Key investment themes & risks

Investment themes

1 Tactical operations are essential for mitigating the risks in volatile markets.

2 Gold remains a safe haven in turbulent times.

3 We have reduced USD exposure in non-USD portfolios due to weakened confidence in the currency triggered by Trump's tariff policies.

4 Cash offers safety and flexibility.

Although the worst-case scenario – namely a full-blown global trade war – has been avoided for now, all asset classes are adjusting to a slower global economic growth environment and a higher US inflationary regime.

This is resulting in lower equity valuations, increased volatility and limited direction in long-term yields, wider spreads in risky credit, and a volatility regime that benefits hedge funds and gold prices. Our defensive positioning in fixed income (short duration and reduced exposure to risky credit) and equities (using option-derived protection), along with a positive outlook on hedge funds and gold, has mitigated the negative impact of this global repricing. We continue to favour hedge funds (rating them 4/5) and gold (4/5) over equities (a strategic rating of 3/5) and fixed income (2/5).

As a new economic landscape of slower growth and higher inflation takes shape, the implications for asset classes are significant.

For equities, while global markets may have priced in much of the short-term negative news, in our view the long-term impact on earnings growth forecasts and valuations have not been. Consequently, 'buy-and-hold' strategies for risk assets are no longer viable, and tactical management is crucial. We have increased our allocation to tactical instruments and expanded our risk budget for tactical trades. Earnings expectations for global equities are overly optimistic, necessitating a sharp revision. Should tariffs be definitely implemented, the earnings consensus for this year is likely to be revised down to 5% as US growth decelerates and corporate margins are affected by tariffs. In this scenario, valuations offer limited support despite recent drawdowns.

For fixed income, we maintain a cautious stance, as the traditional approach of buying duration to safeguard against a slowing economy is less effective in this environment. Earlier this year, we reduced our exposure to risky credit, as spreads were too narrow and in danger of widening, jeopardising returns, and we are maintaining this view for the time being.

Hedge funds and gold come into their own in this scenario, and we continue to hold our positions and maintain a positive outlook on both asset classes. While a time will come to shift allocations and adopt a more positive view on risk, we anticipate that uncertainty will persist in the coming weeks.

Risks

The announcement of a 90-day pause on reciprocal tariffs – excluding those on China, Canada and Mexico – has eased market concerns, averting the worst-case economic scenario. However, policy uncertainty remains high, and volatility is likely to persist.

For equities, attention is now shifting to the upcoming earnings season. A risk for US equities is the current elevated valuations given the limited earnings growth that we forecast this year. This poses significant risks to equity markets, especially with the consensus still forecasting 10% earnings growth in 2025 – a projection that appears increasingly optimistic. Companies face rising input costs just as demand shows signs of softening, potentially leading to downward revisions in earnings estimates in the coming quarters.

