UBS

A mix of low equity market volatility and high bond yields makes this an attractive time to consider strategies that allow investors to capture market upside while protecting against downside. (UBS)

Consider preservation strategies amid market uncertainty

28 February 2024, 2:09 pm CET, written by UBS Editorial Team

US equities have taken a breather in recent days as markets wait for more cues from upcoming economic data. The S&P 500 is down 0.2% so far this week after hitting an all-time high on Friday for the 13th time this year.

With help from solid spending and broadening demand in artificial intelligence (AI), the benchmark has made gains in 15 of the last 17 weeks.

But investor sentiment can be fragile, especially as markets sit at record high levels when the outlook for the US economy remains uncertain. Data published on Tuesday showed that US consumer confidence in February fell for the first time in four months, with concerns over the economy and the presidential election overshadowing their outlook.

Inflation remains at the forefront of consumers' minds. While the average inflation rate expectation over the next 12 months continues to ease and now stands at the lowest level since 2020, overall inflation remained the main preoccupation of US consumers, according to the statement published alongside the Conference Board's reading. The stronger-than-expected consumer price index (CPI) for January has caused markets to scale back the expected pace and scale of the Federal Reserve's rate cuts this year, and this week's release of personal consumption expenditures (PCE) offers another glimpse of the health of the US economy. While we continue to expect inflation to recede over the course of 2024, another strong reading in the Fed's preferred gauge of inflation is likely to trigger further volatility.

The US presidential race is adding to anxiety. The Conference Board statement points out that US consumers are now a bit less concerned about food and gas prices, but there are growing uncertainties over the US political environment with

the presidential election later this year. With former US President Donald Trump staying in the lead in Republican primaries, media coverage on the campaigns and potential policies could also affect market sentiment in the lead up to November.

All-time highs often generate investor concerns. Our analysis has shown that worries that markets have peaked after all-time highs are not typically warranted. Over the past 60 years, average S&P 500 returns in the year following a record high were no different from the one-year returns from other periods. In fact, average returns for the three-year periods after a new all-time high were slightly higher than entering the market at other points. However, further exposure after such a large rally can also be psychologically challenging for investors, and market reaction to negative headlines may be larger than that to positive catalysts.

So, against this backdrop, we think one important action investors can take is to hedge market risks. In fact, a mix of low equity market volatility and high bond yields makes this an attractive time to consider strategies that allow investors to capture market upside while protecting against downside. We see opportunities in capital preservation strategies, oil and energy stocks, gold, and hedge funds.

Main contributors – Solita Marcelli, Mark Haefele, Daisy Tseng, Vincent Heaney, Jennifer Stahmer

Read the original report : **Consider preservation strategies amid market uncertainty, 28 February 2024.**

Important information
As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at www.ubs.com/workingwithus.
© UBS 2023. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.
There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.