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Take advantage of volatility

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- **Why?** 1) Investors do not have to choose between pursuing further gains and limiting losses. 2) Capital preservation strategies can retain some participation in market rallies while limiting losses, and structured yield strategies can provide additional income in exchange for accepting defined equity risk. 3) Predefined entry strategies can help investors build diversified equity exposure gradually over time and at disciplined entry levels.
- **Why now?** 1) Shifting market perceptions around AI, debt, inflation, and geopolitics are likely to generate periods of higher volatility. 2) Subdued index-level implied volatility and higher short-dated bond yields may support attractive terms for capital preservation strategies. 3) Wide differences in individual stock performance are increasing single-stock volatility, creating potential opportunities to generate yield.



Market uncertainty could drive periods of higher volatility in 2027, offering opportunities to preserve capital, generate income, and build market exposure gradually. Source: Pexels_Bezzaponnaya

Capital preservation strategies
Investors do not have to choose between pursuing further gains and protecting against losses. Capital preservation strategies replace part of an equity allocation with a defined payoff structure that limits downside and upside.

Current conditions may offer attractive terms. Subdued index-level implied volatility can reduce option costs, while higher short-dated bond yields can make the capital-preservation component cheaper, potentially supporting greater participation in market gains.

These strategies can be particularly useful for investors with concentrated positions, substantial gains, lower drawdown tolerance, or near-term liquidity needs.

Preservation remains conditional: Stronger preservation generally reduces upside participation, early sales may incur losses, and repayment depends on holding periods, contractual terms, and issuer credit-worthiness.

Seek income by monetizing volatility

Trends in AI, interest rates, government debt, and geopolitics are creating wide differences in the performance of individual stocks, even while index-level volatility remains relatively subdued.

Higher single-stock volatility increases option premiums. Investors willing and able to accept defined equity risk can seek to capture this premium through structured yield strategies. These approaches may be particularly useful for investors seeking additional income, especially where conventional fixed-income yields are relatively low.

Importantly, the additional income compensates investors for taking risk but it does not eliminate that risk. Coupons may be conditional, returns may be capped, and a significant decline may result in a capital loss. Early sales may also crystallize losses, while single-stock structures carry greater concentration risk.

We therefore favor diversified exposure, maturities aligned with the investor's horizon, and position sizes that assume downside barriers may be breached.

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Build exposure over time in a disciplined way
Investors can use volatility strategies to build equity exposure gradually at predefined entry levels.

An all-at-once approach to investing has historically worked best. But this approach may suit investors who are concerned about market timing and valuations. In exchange for accepting the possibility of receiving the underlying investment if markets decline, investors can earn an option premium while they wait. If markets remain above the agreed level, the strategy may provide income; if they fall sufficiently, the investor acquires exposure at the predefined price.

The premium does not eliminate downside risk. Once the underlying is acquired, it may continue to fall below the entry level. Investors may also miss some upside if markets rally, and an early exit can result in losses. Single-stock strategies add concentration and company-specific risks.

We therefore favor diversified underlyings, staggered maturities and entry levels, and position sizes consistent with the investor's intended long-term allocation. Used selectively, predefined entry strategies can turn volatility into a disciplined way to build the portfolio investors want over time.

Global asset class preferences definitions
The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid and commonly known indices, House View scenarios, and analyst convictions over the next 12 months.
Absolute view
Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.
Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities.
Note: For equities, we have a five-tier rating system with two additional preferences. When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
Relative preferences
For the multi asset view, we also include relative preferences to help investors compare between items.
Preferred: We view this item more favorably than others within its asset class.*
In line: We see this item similarly to others within its asset class.*
Least preferred: We view this item less favorably than others within its asset class.*
*In the case of cross-asset, compared to other asset classes.
Note: The tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

Appendix

Risk information
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