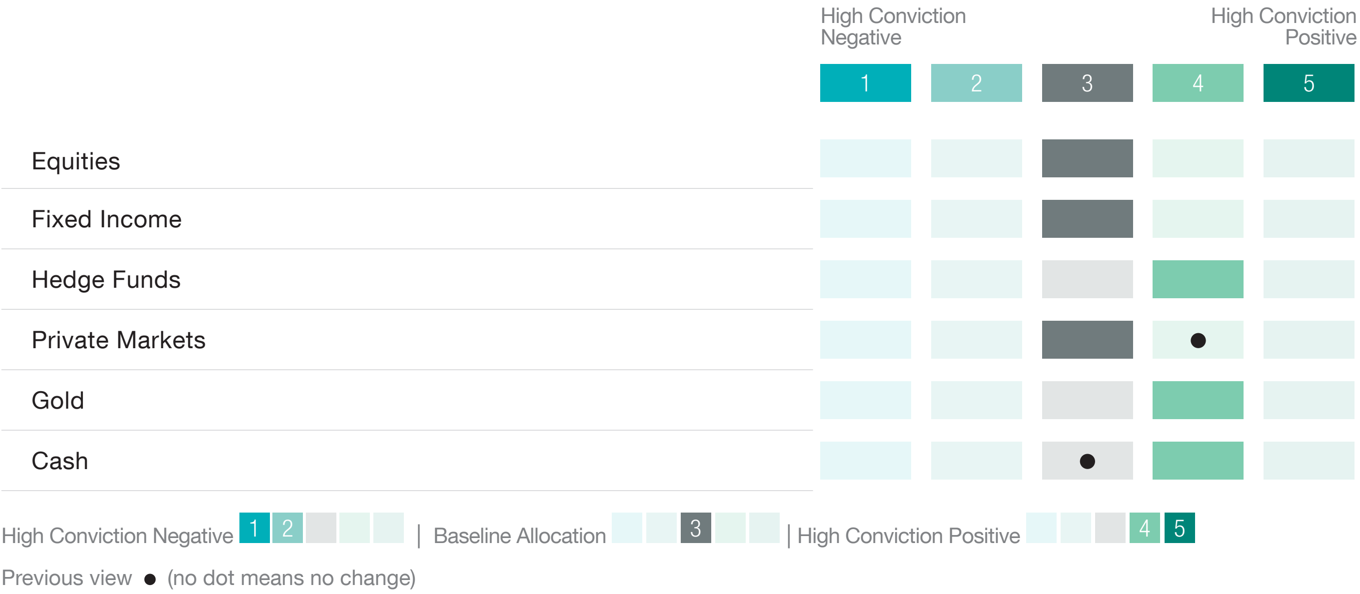
The US technology sector presents additional vulnerabilities. Now accounting for nearly 40% of the S&P 500 by market capitalisation, tech companies are facing intensifying competition from China, particularly in areas like semiconductors and artificial intelligence. Amid heightened policy uncertainty, major US tech firms may slow investment in AI infrastructure, potentially undermining one of the market's key growth engines.

For fixed income, inflationary pressures also remain a concern. Tariffs are expected to raise import prices and contribute to broader price increases, which could push bond yields higher and result in steeper borrowing costs across the economy. With financial conditions already tightening and balance sheets stretched, this could further constrain economic activity. In light of these developments, we maintain a cautious stance on long-duration bonds and have reduced exposure to lower-quality credit in our portfolios.

Given our significant exposure to gold, an easing geopolitical environment – particularly in US-China trade tensions – could reverse the upward trend in precious metals.

Last, our substantial allocation to hedge funds presents liquidity and leverage risks, especially when volatility reaches record levels.

Asset allocation: strategic views as at April 2025



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Macroeconomics

The initial tariffs announcement by US President Trump exceeded most expectations, raising the average tariff on US imports from 2.5% to 24%, a level not seen since the 1930–40s. These increases will dampen trade and activity in all countries, and there is a great deal of uncertainty about the outcome of any tariff negotiations. This environment also increases the risk of recession in all countries, including the US.

Rising tariffs: a drag on global growth

The increase in tariffs was expected, as it is the cornerstone of President Trump's manifesto, but the size of the increases, the methods of calculation, and the very long list of countries affected have come as a surprise; this is a reminder of the determination to base US economic policy on high tariffs and isolationism.

The latest changes from the US administration removed the reciprocal tariffs but left a minimum 10% rise in tariffs in place. The 90-day pause on tariffs should be positive for active negotiations with many countries.

Nevertheless, these increases will be a drag on world trade and create a great deal of uncertainty about the nature and extent of the responses of the countries affected. The global result will be weaker growth and higher inflation. In the short term, relocating industries is not possible and the final impact of these tariff hikes will depend on the negotiations about them and the responses of the countries concerned. Under the 90-day pause on tariffs, negotiations at country level should accelerate over the next few weeks; a compromise could be expected between the US, Japan, and India; the eurozone has followed the same trade strategy as seen in 2018, targeting some US consumers and agriculture goods in case of retaliation, but negotiations should pick up pace over the next 90 days. Negotiating with China will be difficult, as the two countries have entered a trade war and are reacting in a tit-for-tat way.

The overall impact on growth will therefore depend on the speed of implementation, the duration of these increases and their possible downward revision through negotiations, but also on currency fluctuations (which may offset tariff increases), as well as on final import demand. Active negotiations (such as quotas for targeted purchases, lower tariffs, and non-tariff restrictions) could result in a smaller increase in the announced tariffs for the major developed countries.

