What to do after the sell-off

8 April 2025

Overview

- The extent of tariffs imposed surpassed most market expectations in scale and scope.
- Tariffs will lead to slower growth, higher prices and lower corporate margins.
- However, we see today's US tariff policy as a man-made disaster which can be reversed.
- Fed is likely to cut rates as long as inflation expectations are well-anchored; watch FOMC meeting on 7 May.
- Countries adversely impacted by US tariffs can step up stimulus as an offset; watch EU response on 9 April.
- We iterate that 1H 2025 will be challenging, with 2H 2025 likely to improve on tax cuts and deregulations.
- Most of the drawdown is likely behind us as it is already reflecting a sell-off similar to deep recessions.
- Risk-averse investors looking to reduce risk could trim equity exposure into a counter-trend rally.
- Participate with structured products for downside buffer; Bonds, gold, and Alternatives to stabilise portfolios.
- Risk-tolerant long-term investors with significant cash should look to build positions in this market dislocation.

CIO insights: What to do after the sell-off

The extent of the tariffs imposed surpassed most market expectations in scale and in scope based on a highly bizarre methodology. The weighted average tariff rate is now roughly 24%, rivals that in the 1930s, and is the highest ever at 2% of GDP. If the announced tariffs are implemented as planned, they will result in significantly slower growth, higher prices and lower corporate profit margins as tariffs are in effect tax hikes. Further tit-for-tat retaliation, as in the case of China, will only compound the vicious cycle.

As of writing, the S&P 500 just avoided trading into bear market territory (i.e., >=20% drawdown from peak). A recessionary market sell-off averages 30%, which suggests that most of the drawdown is probably behind us. While it is tempting to get increasingly bearish at this stage, it is crucial to consider the following factors:

<u>Tariff policy is a reversible man-made disaster:</u>

President Trump simply needs to score a win here and if some form of negotiation would lower tariffs, the worst fears of this trade war can be mitigated. Despite his tough talk, a plummeting market will weaken the President's bargaining power and resolve. There are already some plans to limit the President powers on trade after the carnage unleased by the President's policies.

<u>1H 2025 will be challenging, 2H 2025 should improve:</u>

In our 1H 2025 investment outlook earlier in the year, we alerted that markets could be challenging in the first half but improve in the second half, as President Trump has wide-ranging powers over matters such as trade and immigration policies which could be negative to the markets. The better part of President Trump's agenda, lower taxes and deregulations, will only arrive in the second half.

<u>Fed is likely to cut interest rates to support growth:</u>

With a falling market and slowing economy, the Fed is likely to cut rates to support growth. Tariffs will lead to a one-off relative price shock but should not lead to a sustained increase in inflation. As long as inflation expectations remain well-anchored, the Fed should be able to cut rates from the current 4.5% level. The next FOMC meeting will be held on 7 May. Though currently unwilling to cut rates, the Fed could change their mind soon if the loss of income and wealth is too much pain to take. When the Fed panics, markets should stop panicking.

<u>Countries will counteract by stepping up stimulus:</u>

Countries which are adversely impacted by the US tariffs will need to step up policy stimulus as an offset. In this vein, China and the European Union could respond more decisively. 9 April will key to watch as it is the earliest expected day the European Commission could approve and announce retaliatory tariffs.

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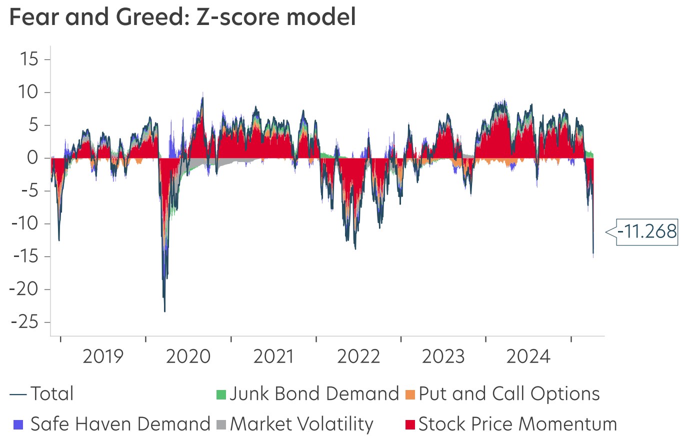
Investment strategy

Further sell-off is likely to be more limited. However, risk-averse investors looking to reduce risk could look to trim equity exposure into a bounce. The "Fear and Greed" model suggests that much of the market fears have been priced in, similar to the levels seen in 2022 (**Fig. 1**). A near-term market bottom is within sight, but a sustained upside would require tariff reversals or the Fed changing course quickly.

