

US stocks bounce at end of volatile week

Weekly Global

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What happened?

Stocks ended a volatile week on a positive note, with the S&P 500 rising 2.1 % and the Nasdaq advancing 2.5% on Friday on news that the Senate might pass a funding bill that could avert a government shutdown. US President Donald Trump over the weekend signed the bill into law, providing funding for government operations until the end of September.

Trump also stated on Friday his view that there would be a “very good chance” that the war between Russia and Ukraine would end, following “productive” discussions with Russian President Vladimir Putin on Thursday.

However, despite Friday's rebound, the S&P 500 saw its fourth consecutive negative week (-2.3%) amid elevated political and economic uncertainty. The index fell sharply at the start of last week as markets reacted to signs that the Trump administration could be willing to tolerate a temporary “disturbance” to economic activity and higher inflation in pursuit of its economic agenda. President Trump suggested the US economy could face a “period of transition”—and, asked whether higher US tariffs could lead to higher inflation, he said “you may get it.”

The S&P 500 entered correction territory last Thursday, falling 10% from its 19 February peak. Last Monday, the VIX index of implied US equity volatility rose to its highest level since August, before subsiding to around 22 by the end of the week—still above its long-term average of around 20.

Trade policies are adding to uncertainty over the economic outlook. Higher US tariffs on steel and aluminum imports took effect last Wednesday, prompting swift retaliation from Canada and the European Union. President Trump reiterated a 2 April deadline for “reciprocal” tariffs. Amid heightened policy uncertainty, an NFIB survey showed the share of US small businesses that said it was a good time to expand fell by the most since April 2020. Meanwhile, the University of Michigan's consumer confidence survey showed a drop in consumer sentiment to 57.9 in March, below the expected 63.2.

Investors will now look ahead to this week's Federal Reserve policy meeting, where futures indicate a greater likelihood of interest rates remaining unchanged.

What do we think?

The passage of the six-month funding bill is not in itself an economic positive, but should provide some optimism about the ongoing reconciliation process

From the studio:

Podcast: [Across the Pond: Paul Donovan discusses whether Germany's chancellor-in-waiting is the comeback kid](#) (25:00)

Podcast: [CIO's Eva Lee and Delwin Kurnia-Limas on the AI rally and China tech](#) (12:30)

Podcast: [Jump Start – Recession fears, global easing, and Eurozone spending](#) (4:42)

Questions for the week ahead

Will upcoming US economic data alleviate recession fears? Despite a rebound on Friday, fears of a recession or stagflation dominated market concerns last week, driven by escalating trade conflicts between the US and its major trading partners. This was reflected in the NFIB survey, which showed waning small business optimism. Focus this week may shift from business confidence to consumer sentiment, highlighted by the release of February's retail sales data. The consensus forecast predicts a 0.7% increase, following the previous month's large 0.9% decline. The resilience of the US consumer has been pivotal in averting a recession, and positive retail sales data could help alleviate investors' concerns about the economic outlook.

Will the global easing cycle sustain its momentum through 2025? The Bank of Canada and the European Central Bank are among the latest to have cut rates, and this week, other major central banks, including the Federal Reserve, Swiss National Bank, Bank of England, Bank of Japan, and Riksbank, are scheduled to hold their monetary policy meetings. While it's

that will decide on tax cuts and spending decisions for the years to come, as it pointed to unity within the House Republicans.

Historically, the Senate has often forced the House to capitulate on larger bills, but the House acted first and delivered a bill that a bipartisan majority in the Senate found difficult to oppose. Were this sentiment to be carried over into future debates over government spending, it could mean swifter resolutions on funding issues, though it remains to be seen whether this will be the case.

Outside of domestic politics, US business sentiment surveys have pointed to deteriorating confidence in the economy, and the Atlanta Fed's closely watched GDPNow tracker is now pointing to a first-quarter contraction in activity of 2.4%. However, we note that this reading has been distorted by a surge in gold imports. The Atlanta Fed has pointed out that actual GDP will not be affected by the gold imports, and GDPNow would be 2 percentage points higher if the gold effect were stripped out.

