UnitedBank Wealth Management SERVICES

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TARIFF U-TURN; LINGERING DOUBTS

The financial landscape is in a state of flux. Not long ago, the announcement of large tariffs sent shockwaves through global markets. As the aftershocks rippled out, policymakers scrambled to craft responses, only to eventually backtrack on their initial moves in a bid to curb unintended consequences. The latest example is the large reduction in the reciprocal tariff rates that effectively brought trade between the U.S. and China to a halt.

Similar to trade deals announced with other nations, we are witnessing the emergence of a "90-day pause." This is not just a pause; it's a strategic time-out where markets, governments, and investors are stepping back to reassess the broader implications created by the last few weeks of intense policy uncertainty. Amid this pause, investors are digesting economic data, rethinking long-held strategies, and attempting to chart a new course in an environment where quick tactical moves have proven risky.

A pivotal point in current market sentiment revolves around assets tied to U.S. growth. Over the past years, these assets—encompassing high-flying equity sectors like technology and consumer discretionary, as well as credit markets and the U.S. dollar—have significantly outperformed. However, despite their promise of superior growth, they are relatively expensive by many fundamental metrics. In times of market stress, these overvaluations have shown that such assets do not offer the cushion of safety that investors might expect. The lofty valuations of U.S. growth assets, built on future potential rather than current stability, mean that during a downturn, they tend to falter rather than act as a safety net. This reality is prompting both institutional and individual investors to re-examine allocation strategies in search of true defensive assets that can withstand turbulent periods.

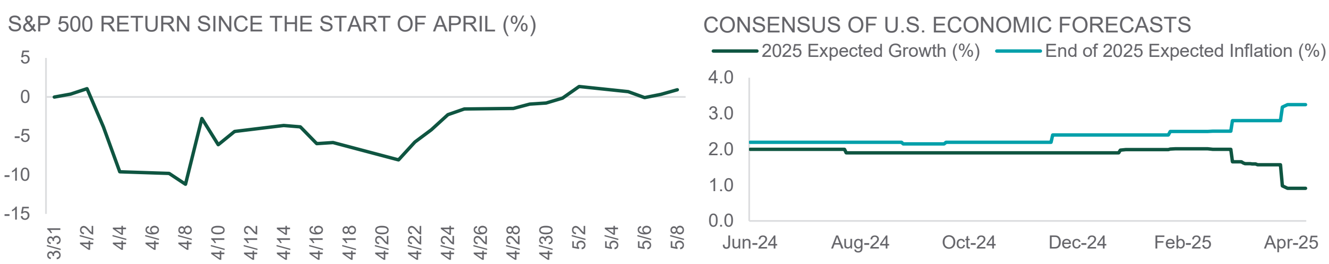
Complicating the picture further is the difficulty in interpreting fresh economic data. The mix of conflicting signals—whether from trade imbalances, sharp falls in consumer and business confidence, or fluctuating currency values—adds layers of uncertainty. In this context, the 90-day pause is being seen as an opportunity to take a hard look at these mixed messages before making any decisive moves.

An undercurrent of optimism permeates financial markets. Even amid the caution, some investors are betting that these pauses will set the stage for a robust rebound. As we navigate choppy waters, this phase of waiting invites us to reflect on the balance between risk and reward. It's a reminder that markets are cyclical, and sometimes the smartest move is to pause, analyze, and then pivot.

While the glow of U.S. growth remains alluring, investors are reminded that such assets, when priced too high, may not provide the shield they once did in volatile times. By carefully weighing both the promise and the peril, market participants can craft strategies that endure beyond the current uncertainty. Hence, we are proponents of a more diversified and valuation-sensitive investment approach, and this perspective makes us less enthusiastic about adding growth-sensitive exposure in U.S. assets after the recent rebound in markets.

STOCKS BOUNCED BACK, BUT MACRO PROJECTIONS DID NOT

Despite increased inflation and decreased growth expectations, U.S. stocks have retraced losses.



Source: Northern Trust Asset Management, Bloomberg. Left panel: data from 3/31/2025 to 5/8/2025. Right panel: data from 6/30/2024 to 5/8/2025. Expected growth is the percent change from the same quarter in the prior year (fourth quarter); expected inflation is average level of the year-over-year change in core Personal Consumption Expenditures inflation across the last three months of 2025.

POSITIONING SCENARIOS

Supply Restraint (45% probability)

Supply-side shocks from higher tariffs in addition to broader policy uncertainty weigh on consumer and corporate activity while halting the disinflationary process until a recession takes shape.

Stagflation (15% probability)

Initially similar to the Supply Restraint scenario, but the rise in inflation is more persistent. As a result of slower monetary policy support, the recession is deeper and longer.

Soft Landing (30% probability)

Global growth slows but remains positive via two potential paths: i) tariff policy eases; ii) the U.S. economy is more resilient than expected and avoids a major deterioration in the consumer backdrop.

Reflation (10% probability)

Policies of the U.S. administration have a net stimulative effect, leading to above-trend growth, persistent inflation and a pause in the Fed rate-cutting cycle.

INDEX DEFINITIONS

MSCI USA IMI: The MSCI USA Investable Market Index (IMI) is designed to measure the performance of the large, mid and small cap segments of the US market. With 2,319 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in the US.