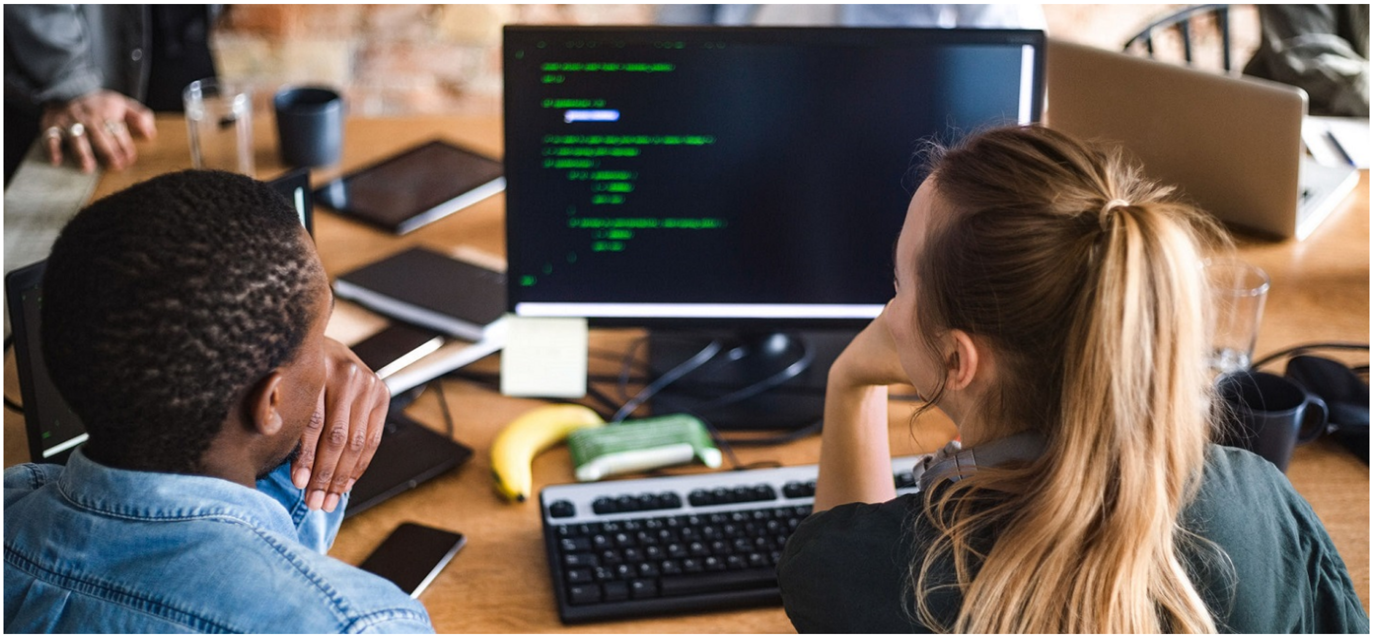

CIO maintain their long-held view that a well-diversified portfolio across sectors, asset classes, and geographies is the most effective way to navigate near-term uncertainties while growing long-term wealth. (UBS)

How to improve portfolio resilience

30 October 2024, 1:24 pm CET, written by UBS Editorial Team US Editorial Team

The Nasdaq hit an all-time high on Tuesday before Google parent Alphabet reported strong third-quarter revenue growth in its cloud computing business and raised its 2024 guidance on capital expenditures.

Better-than-expected results would support investors' risk appetite, but market sentiment is likely to remain on edge until uncertainty over the US presidential election dissipates. Upcoming US economic data—including those that shed light on inflation and the labor market—could also shift investor expectations on the Federal Reserve's pace of policy easing, while geopolitical tensions remain elevated in the Middle East.

We maintain our long-held view that a well-diversified portfolio across sectors, asset classes, and geographies is the most effective way to navigate near-term uncertainties while growing long-term wealth. Against the current backdrop, we also see value in exposure to the following to improve portfolio resilience:

Gold's safe-haven characteristics continue to attract demand amid fundamental support. Gold continues to hit new highs, climbing nearly 35% so far this year, and we believe it has further to run. Throughout this year, gold has been supported by ongoing elevated central bank buying, and the anticipation of the Fed's rate-cutting cycle that began in September. While US Treasury yields have risen strongly over the past month with a repricing of the Fed's easing path, interest in gold-backed exchange-traded funds (ETFs) has continued to rise amid US election uncertainty, fiscal worries, and geopolitical concerns. The latest data from the World Gold Council showed that total gold demand in the third quarter rose 5% year over year to a record 1,313 tons. We continue to see the yellow metal as a key portfolio hedge and forecast its price to reach USD 2,850/oz by mid-2025.

Hedge funds are known for their ability to deliver diversified returns. We believe hedge funds are well positioned to navigate periods of potential volatility, as strategies like equity market-neutral, global macro, and multi-strategy platforms could take advantage of market inefficiencies and macroeconomic shifts. Based on data going back to 1990, our analysis shows that incorporating 10-20% of equity market-neutral strategies into a global 60/40 portfolio can maintain expected returns while reducing volatility by 1-3 percentage points. This risk reduction potential is crucial during market downturns, as hedge funds often have low correlation with equities and bonds, providing stability when markets are volatile.

Structured investments offer a defensive way to stay invested. The market rewards patience. When one has a longer investment time horizon, market losses are far rarer, and it becomes clearer that market volatility is an opportunity rather than a threat. Investors particularly concerned about volatility can consider utilizing structured investments to hedge risks. For example, an investor looking to shield a portfolio from short-term fluctuations in value can pursue a capital preservation strategy that locks in gains now or limits the magnitude of a potential loss. Structured notes are another alternative that can preserve existing gains in return for a willingness to forego future growth for some period. Investors should be aware of the additional risks associated with alternative and structured investments, including illiquidity, complexity, and costs.

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Original report: **How to improve portfolio resilience, 30 October 2024.**