

Navigate political risks

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Author: Sagar Khandelwal, Strategist, UBS Switzerland AG

- **Why?** (1) We believe a mid-single-digit percentage allocation to gold in a USD portfolio can diversify and hedge against political risk and inflation. (2) Gold demand should remain supported by the structural trend of central banks seeking to diversify their US dollar reserves. (3) Hedge funds can help navigate market volatility, while capital preservation strategies may help address downside risks.
- **Why now?** (1) While somewhat abating, uncertainty around US trade policy remains, driving continued flows into the precious metal. (2) We expect gold prices to remain supported by declining real interest rates, a weaker US dollar, elevated geopolitical risk premia, and continued investor and central bank demand. (3) A modest allocation to select hedge funds can enhance portfolio resilience, take advantage of volatility, and smooth overall return outcomes.



Gold remains a valuable portfolio hedge, which can help investors navigate political uncertainty.

Gold

The precious metal has been the standout performer of 2025 so far. Purchases of exchange-traded funds (ETFs) have rebounded, alongside ongoing central bank demand. This has propelled gold ahead of the euro as the world's second largest reserve asset after the dollar, according to the European Central Bank. Although gold has pulled back from record highs amid optimism that the worst of the trade war is over, we remain constructive on bullion's long-term value. We expect gold prices to remain supported by declining real interest rates, a weaker US dollar, elevated geopolitical risk premia, and a structural shift in institutional buying. For example, global central banks have stepped up their gold purchases in recent years, and we expect their buying to remain robust.

Capital preservation strategies

For capital preservation in equities, investors can consider strategies that combine a zero-coupon bond with a call option, helping manage downside risk while retaining upside potential. Elevated interest rates make the bond

component less expensive, increasing participation in equity gains. However, higher volatility can raise option costs, so investors should keep this in mind. While factors like geopolitics, Fed policy, or the growth outlook may again drive further volatility, the influence of tariff uncertainty (which had been significant) is now subsiding.

Alternatives including hedge funds

With elevated geopolitical tensions, shifting US tariff policies, economic risks, and high equity market valuations, adding alternative assets—including hedge funds as diversifiers—may make sense. Hedge funds' ability to go long and short, adjust exposures dynamically, and target specific dislocations—rather than purely chase market directionality or beta—positions them well for current conditions, in our view. If policy shocks and cross-asset volatility persist, hedge funds should continue to benefit from a rich environment for active management and alpha generation. Strategies such as global macro, low-net equity long/short, and multi-strategy funds can further enhance resilience and improve risk-adjusted returns. Investors

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should be aware of the various risks and drawbacks when investing in alternatives, including illiquidity, limited transparency, and the use of leverage.

Appendix

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Version A/2025. CIO82652744

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