We believe that a resilient labor market should continue to underpin economic growth, despite recent signs of weaker confidence. February's jobs report highlighted solid payroll growth, historically low unemployment, and rising wages, all of which should help support consumer spending.

Meanwhile, slowing inflation should allow the Federal Reserve to cut rates later in the year. February's CPI report further reinforced the broader disinflationary trend as both headline and core prices increased less than expected. We expect the Fed to deliver two further 25bps rate cuts this year, in June and September.

The threat of further tariff escalation remains a key concern for investors. In our base case, we expect aggressive trade policy to weigh on US economic growth, but not so much as to drive the US toward recession or to prevent a recovery for equity markets. That said, last week we changed our scenarios to reflect that the risks around our central scenario are now skewed to the downside. We see a 20% chance of a stagflationary market outcome caused in large part by highly aggressive US tariff policies and a 10% probability of an economic hard landing with a cyclical bear market.

How to invest?

Our core message remains to stay invested in stocks, but also to hedge equity exposures to manage ongoing tariff-related and geopolitical volatility. Investors should ensure portfolios are well diversified with assets such as quality bonds, gold, and alternatives to effectively navigate current challenges.

Navigate political risks. Tariff-related uncertainty and trade policy shifts reinforce the need for portfolio diversification and risk management. In equities, capital preservation strategies can help manage downside risks. We continue to favor high-quality fixed income like investment grade corporate bonds, which may provide a hedge against trade risks. Amid heightened risks, we continue to like gold as a portfolio hedge and diversifier, and have raised our price target to USD 3,200/oz.

More to go in stocks. In our base case, we expect US equities to end the year meaningfully higher than today's levels, with a December 2025 S&P 500

unlikely that the Fed considers cutting rates this month, its meeting remains the week's key event. Investors are keen to hear any Fed commentary on their interpretation of recent economic signals, the impact of the Trump administration on inflation policies, and business sentiment.

Will the Eurozone get a boost from German spending plans? One of the notable surprises of 2025 has been the outperformance of European equities, particularly German stocks, compared to their US counterparts. This surge was largely driven by Germany's incoming chancellor announcing significant plans to enhance defense and infrastructure spending, coupled with the potential for a ceasefire agreement between Ukraine and Russia. The proposed spending plans are scheduled for votes in the German parliament this week.

target of 6,600. US policy uncertainty could lead to short-term volatility, but we believe that continued structural AI tailwinds and solid earnings growth should drive markets higher once policy uncertainty peaks.

Seize the AI opportunity. The fourth-quarter 2024 results season demonstrated that AI fundamentals remain intact. Although economic and policy uncertainty are likely to contribute to near-term volatility, we continue to see broad-based long-term investment opportunities across the value chain, particularly in AI infrastructure with strong pricing power and megacap platform beneficiaries. Near-term volatility should present an opportunity to build strategic, long-term AI exposure.

Key Messages

US economy can still avoid a recession

Fears of a recession or stagflation remained a dominant concern for markets last week, as the trade conflict between the US and its main trading partners showed no signs of ending. Tit-for-tat tariffs led to skepticism that positive news on inflation—with data showing the slowest annual increase in core inflation since September 2021—might be short-lived. There was also further evidence last week that the trade dispute is taking a toll on confidence. An NFIB survey showed the share of small businesses who said it was a good time to expand fell by the most since April 2020, while the share that raised prices rose the most since April 2021.

