CIO expects Treasury yields to fall for the remainder of the year, and believe highly rated government and investment grade bonds offer an opportunity for investors seeking durable portfolio income. (UBS)

Geopolitical risks remain, along with other sources of uncertainty

21 May 2025, 14:23 UTC, written by UBS Editorial Team US Editorial Team

Oil prices jumped on Wednesday after CNN reported that new US intelligence suggests that Israel is preparing for a potential strike on Iranian nuclear facilities.

Iran is one of the largest producers among OPEC members—it produces over 3.4 million barrels of crude per day and exports over 1.5 million barrels a day—and an attack could disrupt crude flows from the country.

The news came amid mixed headlines on US-Iran nuclear talks in recent days. Earlier this week, Iran's Supreme Leader, Ayatollah Ali Khamenei, said negotiations with the US are unlikely to result in a deal after US President Donald Trump suggested an agreement was close. While there were reports saying Tehran is willing to limit uranium enrichment in exchange for sanctions relief, Khamenei called US demands "excessive and outrageous."

It remains to be seen how the nuclear talks evolve, but the jump in oil prices underscores that investors must still contend with geopolitical risks along with other sources of uncertainty. Israeli military forces this week escalated their airstrikes in Gaza, as indirect ceasefire talks between Israel and Hamas in Qatar appeared to falter again. Trump's call with Russian President Vladimir Putin on Monday yielded little progress, and the EU and the UK announced new sanctions against Russia.

We recommend investors hold sufficient exposure to gold in a diversified portfolio as a hedge. We also believe quality fixed income and hedge funds can help manage market volatility ahead despite improving headlines on trade.

Gold remains an effective portfolio diversifier. Gold has continued to affirm its value as a portfolio hedge, having rallied some 25% this year. While it has come off from record highs amid optimism that the worst of the trade war is over, we remain constructive on bullion's long-term value. We believe gold prices will be supported by a decline in real interest rates, a weakening US dollar, and a structural shift in institutional buying.

Quality bonds have historically offered portfolio stability. US Treasury yields have climbed steadily in recent weeks as the country's fiscal outlook was back in focus amid budget negotiations in Congress. But while Trump's "One, Big, Beautiful Bill" is expected to add to the country's already elevated debt, the Trump administration has demonstrated sensitivity to higher bond yields, and we expect slowing US growth and a weakening labor market would allow the Federal Reserve to resume policy easing later this year. We expect Treasury yields to fall for the remainder of the year, and believe highly rated government and investment grade bonds offer an opportunity for investors seeking durable portfolio income.

Hedge funds can be nimble in navigating market volatility. We see hedge funds as valuable diversifiers—whether through global-macro trading, market-neutral equity strategies, or agile multi-strategy platforms—as they can help cushion drawdowns when traditional stock and bond investments struggle. Given their broader and more flexible mandate, hedge funds can dynamically adjust positions, deploy leverage, and hedge key risks. We think a modest allocation to select hedge funds can enhance portfolio resilience and smooth overall return outcomes.

Investors should ensure their ability to manage risks inherent to alternatives before they invest in hedge funds, including but not limited to illiquidity and the use of leverage.

Original report: **Ensure portfolio diversification amid geopolitical risks, 21 May 2025.**

Additional Disclaimer relevant to Credit Suisse Wealth Management: Except as otherwise specified herein and/or depending on the local entity from which you are receiving this document, this document is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website https://www.credit-suisse.com. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.
Please visit https://www.ubs.com/global/en/wealth-management/insights/chief-investment-office/marketing-material-disclaimer.html to read the full legal disclaimer applicable to this document.