Some sectors remain exempt, including energy and some commodities, and products covered by the USMCA are not affected by the latest announcements. On the other hand, further sectoral increases could follow the auto and steel sectors and target pharmaceuticals.

In this context, the negative impact on US growth would be between 0.3 and 0.7 percentage points, while inflation could rise by a further 0.5–0.7 percentage points. The lack of visibility will weigh on growth, and the loss of confidence among US businesses and households could be long-lasting while they await the next budget decisions and promised tax cuts. US inflation is likely to be hit hard by higher import and production costs, pushing it above 3% or even 4%.

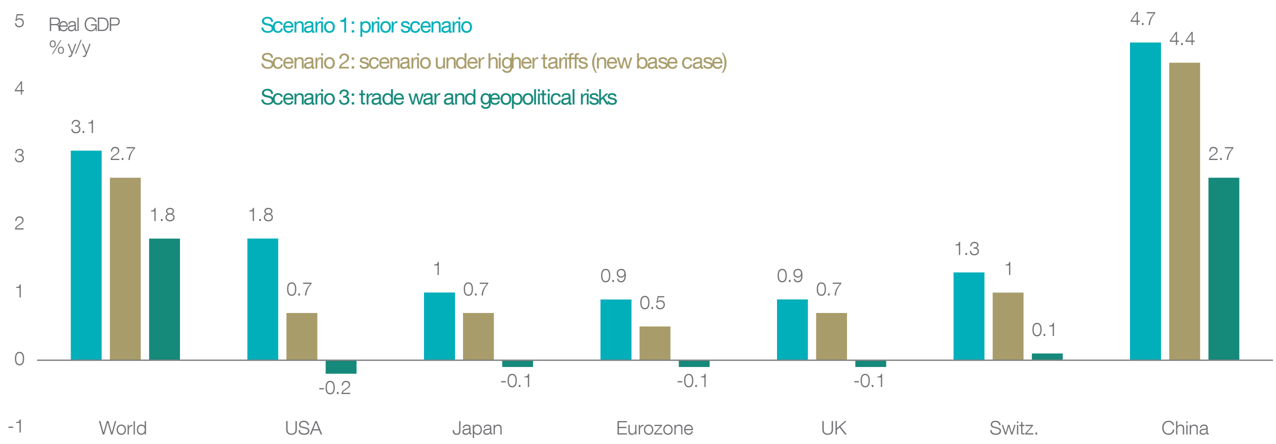
Growth in the eurozone is likely to be reduced by 0.3 percentage points to 0.5 percentage points, but with some negotiations lessening the impact, as in the case of Switzerland. The United Kingdom faces lower tariff increases (10%) but could see its activity reduced by 0.2–0.1 percentage points (see graph).

Emerging markets are being affected differently by this round of tariffs. Brazil is more exposed than other Latin American economies. However, the tariff hikes will hit Asian countries the hardest, as they serve as production and export hubs: the tariff hikes vary from country to country, with Vietnam and China seeing the largest increases. In a negotiation scenario, the ultimate negative impact could be between 0.3 percentage points and 1 percentage point of growth, depending on the country. For China, tariff increases have now reached 145% since Trump took office, and the Chinese authorities have responded with targeted tariff increases and restrictions on specific exports (e.g. rare earth minerals). In this environment, Chinese growth could be the most severely impacted and settle well below 4% in 2025.

The estimated impact may unfold over different time horizons in different countries. The first visible effects on the economy could be seen in the next few quarters, and growth figures will be affected in the second half of the year as well as in estimates for 2026.

The economic shock will force countries to renew budgetary supports and accelerate monetary easing. China's budget deficit could well exceed the 4% reported at the beginning of the year, and the eurozone will have to provide aid to the most vulnerable sectors, pending a more global, NGEU-style response. Over the next few weeks, the Fed may not be able to ease interest rates; however, the prospect of a deteriorating economy and rising unemployment should force the Fed to cut rates, even if inflation remains above its 2% target.

WORLD GROWTH ESTIMATES OF TARIFFS AND TRADE WAR IMPACTS ON SCENARIOS



Sources: UBP, IMF. NB: shocks are applied to 2025 to simplify, but real shocks could spill over from H2 2025 into 2026.
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Trade war and geopolitical risks: spectre of recession looms larger

The response of US trading partners will also contribute to a lasting change in the trajectory of the global economy. Widespread tariff increases would trigger a major trade war. Moreover, if China, Europe and Japan were to confront the United States directly, the risks would shift from trade to widespread geopolitical tensions, destroying the treaties and international relations built up over several decades.