But, in our view, the US is unlikely to slide into recession or stagflation unless the global trade conflicts escalate more than we expect. First, the negative signal from the closely watched Atlanta Fed's GDPNow—which is currently pointing to a 2.4% contraction in first quarter output—was distorted by unusually large gold imports and a rush by American companies to buy more foreign goods before tariffs kick in. Strip out these factors, and the outlook is more positive. A resilient labor market should underpin consumer spending, with February data showing a healthy rate of job creation, solid earnings growth, and still low unemployment. Second, last week's consumer price index data suggested that certain impediments to disinflation have been fading—notably shelter costs rose at the slowest pace in two years. Although higher tariffs are likely to impede disinflation in coming months, we still believe the Fed will feel justified in cutting rates later in the year—supporting growth.

Takeaway: 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.

Volatility spikes as investors question "Trump put"

Investors remain on high alert as US trade tensions escalate. Higher tariffs on steel and aluminum took effect last Wednesday, prompting swift retaliation from Canada and the European Union. A day later, President Trump threatened a 200% tariff on European wines and other alcoholic beverages in response to the EU's planned levy on American whiskey. The VIX index of implied US stock volatility hit a peak of 28 last week, its highest level since last summer. While the index fell to around 22 by Friday, this is still above the multi-decade average of 20.

Trump's aggressive trade rhetoric has long been viewed as a negotiation tactic rather than a fundamental shift in policy. But recent actions have cast doubt on the widely held assumption of a "Trump put"—the idea that Trump would look at the health of financial markets as an indication of his political success and act accordingly. The administration appears increasingly willing to accept short-term economic disruptions in pursuit of broader trade objectives. Trump has acknowledged that tariffs could cause "some disturbance," and has signaled that he views this as an acceptable trade-off for reorganizing the US's global economic position. This shift suggests a higher tolerance for market volatility and slower

growth, particularly as the administration expands tariff threats across key industries.

However, policies designed to force long term structural change could prove difficult to sustain, and political pressure could intensify, particularly if economic conditions deteriorate further. Additionally, the administration's willingness to pull back on certain tariffs in recent weeks suggests that flexibility remains, and broad, sustained tariffs are not a foregone conclusion. Thus, our base case remains that US economic growth can remain resilient, enabling the equity rally to resume.

Takeaway: Given heightened uncertainty, we expect further volatility in the weeks ahead, and hedging the downside remains key. We have also made a number of adjustments to our equity recommendations to account for the latest developments. We've downgraded Asian ex-Japan equities and Chinese internet stocks from Attractive to Neutral, and have closed our tactical recommendation to invest in the DAX via structured strategies.

The correction is here, now what?

The S&P 500 entered correction territory last Thursday, falling 10% from its 19 February peak in just 22 days—faster than the historical average of 75 days for a correction. The sell-off has been driven by policy uncertainty, particularly stemming from escalating tariff threats and broader concerns over trade policy. While US stocks rebounded 2.1% on Friday, helped by hopes that a government shutdown can be avoided, the index was still 2.3% down on the week—its fourth consecutive weekly decline.

In our view, we think the sell-off in US equity markets has been driven by policy uncertainty largely stemming from tariffs and tariff threats (and DOGE to a lesser extent). Despite this sharp pullback, history suggests corrections within bull markets often present compelling buying opportunities. On average, after a 10% decline, the S&P 500 has posted returns of 8% over three months, 13% over six months, and 19% over a year. The recent decline has also come at a time when sentiment was already bearish, and momentum stocks have undergone one of their worst performance periods in over 20 years. Historically, after such extreme sentiment readings, forward returns tend to be solid.

While no one can predict market bottoms with certainty, the risk-reward outlook remains favorable. Bear markets are uncommon, occurring only once every seven years on average, whereas corrections are more frequent, happening roughly every three years. Even if the correction deepens, three-month forward returns still offer a better-than 2:1 return profile relative to bear markets. We believe pursuing recession-risking policies would be politically counter-productive for the Trump administration, and expect policy clarity to gradually emerge, leading to a potential recovery in stocks.

Takeaway: We see further upside for US equities and expect the S&P 500 to reach 6,600 by the end of 2025. US policy uncertainty could lead to short-term volatility, but we believe that robust US economic growth and continued structural AI tailwinds should be supportive overall.

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