CIO advice to investors is to avoid dramatic portfolio shifts based on electoral predictions, and focus instead on various strategies to hedge risks. (UBS)

Uncertainty and volatility likely to rise as US elections approach

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The US election campaign continues to intensify, with polling suggesting that Vice President Kamala Harris now has a narrow advantage over former President Donald Trump.

CIO expects uncertainty and volatility to rise as US elections approach, but advise against making dramatic portfolio shifts on polling predictions. We see merit in various tools to hedge risks, including exposure to gold, the Swiss franc, and structured strategies.

The US presidential race remains fluid and uncertain.

- A Reuters/Ipsos poll after last week's presidential debate showed Harris with a 5 point lead over Trump at 47% to 42% nationwide.
- However, the two candidates are closely tied in several key swing states. A second assassination attempt on former President Trump over the weekend could also influence voters.

But with uncertainty still high, we advise investors against making major portfolio changes.

- Electoral shifts have tended to produce temporary volatility, making large sectoral shifts to reflect predictions about the outcome dangerous in our view.
- US political outcomes are far from the largest driver of financial market returns. Economic data and Fed rate cut expectations remain at least as important.
- Predicting final policy outcomes can also be tricky, since candidates can back away from or fail to implement campaign pledges.

So, we favor strategies to improve the resilience of portfolios and remain invested.

- The Swiss franc can offer safe haven-like qualities amid political uncertainty in the US and Europe. Meanwhile, we do not believe the Swiss National Bank will cut rates much further.
- Gold can also be an effective hedge against concerns over the US dollar's stability, whether from geopolitical tensions or an unsustainable US fiscal deficit.
- Structured strategies can enable investors to retain exposure to further potential gains in stocks, while reducing sensitivity to a temporary correction.

Did you know ?

- Historically, it is not uncommon for the election to shift in the final months of the campaign. Candidates with an early advantage failed to take the White House in 1980, 1988, and 1992.
- Our latest probabilities regarding of the outcome of the US election are: a Blue sweep scenario (Harris with a unified Democratic Congress) at 15%, and an outcome where Harris wins but with a divided Congress (Republican Senate, Democratic House) at 40%. We assign a 35% probability to a Red sweep scenario (Trump with a unified Republican Congress), and a 10% probability to a scenario where Trump wins with a divided Congress (Republican Senate, Democratic House).

Investment view

To manage potential volatility, investors can consider positions in gold and the Swiss franc. We have also identified some of the most potentially election-sensitive stocks, including within the US consumer discretionary and renewables sectors, as well as currencies like the Chinese yuan, where we recommend that investors manage any overexposure.

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Original report - **How can I hedge US election risks?, 17 September 2024.**