



CIO believes the recent escalation has highlighted the value of risk-mitigation strategies. (UBS)

Rising geopolitical risks underline the value of hedging

15 April 2024, 5:42 pm CEST, written by UBS Editorial Team

The mood in markets remained cautious at the start of the week as investors awaited further details on Israel's response to Iran's attacks over the weekend.

Benny Gantz, a minister in the war cabinet, said that Israel will “exact a price from Iran in a way and time that suits us.” Markets will be hoping that any countermeasures are sufficiently restrained to avoid the risk of a further escalation.

Safe-haven assets came off recent highs on Monday. Gold was trading below Friday's intraday record level of USD 2,431. Brent crude, which has been the focus of worries that the conflict could disrupt oil production, also fell from Friday's high above USD 92. A rally in US Treasuries also went into reverse, with the yield on the 10-year bond edging higher at the start of the week.

But with events in the region still fluid, we believe the recent escalation has highlighted the value of risk-mitigation strategies. We have underlined the appeal of gold and oil in the event of heightened geopolitical risks, and this remains the case. We also believe both commodities are supported by strong fundamentals. On oil, resilient US growth has been positive for energy demand, which has been broadly better than expected for the OECD overall—especially on the European periphery. With OPEC+ nations set to remain disciplined on production, we continue to expect an undersupplied market.

On gold, we expect investors to resume purchases of exchange-traded funds as they anticipate Fed cuts this year. Central bank buying should remain strong amid concerns over US dollar-based sanctions.

Takeaway: We advise investors consider a range of risk-mitigation strategies, starting with diversification by geography, asset class, sector, and security. Gold and oil have performed well in recent weeks, and we would expect prices to continue

rising if geopolitical risks carry on escalating. Systematic allocation strategies and structured strategies may also prove helpful risk management tools.

Main contributor - Mark Haefele

Original report - [Geopolitical and economic risks resurface, 15 April 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.