Figure 1: Much of extreme tariff fears are priced in

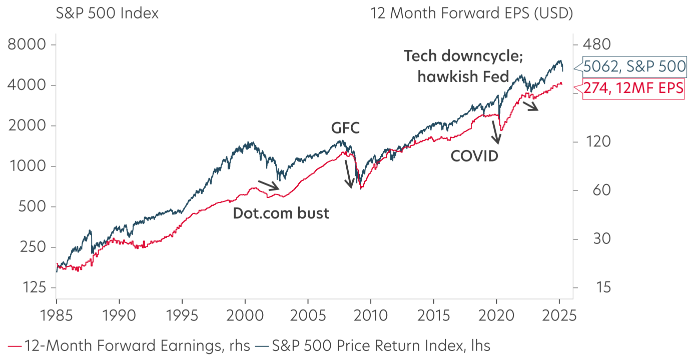


Source: Bloomberg, UOB Private Bank, CBOE, Federal Reserve

Risk-tolerant long-term investors with cash should be looking to buy into the market dislocation. Investors can gain equity exposure via broad indices or quality large-cap names that can weather uncertainties. Adopting a dollar cost averaging approach may be appropriate as it is impossible to time the market bottom. For investors holding significant cash, this is a good time to start building positions. The S&P 500 has been successful in claiming new highs after sharp corrections if earnings resumed growing (**Fig. 2**). It is also noteworthy that on average, S&P 500 returns have historically been positive 3, 6 and 12 months after a weekly correction of at least 5% (Fig. 3).

In terms of potential downside from current S&P 500 levels, we could still see a 5%-10% correction, depending on how the European Union and China responds. In that case, the sell-off may be worse than that seen during the 2022 rate-hike cycle, and on par with the 2020 COVID pandemic (**Fig. 4 & 5**).

Figure 2: S&P 500 can climb after sharp corrections



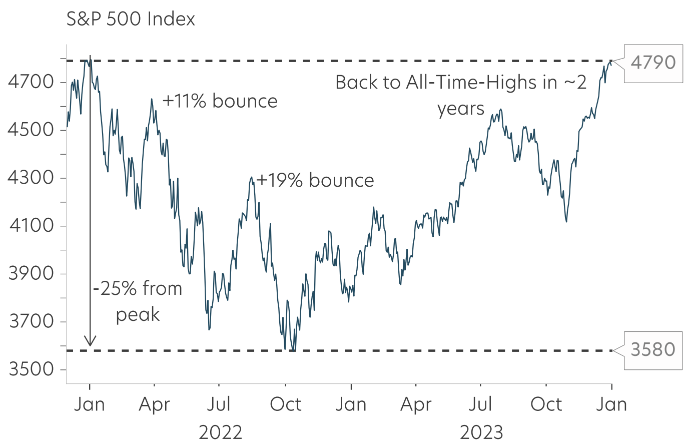
Source: Bloomberg, UOB Private Bank

Figure 3: 3, 6 & 12M returns after >=5% weekly sell-off

Date	S&P500	% Change	Returns 12 weeks later	Returns 24 weeks later	Returns 52 weeks later
4/4/2025	**5,074**	**-9**	**??**	**??**	**??**
17/6/2022	3,675	-6	11%	10%	17%
10/6/2022	3,901	-5	1%	2%	10%
21/1/2022	4,398	-6	0%	-13%	-9%
30/10/2020	3,270	-6	17%	26%	39%
20/3/2020	2,305	-15	32%	52%	71%
13/3/2020	2,711	-9	18%	25%	42%
28/2/2020	2,954	-11	0%	13%	32%
21/12/2018	2,417	-7	17%	14%	31%
23/3/2018	2,588	-6	7%	12%	9%
9/2/2018	2,620	-5	2%	7%	3%
8/1/2016	1,922	-6	8%	8%	16%
21/8/2015	1,971	-6	3%	-2%	11%
23/9/2011	1,136	-7	7%	21%	29%
5/8/2011	1,199	-7	7%	7%	16%
2/7/2010	1,023	-5	12%	21%	24%
7/5/2010	1,111	-6	-1%	6%	23%
6/3/2009	683	-7	34%	47%	62%
20/2/2009	770	-7	15%	28%	40%
21/11/2008	800	-8	3%	10%	37%
14/11/2008	873	-6	-1%	-1%	22%
24/10/2008	877	-7	-3%	-4%	24%
10/10/2008	899	-18	4%	-15%	14%
3/10/2008	1,099	-9	-21%	-31%	-5%
18/1/2008	1,325	-5	1%	-4%	-33%
19/7/2002	848	-8	-1%	3%	18%
12/7/2002	921	-7	-13%	-3%	7%
21/9/2001	966	-12	16%	17%	-8%
16/3/2001	1,151	-7	10%	3%	1%
		Average	7%	9%	19%