In the extreme case of a generalised trade war, global growth would fall by more than 1 percentage point, with the US down 1.7 percentage points, Europe down 1 percentage point and China down 2 percentage points, and potentially more (see table).

Recent statements by the US administration have increased the risk of a recession, but the extreme scenario mentioned here is still quite remote. However, uncertainties may persist for a long time after any negotiations, and a lack of visibility will persist. Poorly calibrated statements or over-hasty reactions on the part of the US authorities and the rest of the world could lead the markets to consider extreme scenarios, even if that probability remains low.

“‘Buy-and-hold’ strategies for risk assets are no longer viable, and tactical management is crucial.”

Strategy

What markets are (and aren't) pricing in now

Recent weeks have seen volatility surge, with equity markets and bond yields falling as the US unveiled global tariffs (an effective tax on US consumers/businesses) which should serve as a medium-term dampener on economic growth and a catalyst for higher inflation.

Markets appear to be focusing on the first potential impact – weaker growth – and only a 'transitory' rise in inflation as described by the Fed Chair Jerome Powell at his March press conference.

Indeed, 5-year inflation expectations are now at their lowest in comparison with their 2-year counterparts since 1980 (outside the 2020 global pandemic's initial deflationary shock), suggesting that markets are not focused on medium-term inflationary concerns, and instead US Treasury yields are closer to pricing in a recessionary – i.e. weak growth and weak medium-term inflation – environment.

Indeed, despite the falls in equity markets, global equity valuations have returned to near-historical averages, leaving them only unpricing a repeat of the 2017 US-centric economic and corporate earnings boom that came in Trump's first year in office in favour of more moderate but still supportive economic and earnings growth expectations. However, these more measured expectations fail to reach the recessionary environment that bonds are increasingly pricing in.

Investors will likely need to continue to lean on risk management strategies until markets better price in the new growth, inflation and geopolitical landscape taking shape

Equity and bond markets also appear to be underpricing the prospect of a fiscal follow-on response to the tariffs, as Trump tax cuts, German and potential EU fiscal spending, as well as consumer stimulus from China's upcoming Five-Year Plan are set to be unveiled in the weeks and months ahead.

THE MARCH-APRIL DECLINES ONLY LEAVE GLOBAL EQUITIES UNPRICING A 2017-STYLE TRUMP BOOM WITH VALUATIONS NEAR HISTORICAL AVERAGES IN THE US AND EUROPE

Sources: MSCI, NASDAQ, Standard & Poor's, Bloomberg Finance L.P. and UBP.
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As a result, investors will need to continue to lean on the foundations of gold, hedge funds, and cash, complemented by tactical overlays, as their basis for risk management until markets better price in the new growth, inflation, and geopolitical landscape taking shape around the world.

Directional views

Asset allocation: tactical views as at April 2025

		1 (High Conviction Negative)	2	3	4	5 (High Conviction Positive)
EQUITIES			●	■		
Region	United States			■		
	Europe			■		
	Switzerland				■	
	United Kingdom			■		
	Japan			■		
	India			■		
	China		■			
	Emerging ex China		■			
Sector	Technology				■	
	Telecoms		■			
	Media				■	
	Utilities			■		
	Financials			■		
	Industrials			■		
	Consumer Discretionary		■			
	Real Estate			■		
	Healthcare			■	●	
	Materials		■			
	Energy			■		
	Consumer Staples			■		
FIXED INCOME			■			
Government			■			
Investment Grade			●	■		
High Yield				■		
Emerging Market Debt			■	●		
Convertibles				■		

High Conviction Negative 1 2 | Baseline Allocation 3 | High Conviction Positive 4 5

Previous view ● (no dot means no change)

