For UBS marketing purposes

Selling risk assets in response to geopolitical flareups tends to be counter-productive. Investors can make portfolios more resilient through hedging, structured strategies, and allocations to macro hedge funds. (UBS)

How can investors deal with geopolitical risks?

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Geopolitical risks have remained in focus, but international crises tend to have only a brief impact on markets. We caution against exiting stocks. Instead, we favor alternative strategies to improve the resilience of portfolios, while enabling investors to participate in market rebounds.

US Secretary of State Antony Blinken was back in the Middle East for talks on 10 June, his eighth visit to the region since hostilities started between Israel and Hamas in October. Blinken is expected to add pressure on both sides to agree a ceasefire and will also engage in talks aimed at preventing the conflict from spreading further.

What you need to know about CIO's House View

International conflicts and forthcoming elections have added to uncertainty.

- While an exchange of attacks between Israel and Iran in April has not escalated, the war between Israel and Hamas is ongoing and still has the potential to unsettle markets and disrupt oil supplies.
- The war between Russia and Ukraine is now in its third year, and has the potential to add to further market nervousness.
- Investors are awaiting the outcome of November's US election, which could lead to shifts in regulation and trade policy.

But we advise investors against exiting risk assets in response to this uncertainty.

- Our base case remains that the Middle East conflict stops short of a major escalation which would reduce global oil output.
- Historically, the effect of international conflicts on markets has tended to be short-lived. The S&P 500 returned 5% in May, the best performance since February.

- While rate cuts by the Federal Reserve look likely to be delayed until September, we expect policy easing and earnings growth to support stocks.

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

- Brent crude and gold retain their value as potential diversifiers.
- Structured strategies can enable investors to retain exposure to further potential gains in stocks, while reducing sensitivity to a correction. Macro hedge funds are also well placed to help investors navigate geopolitical shifts, in our view.

Investment view

Although market shocks from war and geopolitical crises tend to have temporary effects on long-term market growth, investors are often inclined to sell because of immediate uncertainty, hoping to reinvest in the market after the crisis has passed. Selling is counterproductive, locking in otherwise temporary losses and degrading your ability to participate in the next market recovery. Instead, we favor adding hedges. Structured strategies and an allocation to macro hedge funds can also help navigate geopolitical risks.

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Read the full report UBS House View Briefcase: How can investors deal with geopolitical risks? 10 June 2024

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