



Diversification has been shown to help reduce portfolio volatility, ensure investors tap more sources of return, and help investors avoid behavioral bias amid uncertainty. (UBS)

Building a resilient portfolio: Utilize gold and oil as hedges

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Geopolitical tensions have been heating up again. The US is reinforcing its presence in the Middle East ahead of an anticipated Iranian attack on Israel, sending a guided-missile submarine to the area.

Israel, meanwhile, is expanding evacuation orders as it presses ahead with strikes in the southern Gaza Strip. Elsewhere, Ukraine's attack into Russia's Kursk region over the past week has been one of the largest incursions since the outbreak of the Russia-Ukraine war in 2022.

Market shocks from war and geopolitical crises have historically had only temporary effects on asset prices and long-term market growth. While investors are often inclined to sell because of immediate uncertainty, we believe this is typically counterproductive, locking in otherwise temporary losses and hampering an investor's ability to participate when sentiment recovers.

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

Hold a well-diversified portfolio. We believe that only by diversifying across asset classes, regions, and sectors can investors effectively manage short-term risks while growing long-term wealth. Diversification has been shown to help reduce portfolio volatility, ensure investors tap more sources of return, and help investors avoid behavioral bias amid uncertainty. Ultimately, time in the market, not timing the market, is what delivers the most powerful results.

Consider an allocation to hedge funds. Hedge funds have historically exhibited an ability to gain from tactical dislocations across sectors and asset classes. Indeed, certain hedge fund strategies are well positioned to help investors

navigate geopolitical shifts and capitalize on a turn in the interest rate cycle, in our view. For those willing and able to manage the risks associated with alternatives, including lower liquidity and transparency, we believe an allocation to hedge funds provides a source of uncorrelated returns that can help insulate portfolios from potential losses.

Utilize gold, oil, and the Swiss franc as portfolio hedges. Gold continues to represent an interesting opportunity, as concerns about geopolitical polarization, the US fiscal deficit, and a more aggressive path of the Federal Reserve's rate cuts could all help gold prices. We see gold prices rising to USD 2,600/oz by the end of the year amid strong demand from central banks, exchange-traded funds, and safe-haven flows. Oil prices should also rise toward USD 87/bbl in the coming months, in our view, amid healthy demand and hesitance from OPEC+ to add additional supply to the market. Finally, the Swiss franc, considered by many as a traditional safe haven, should, in our view, continue to live up to its reputation, as we expect the currency to appreciate from here. We believe the Swiss National Bank will cut rates only once more this year, compared to 100 basis points of cuts expected from the Federal Reserve.

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Original report: [Building a resilient portfolio amid elevated geopolitical risks, 13 August 2024.](#)

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