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Directional views

Asset allocation: tactical views as at April 2025

	1 (High Conviction Negative)	2	3	4	5 (High Conviction Positive)
HEDGE FUNDS				■	
Equity long/short			■		
Global Macro				■	
Credit				■	
Relative Value				■	
PRIVATE MARKETS				■	
Private Equity			■		
Private Credit				■	●
Infrastructure				■	
Real Estate				■	
GOLD				■	
COMMODITIES			■		
Oil		■	●		
CASH			■		
USD				■	
EUR			■		
GBP			■		
CHF		■			
CURRENCIES					
EUR/USD				■	
USD/JPY			■		●
GBP/USD			●	■	
USD/CHF				■	
USD/CNY			■	●	

High Conviction Negative 1 2 | Baseline Allocation 3 | High Conviction Positive 4 5

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Asset allocation

Equities

Effective risk management has been essential in navigating one of the sharpest sell-offs since the pandemic, and it is our view that heightened market volatility is nearing a short-term end. The US administration's announcement of a 90-day pause on tariffs for most trading partners is expected to stabilise global financial markets, with equity volatility likely to return to more normalised levels.

The pause also allows for investor focus to return to corporate earnings as Q1 reporting season gets under way. Forward-looking commentary will be of utmost importance for investors to assess the impact of remaining tariffs across sectors, regions and equity styles and adjust exposures accordingly.

We are taking advantage of the recent market outperformance to downgrade the healthcare sector (from 4/5 to 3/5). The upcoming tariffs on pharmaceutical companies are expected to significantly impact earnings in the short term, and the deteriorating US regulatory environment, including cost-cutting at the FDA, could also affect the sector in the longer term

Although our outlook for equities is now back to neutral (a 3/5 rating), we emphasise the importance of maintaining some protection (for example via options strategies) following the announcement of the pause on tariffs, as the US administration has shown itself to flip-flop on policy decisions.

Fixed income

In early March, we halved our exposure to risky credit (both high yield and emerging markets). With uncertainty soaring, we believe it is premature to rebuild risk at this stage. A trade war could stifle growth while stoking inflation, complicating forecasts for both rates and spreads. We are comfortable with our low-duration stance (around 3 years in USD), though we would consider reducing this further if 10-year yields near 3.5%.

The year began with investment grade and high yield spreads tighter than they have been in several decades, prompting us to pivot to less-compressed sub-classes like agency MBS, senior loans, and AT1s – a strategy we continue to maintain. Spreads have since widened sharply, with IG and HY nearing median levels. Safer assets like Treasuries, IG and MBS hold 1.7–2.3% year-to-date gains, while HY and EM (-1.0%) slipped into negative territory (as at 9 April 2025).

Despite the recently announced 90-day delay on tariffs, it is worth highlighting that tariffs have a disproportionate impact on some emerging market countries, which could punish the class beyond the typical widening in sympathy with high yield. We are therefore reducing our tactical view on emerging markets to 2/5 while becoming more positive on IG as spreads have now normalised, increasing our view from 2/5 to 3/5.

	USD	EUR	GBP
Duration	3.0y	3.5y	3.5y

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Hedge funds

Despite a heightened level of volatility in March, most hedge funds finished in positive territory or with limited losses. Long/Short managers experienced the most dispersion as some sectors and names were hit badly by deleveraging. They finished slightly down on aggregate but, thanks to a strong start to the year, the strategy broke even over the first quarter.

Going into April, the Equity Long/Short managers had generally reduced both net and gross exposures ahead of "Liberation Day". The main challenge continues to be the very large swings in markets on a daily basis as the spreads between their longs and hedges move sharply. Managers are highlighting that the moves they have seen so far are predominantly indiscriminate and not being driven by fundamentals. For Global Macro managers, curve and cross market trades were mixed. The Japan normalisation theme of being short Japanese bonds based on an inflationary view, proved costly whilst cross market hedges did not react as expected. In addition, the size of the market moves saw dislocations across the US Treasury curve and relative value trades also caused losses. Managers have been trimming exposure in response to the increase in volatility. For Relative Value managers, performances have been stable as the volatility experienced in equity markets has by and large not transitioned to other assets markets resulting in relatively stable performance. There were some losses on the lower-rated credits as well as on the stressed US treasury markets, however hedges and high interest income have largely offset those losses.

