Market bottoming; look for a better 2H 2025

24 April 2025

Overview

- It has been 3 weeks since "Liberation Day" and we conclude that much of the tariff noise is likely behind us.
- Markets are in the process of finding a bottom as investors digest trade disruptions and 1Q 2025 earnings results.
- Current data shows that inflation expectations remain anchored; this helps the Fed with their easing cycle
- A tail risk would be the US de-escalating too late and too little due to a misperception of having a strong upper hand.
- 2Q 2025 will remain volatile with 2H 2025 likely to improve on tax cuts, deregulations and trade deals.
- Long-term investors with significant cash should look to build positions during this market dislocation.

CIO Insights: Market bottoming is in progress

It has been 3 weeks since "Liberation Day". We highlight the salient points that investors should note on what has transpired on the trade front thus far:

- Average US tariff on goods imports: 23%, up from 2.4% in 2024.
- US tariffs on Chinese imports: Average 114%, with most goods at 145%, and some (e.g., mobile phones) at a temporarily reduced 20%.
- China's retaliation: Average tariff on US goods imports at 142%.
- China's warning: Other countries have been advised against making trade deals with the US to isolate it.
- Base tariff on most countries: 10%, with notable exceptions like Russia, Cuba, Belarus, and North Korea as they are under pre-existing sanctions.
- EU and Japanese negotiations: As reported in the press, trade deals appear to be hampered by unclear demands from the US.
- Non-China, Japan and Asian economies: At risk due to trade surpluses and likely attempts to transship Chinese goods to the US.
- Industry-based tariffs: Tariffs have been concentrated on steel, aluminum, autos, and auto parts, with more industries to be included later.

In the last few days, the US administration has started to verbalise walking back on some of the "Liberation Day" plans along with market-negative comments like testing the independence of the Federal Reserve. While risk sentiments are starting to improve as of this writing, we still see the potential for sentiments to change quickly on trade deal breakers and Trump's policy backpedalling.

The back and forth is likely to continue for a while until the uncertain environment feeds through to hard data. This means markets could still be volatile for the time being but 2H 2025 should see better days for risk assets.

We reiterate our stance that:

- Tariff policy is a reversible man-made disaster and can be tempered down. The de-escalation may come when stocks enter a bear market, poor economic data comes through or a back-up in US 10Y treasury yields to 4.8%-5%.
- The rest of 1H 2025 could remain challenging as investors are still repositioning portfolios amid 1Q reporting season. 2H 2025 should improve as we go past "peak fear" with a focus on lower taxes, deregulations along with better clarity on trade deals.
- The Fed will inevitably step in by lowering interest rates to support growth as the real economy impact feeds through to hard data. UOB currently forecasts three 25bps cuts for the rest of 2025.
- Countries which are adversely impacted by the US tariffs will step up policy stimulus as an offset. The beneficiaries would mostly be domestic.
- The tail risk is that the US overplays its hand and de-escalates too late and too little. This is likely to result in a recession in the US which will inevitably affect the rest of the world. UOB currently places the probability of US recession at 40%. We are also watching unintended second-order effects where segments of previously unknown weaknesses are exposed (e.g., a Silicon Valley Bank default situation).

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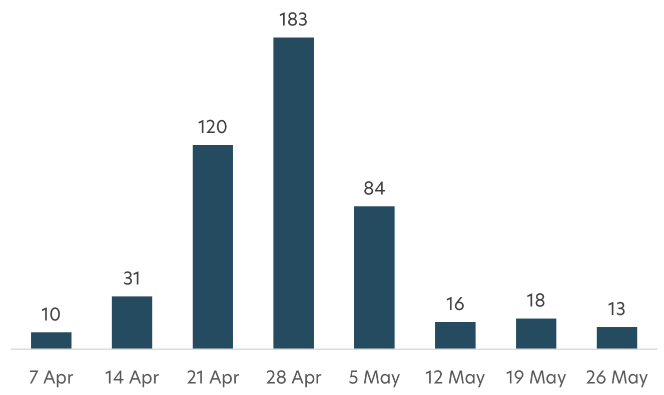
As 1Q 2025 earnings season rolls on, there is a possibility to retest the recent lows if corporates guide 2Q 2025 poorly. Currently, 1Q 2025 earnings negative revisions are slightly below the historical trend as analysts factor in uncertainty into their forecasts. These are subject to change as significant number of S&P500 firms report earnings in the next 2 weeks (**Fig. 1**).

Figure 1: S&P500 companies reporting by week



Source: UBS, Bloomberg, S&P Global, FactSet, UOB Private Bank

On inflation, future expectations represented by the 1-year, 3-year and 5-year breakeven (**Fig. 2**) show that they are well-anchored. This is despite all the perceived inflationary pressures from higher tariffs. If this holds, the Fed should be able to embark on their easing cycle in the later part of the year.

