
CIO believes that holding a balanced portfolio is the most effective way for investors to preserve and grow wealth. (UBS)

Balanced portfolios can help smooth returns and navigate more complex markets

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Markets have bounced back from the early August volatility. But with cyclical and geopolitical concerns lingering, market narratives can change quickly and hurt concentrated portfolios.

CIO believes holding a balanced portfolio, including alternatives, is the most effective way for investors to preserve and grow wealth over time.

Markets have regained their footing after volatility in early August.

- A weak July US employment report and a surprise Bank of Japan rate hike that led to yen carry trade unwinding drove market volatility in early August, including a 12% fall in the Nikkei Index and the VIX spiking above 60.
- Further data on US activity, the labor market, and retail sales helped markets rebound and eased recession fears.
- Global equity markets are roughly unchanged, 10-year US Treasury yields are down by around 35 basis points, and the US dollar has depreciated by around 2% against the euro in the past month.

But uncertainty remains, potentially threatening concentrated portfolios.

- US growth concerns will likely linger, especially if the September jobs report disappoints expectations or the Fed does not begin rate cutting from September.
- The geopolitical landscape remains tense, with conflicts ongoing in Ukraine, Russia, and the Middle East.

- Recent polling suggests the US presidential election is too close to call.

So, we think balanced portfolios can help smooth returns and navigate more complex markets.

- Investors who diversify, have a long-term perspective, and a clear idea of what they plan to buy and sell have a better chance of navigating and taking advantage of volatility.
- Disciplined rebalancing can help investors navigate more volatile markets.
- Our capital market assumptions expect balanced portfolios (45%stocks, 35% bonds, 20% alternatives) to beat cash by around 5 percentage points each year over the long term.

Did you know?

- The UBS Global Investment Returns Yearbook, which analyzes financial markets going back to 1900, shows that an equity portfolio diversified across 21 countries would have experienced 40% less volatility than an average single-country investment.
- Our analysis shows that a balanced portfolio of US large cap equities and US intermediate Treasury bonds has only delivered a negative return over a five-year horizon on 3% of occasions, and never over a 10-year horizon.

Investment view

By diversifying across asset classes, regions, and sectors, investors can position for potential near-term gains, mitigate volatility, and take advantage of the long-term compounding effects of staying consistently invested. Those considering alternative assets should be aware of the associated risks—including illiquidity and complexities.

Main contributors: Matthew Carter, Vincent Heaney, Christopher Swann, Ishan Sahni

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