Source: Bloomberg, UOB Private Bank

Figure 4: 2022 Rate hike cycle sell-off and recovery



Source: Bloomberg, UOB Private Bank

Figure 5: Covid sell-off and recovery

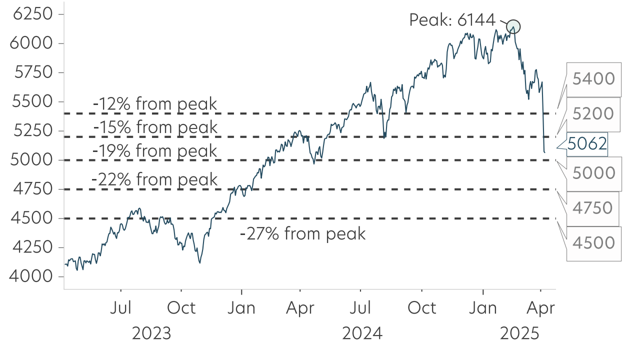
Source: Bloomberg, UOB Private Bank

Use structured products, bonds and alternatives

Against a backdrop of heightened market volatility, structured products will likely be attractively priced, especially for those looking to buy at lower levels. While we see a market bottom in the near term, it is unlikely that the market will surpass its record high any time soon (**Fig. 6**). This is because institutional investors have not fully derisked (**Fig. 7**). Defensive plays including REITs, Utilities, Consumer Staples and Health Care will likely hold up better as investors seek shelter from a protracted trade war.

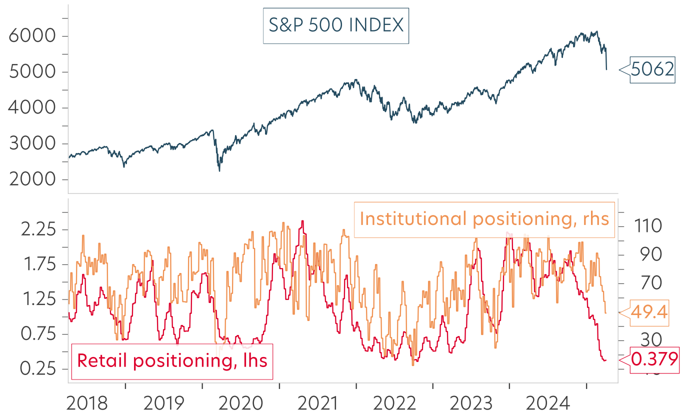
Credits have been sold off amid spread widening; it is an opportune time to consider buying some of these bonds especially if the Fed steps in. We remain constructive on Gold as a haven asset. Global central banks will continue to diversify out of their USD-denominated reserve assets into Gold. We also maintain our view that alternative investments serve as portfolio stabilisers which help to limit volatility. Overall, investors should stay diversified to manage risks while positioning for the next leg higher (**Fig. 8**).

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



Source: Bloomberg, UOB Private Bank

Figure 7: Institutions still yet to fully derisk



Source: Bloomberg, UOB Private Bank.

Figure 8: Tracking 97 years of S&P 500 returns

Bucketing yearly growth rates of the S&P 500

-50 to -40	-40 to -30	-30 to -20	-20 to -10	-10 to 0	0 to 10	10 to 20	20 to 30	30 to 40	40 to 50
1931	2008	2002	2025	2018	2016	2020	2024	1997	1954
	1937	1974	2022	2015	2007	2017	2023	1995	1935
		1930	2001	2011	2005	2014	2021	1975	1933
			2000	1994	2004	2012	2019	1958	
			1977	1990	1993	2010	2013	1945	
			1973	1981	1992	2006	2009		
			1969	1970	1987	1999	2003		
			1966	1960	1984	1988	1998		
			1962	1953	1978	1986	1996		
			1957	1948	1968	1983	1991		
			1946	1939	1965	1982	1989		
			1941	1934	1959	1979	1985		
			1940		1956	1976	1980		
			1932		1947	1972	1967		
			1929			1971	1961		
						1964	1955		
						1963	1950		
						1952	1938		
						1951	1936		
						1949			
						1944			
						1943			
						1942			

Source: S&P Global, UOB Private Bank

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