Structured strategies can enable investors to retain exposure to further potential gains in stocks, while reducing sensitivity to a correction. (UBS)

How can investors deal with geopolitical risks?

08 July 2024, 5:25 pm CEST, written by UBS Editorial Team

Geopolitical risks have remained in focus, with the conflict in the Middle East showing few signs of nearing a resolution. But international crises tend to have only a brief impact on markets, so we caution against exiting stocks.

Instead, CIO favors alternative strategies to improve the resilience of portfolios, while enabling investors to participate in market rebounds.

International conflicts and forthcoming elections have added to uncertainty.

- While an exchange of attacks in April between Israel and Iran 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, and France's surprise snap election.

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 is up 17.4% so far in 2024, despite elevated geopolitical risks.

- 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.

- Into the US election, gold may be an effective hedge against concerns over geopolitical polarization, the US deficit, or inflation.
- 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.

Did you know?

- The effects of international conflicts on markets typically fade fast. Since the attack on Pearl Harbor in 1941, the S&P 500 has been higher two-thirds of the time 12 months after the start of a crisis. Half the time, markets have only taken a month to recover, according to our analysis.
- 2024 is a record year for elections, with more than two billion people set to go to the polls in over 50 countries.

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.

Main contributors - Christopher Swann, Dirk Effenberger, Tilmann Kolb, Daniel J. Scansaroli, Justin Waring, Jon Gordon

Original report - **How can investors deal with geopolitical risks?, 8 July 2024.**