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Chief Investment Office GWM
Investment Research

Earnings strength supports bull market

UBS House View - Daily US

Ulrike Hoffmann-Burchardi, Chief Investment Officer Americas and Global Head of Equities, UBS Financial Services Inc. (UBS FS)
Mark Haefele, Global Wealth Management Chief Investment Officer, UBS Switzerland AG
David Lefkowitz, CFA, CIO Head of US Equities, UBS Financial Services Inc. (UBS FS)
Nadia Lovell, CIO Senior Equity Strategist, US Equities, UBS Financial Services Inc. (UBS FS)
Daisy Tseng, Strategist, UBS AG Singapore Branch
Julian Wee, Strategist, UBS AG

From the studio

Podcast: **Ahead of the curve with Ulrike Hoffmann-Burchardi** (7 min)
Podcast: **Jump Start: Trade deals and the Fed's independence** (5 min)
Podcast: **Investors Club: CIO's Tan Teck Leng on our revised EURUSD forecasts and more** (11 min)

Thought of the day

US equities stood at record levels as the second-quarter earnings season got off to an encouraging start. While so far companies representing only 15% of the S&P 500 market capitalization have reported their results, nearly 80% of them are beating earnings per share (EPS) estimates. Earnings guidance for the current quarter has also been better than expected.

With valuations at an elevated level and the market having just experienced one of its strongest pre-earnings season rebounds, the current reporting season may not be enough of a catalyst to drive stocks much higher in the near term. Bouts of volatility are likely in the coming weeks as trade negotiations continue ahead of the new 1 August tariff deadline.

But we continue to expect further gains over the next year, and believe the resilient results so far are a step in the right direction.

A resilient US economy provides a supportive backdrop. Despite continued uncertainty on tariffs and trade policy, US economic data have remained healthy. Retail sales in June grew more than expected, with broad-based advances. Since consumer spending accounts for around 70% of US economic activity, JPMorgan's recent comments that it is struggling to find signs of weakness in consumer spending point to a resilient economy that should continue to underpin corporate profits. Delta Airlines, in its earnings call, also described the US economy as solid and its core customer as being in good shape.

A weaker dollar offers a tailwind for earnings. Historically, every 10% change in the US dollar has translated into a roughly 2.5% increase in S&P 500 profits. While we could see some near-term support for the dollar, its structural decline remains in motion and will likely become more apparent as economic data weakens later this year. We expect a weaker greenback to continue to boost year-over-year profit growth for the balance of the year.

What to watch: 22 July 2025

- Fed Chair Jerome Powell speaks
- UK June public finances
- Results from SAP, Coca-Cola, General Motors, and others

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The One Big Beautiful Bill should stimulate additional capital investment. The One Big Beautiful Bill, which was signed into law earlier this month, includes provisions that should drive a modest boost to near-term cash flows and provide incentives for capital spending. This means companies could be in a position to increase share buybacks, which would bolster earnings growth. A small step up in capital expenditures is also possible, which is usually beneficial for corporate profits as one company's investment spending is another company's revenue.

So, while stocks may be due for a breather, we believe the bull market remains intact. We maintain our June 2026 S&P 500 price target of 6,500, and recommend using volatility as an opportunity to phase into markets. Within US equities, we like information technology, communication services, financials, health care, and utilities.

Caught our attention

US-EU trade progress. European Union envoys are set to meet this week to discuss plans to respond to a possible no-deal scenario with US President Donald Trump, who has threatened a 30% tariff on European goods in less than two weeks' time. Citing unnamed sources, Bloomberg reported that the US now wants a near-universal tariff on EU goods higher than 10%, with increasingly fewer exemptions. Separately, US Commerce Secretary Howard Lutnick said on Sunday that he is confident a deal with the EU can be secured, although 1 August is a hard deadline for tariffs to kick in.

Our view: Our base case remains that an agreement will likely be reached before 1 August or that the deadline will be extended again while negotiations are ongoing. This would probably result in a deal where the US imposes tariffs on EU exports at around 10%, with certain sectors attracting higher tariffs. In our view, this outcome would dampen activity in export-related sectors and weigh on business confidence, but an expansionary fiscal package from Germany and looser fiscal policy in other parts of the bloc should help offset some of the negative impact from global trade. We believe the direct impact of US-EU tariffs on European equities is manageable, and recommend using pullbacks to phase into high-quality European stocks, our "Six ways to invest in Europe" theme, and structural growth opportunities (e.g., in AI or power and resources) that can support the Eurozone industrials and IT sectors.

Japan's election. Japanese Prime Minister Shigeru Ishiba has said he intends to stay in office despite his ruling coalition losing its majority in the upper house election over the weekend. Citing his duty to address economic and security challenges, Ishiba's stay marks the first time since 1955 that a leader from the Liberal Democratic Party will govern the country without a majority in at least one of the legislative bodies.

Our view: Ishiba's decision to stay aligns with our view, and we believe trade negotiations with the US will likely continue until 1 August, with Japan offering some concessions such as additional agricultural imports. The new administration will likely be formed by a coalition or informal policy cooperation with parties that are ideologically close, such as the Japan Innovation Party and the Constitutional Democratic Party (CDP). While the CDP is relatively hawkish on monetary policy, we believe the independence of the Bank of Japan will be respected, and the current gradual rate hike path is

unlikely to change. We expect the next rate hike closer to the second half of next year, and reiterate our view of a medium-term USDJPY downtrend. We favor selling USDJPY on rallies, as well as selling upside risk for yield pickup.

Market update

21.07.2025

Percent change. For volatility indices, net change in points. For valuation, change in price to earnings per share. For yields, net change in bps

	Current (*)	1D	5D	1M	YTD
VIX Index	16.9	+0	-0	-4	-0
MOVE Index	83	-2	-7	-7	-16
S&P 500	6297	-0.0%	+0.6%	+5.5%	+7.1%
S&P 500 trailing P/E (**)	24.7x		+0.0x	+1.0x	+0.1x
S&P 500 forward P/E (**)	22.1x		-0.2x	+0.7x	+0.6x
S&P 500 forward P/E ex-Mag 7 (**)	20.1x		-0.1x	+0.6x	+1.2x
Russell 2000	2240	-0.6%	+0.2%	+6.2%	+0.4%
Euro Stoxx 600	547	-0.0%	+0.0%	+1.9%	+7.8%
Shanghai Composite	3560	+0.7%	+1.1%	+5.9%	+6.2%
US 10-year Treasury	4.39	-3	-5	+1	-18
US 2-year Treasury	3.85	-2	-5	-6	-39
Germany's 10-year Bund	2.65	-5	-8	+13	+28
Germany's 2-year Bund	1.84	-3	-4	-1	-24
EURUSD	1.164	+0.1%	-0.2%	+0.5%	+12.4%
EURCHF	0.93	-0.0%	+0.2%	-0.9%	+0.4%
USDCHF	0.80	-0.0%	+0.4%	-1.4%	-11.7%
USDJPY	148	-0.4%	+0.3%	+1.4%	-5.7%
Brent crude, USD/bbl	69	-0.2%	-0.1%	-10.2%	-7.4%
Gold, USD/oz	3373	+0.4%	+0.4%	+0.1%	+27.7%

(*) or last close if not available, (**) weekly update

Source: Bloomberg, Factset, UBS

Non-Traditional Assets

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