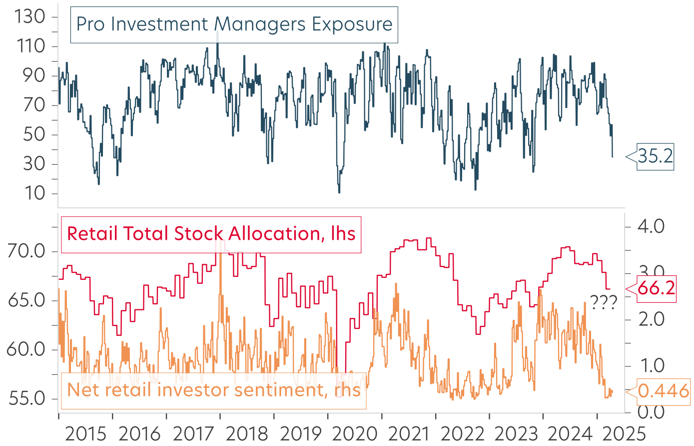
Figure 2: Future inflation expectations look anchored

Source: Bloomberg, UOB Private Bank

Another short-term concern that we highlight is the disconnect between retail sentiments and their actual positioning.

While sentiments are near bear-market levels, retail investor positioning in equities does not appear to have capitulated (red line) to previous low levels yet **(Fig. 3)**. We could see a final wave of de-risking by retail investors before a fundamental bottom in the market is found. This is important as retail investors account for ~20% of the value traded in US equities, which is not large but not insignificant either.

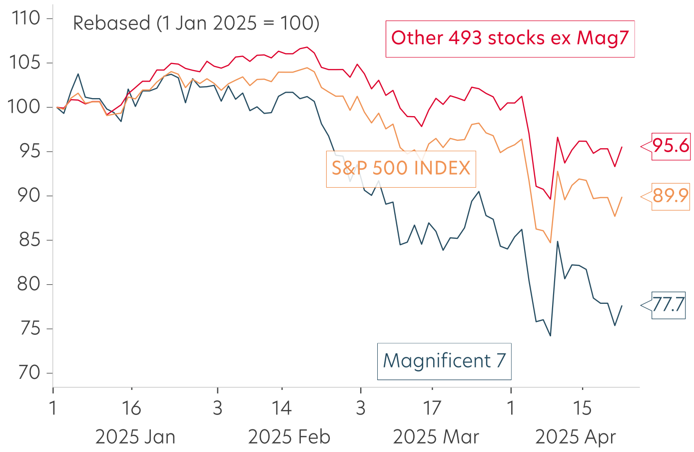
Figure 3: Professional vs Retail positioning



Source: Bloomberg, UOB Private Bank

The Magnificent 7 have turned into the "Mediocre 7" (**Fig. 4**) with year-to-date returns languishing in the bear-market territory. Our projection for near-term volatility will mean this group of stocks could retest their recent lows. However, for long-term investors who can tolerate volatility, we recommend building positions in these quality stocks via outright cash or structured products. These megacap names remain multibillion dollar free cash flow generators with almost irreplaceable products and services.

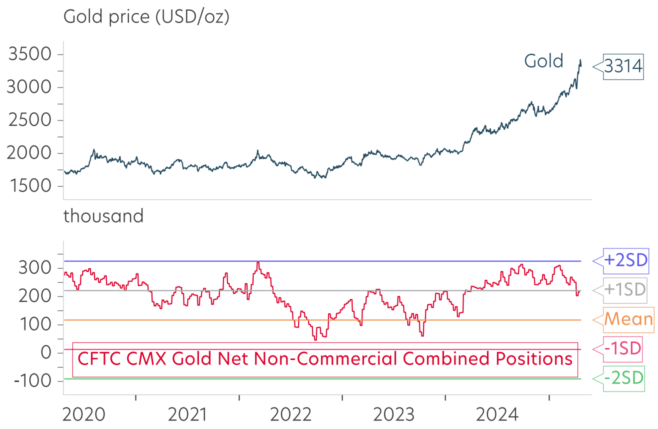
Figure 4: Magnificent 7 in bear market



Source: Bloomberg, UOB Private Bank

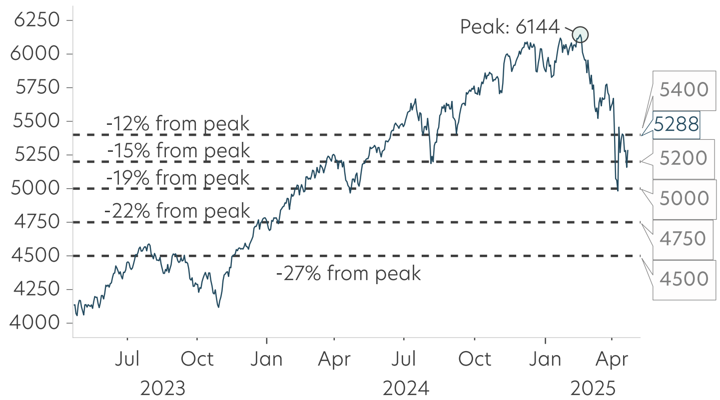
Gold prices continue to reach new heights due to increasing policy and trade uncertainties. With COMEX positioning for gold coming off elevated levels, this could mean that this recent surge to near USD 3,500/ounce could be retail driven. Gold remains a key part of portfolios, but investors should also prepare for corrections if sentiments improve (**Fig. 5**). In that scenario, investors who are underweight in the yellow metal should look to accumulate.

Figure 5: Gold prices vs. CFTC positioning



Our final chart below shows the key technical levels for the S&P500 (**Fig. 6**). The 5000 level would likely see a retest with downside risk biased towards ~4750 if President Trump starts to dial up the heat on tariffs again.

Figure 6: S&P 500 key technical levels to watch



Source: Bloomberg, UOB Private Bank

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