Private markets

The volatile newsflow on tariffs coming from the US administration is denting general business confidence in the US, and when business confidence slows down, corporate activity such as M&A and LBO should theoretically slow down as well. So far this year the M&A deal count is up, volumes are in line, but the vast majority of deals are being funded with cash, indicating a less credit-friendly M&A market. Additionally, the increased volume of dividends recaps in a relatively high-rate environment exemplifies the difficulty for sponsors in finding exit routes for the companies in their portfolios, combined with a form of pressure to return capital. Last, and in contrast, global financing needs continue to remain elevated and are providing a structural support to the strategy, arguing for private credit to maintain a positive rating, albeit one notch lower. Consequently, we have downgraded our rating from 5/5 to 4/5.

Currencies

In early April, the USD weakened following US President Trump's tariff announcements. USD weakness was particularly pronounced against current account surplus currencies like the JPY, CHF and EUR, which is consistent with safe-haven currency performance. We anticipate further directional USD depreciation in the coming weeks, with the EUR/USD moving to levels of 1.14 being feasible by year-end. We have moved to reduce USD exposures in our portfolios in anticipation of a multi-year trend of a weakening USD.

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Commodities

In early April, gold traded to lows of around USD 3,000/oz, following US President Trump's tariff announcements on 2 April; this brief decline reflected portfolio risk reduction. However, the decline was not sustained, and as the USD weakened and US Treasuries fell, gold surged to levels of USD 3,244/oz – another all-time high. We maintain a highly constructive stance on gold over the medium term.

In early April, oil prices traded lower to levels of around USD 60/bbl, reflecting OPEC's decision to increase supply from May onwards; this will increase average supply overhangs in the market. We have lowered our Brent crude forecasts as a result of this to levels of around USD 55/bbl in June.

Market monitor

As at 15 April 2025

Equities World	Last Price	4W Chng	YTD Chng
MSCI Word Index (ex EM)	3 522.80	-3.90%	-4.99%
Equities USA	**Last Price**	**4W Chng**	**YTD Chng**
S&P 500	5 396.63	-4.30%	-8.25%
Dow Jones	40 368.96	-2.70%	-5.11%
Nasdaq 100	18 830.23	-4.44%	-10.38%
Equities Europe	**Last Price**	**4W Chng**	**YTD Chng**
FTSE 100	8 249.12	-4.44%	0.93%
STOXX Europe 600	508.06	-7.05%	0.09%
Swiss Market Index	11 609.84	-10.12%	0.08%
Equities Asia	**Last Price**	**4W Chng**	**YTD Chng**
Hang Seng	21 466.27	-10.41%	7.01%
MSCI India	984.61	6.51%	-3.86%
Nikkei 225	34 267.54	-7.52%	-14.10%
MSCI Emerging Markets	1 070.26	-4.41%	-0.49%
Credit	**Last Price**	**4W Chng**	**YTD Chng**
Global High Yield Bonds	490.68	-1.60%	-0.46%
US High Yield bonds	1 710.75	-1.62%	-0.58%
US Corporate bonds	3 354.34	-0.91%	0.78%
US Aggregate Bonds	93.89	-0.25%	-0.44%
European Aggregate bonds	55.01	1.86%	-0.71%
EM USD Aggregate Bonds	1 637.61	0.00%	0.00%
Sovereign	**Last Price**	**4W Chng**	**YTD Chng**
US 10-year Treasury	4.34	2.1bp	-23.4bp
German 10-year Bund	2.54	-32.9bp	18.3bp
Alternatives	**Last Price**	**4W Chng**	**YTD Chng**
S&P Commodities	21.04	-4.58%	-3.31%
Crude oil	61.55	-8.39%	-14.37%
HFRX Equity Hedge	1 226.40	0.00%	0.00%
Gold	3 228.38	8.16%	23.00%
Silver	32.33	-4.38%	11.86%
Currencies	**Last Price**	**4W Chng**	**YTD Chng**
Dollar Index	100.07	-3.52%	-7.77%
EUR/USD	1.1282	3.69%	8.97%
USD/CHF	0.8235	-6.98%	-9.24%
Volatility	**Last Price**	**4W Chng**	**YTD Chng**
S&P 500 VIX	30.12	38.36%	73.60%
NASDAQ VXN	32.71	26.83%	64.21%
VSTOXX	25.95	28.35%	52.60%
XDAX	25.30	12.34%	61.82%

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