



CIO sees ways investors can consider improving the resilience of portfolios, including proper diversification, an allocation to hedge funds, and exposure to gold, oil, and the Swiss franc. (UBS)

How should I position for geopolitical uncertainty?

20 September 2024, 3:53 pm CEST, written by UBS Editorial Team

Geopolitical risks are elevated. Ukraine has held onto territory in the Kursk region of Russia, while ceasefire talks between Israel and Hamas have yet to yield results. Political risks have also intensified, with the US election outcome becoming harder to predict.

Against this backdrop, CIO favor strategies to improve portfolio resilience while enabling investors to participate in market upside.

International conflicts and US elections have added to uncertainty for investors.

- Ukraine has held parts of Russia's Kursk region, and is pushing its Western allies for permission to strike deeper in Russian territory.
- Tensions remain elevated in the Middle East, with the latest escalation being a deadly covert pager attack on thousands in Lebanon.
- US Vice President Kamala Harris has maintained a narrow but consistent polling lead over former President Donald Trump.

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

- Market shocks from war and geopolitical crises have historically had only temporary effects on asset prices and long-term market growth.

- US political outcomes are far from the largest driver of financial market returns. Economic data and Fed rate cut expectations remain at least as important.
- Selling locks in otherwise temporary losses and hampers investors' ability to participate in the next market recovery.

We favor strategies to improve the resilience of portfolios and remain invested.

- A well-diversified portfolio can potentially reduce the volatility arising from geopolitical conflicts or electoral uncertainty.
- Structured strategies can help investors retain exposure to further potential gains in stocks while reducing sensitivity to a correction. Separately, we believe macro hedge funds are well-placed to help risk-tolerant investors navigate geopolitical shifts.
- Investors may consider using gold, oil, and the Swiss franc as portfolio hedges.

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.
- Diversification has been shown to help reduce portfolio volatility, ensure investors tap more sources of return, and help investors avoid behavioral bias amid uncertainty.
- Hedge funds have historically exhibited an ability to capture tactical dislocations across sectors and asset classes to generate alpha, while still adhering to strict risk limits.

Investment view

We believe exiting markets in response to immediate geopolitical uncertainty tends to be counterproductive. Instead, we see ways investors can consider improving the resilience of portfolios, including proper diversification, an allocation to hedge funds, and exposure to gold, oil, and the Swiss franc.

Main contributors: Daisy Tseng, Jon Gordon

Original report - [How can investors deal with geopolitical risks?, 20 September 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 2024. 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.