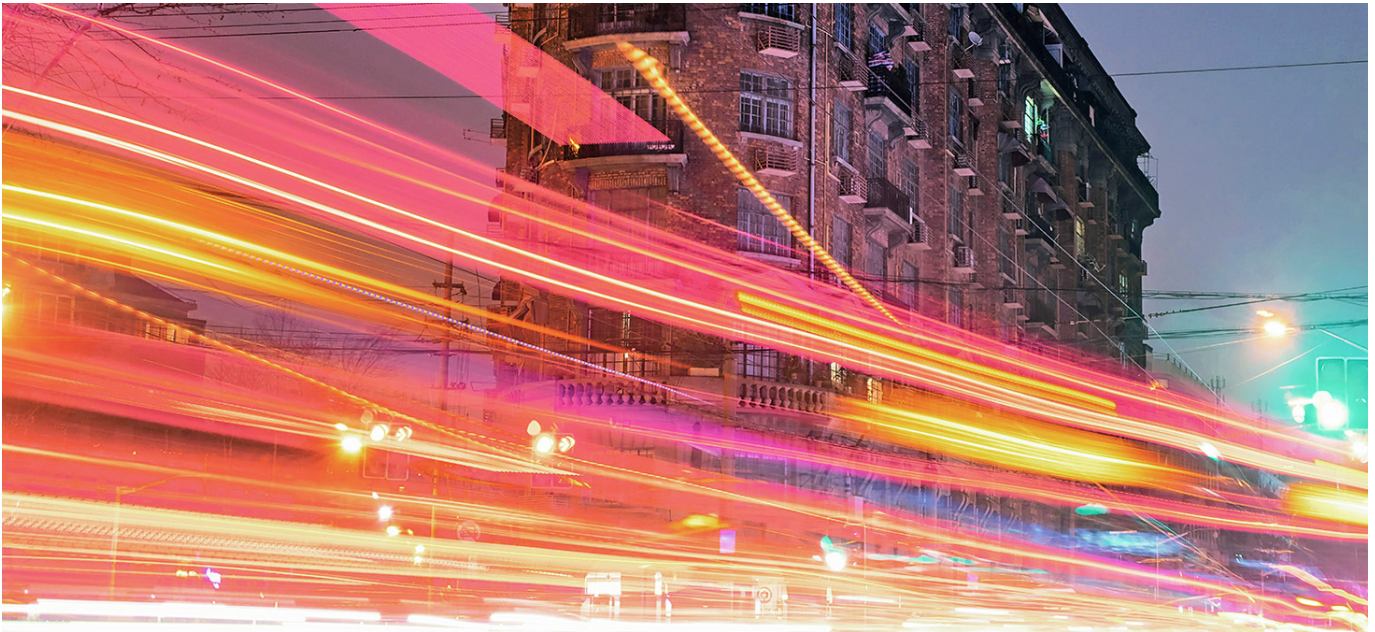




Source: Unsplash_Zhang Kaiyv

Tech volatility and navigating low interest rates (by Daniel Kalt)

11 February 2025, 12:43 pm CET, written by Daniel Kalt

Despite—or perhaps because of—the upheavals triggered by DeepSeek, broadly diversified AI investments continue to offer interesting opportunities. Those seeking security should look beyond cash holdings.

Although the stock market's start to the new year can generally be described as quite positive, recent developments following Donald Trump's inauguration, particularly the upheavals in the field of artificial intelligence (AI), have caused uncertainty and, in some cases, significant setbacks.

DeepSeek's open-source AI model has raised fears about its impact on the profitability of US technology companies, as it is cheaper than other leading models. Despite the nervousness over a potential AI price war, demand for AI infrastructure remains high, as cost-effective models could accelerate the adoption and application of AI. While this development could shift value creation within the AI ecosystem, it may also provide investors with the opportunity to benefit from long-term growth in AI, in power and resources, and from productivity gains in broader equity markets. We are convinced that the AI investments of major technology companies will continue, as shown by Meta's plans to expand its AI infrastructure. Investors should take advantage of the volatility and focus on a diversified engagement in the AI ecosystem to benefit from changing dynamics, in our view.

In such an environment, those seeking protection against market upheavals typically find it in the refuge of "cash." However, recent interest rate decisions by central banks in Europe bode poorly for cash holdings. Following the recent peak over the past two years, Swiss interest rates look set to stay low again for the foreseeable future. Thus, cash is likely to offer little or even negative real returns for an extended period, highlighting the importance of broadly diversified investment strategies.

It is therefore advisable to manage cash holdings according to the motto "as little as possible, as much as necessary," and to shift excess cash into higher-yielding investments. These include high-quality bonds and dividend-paying stocks. Swiss dividend stocks with yields over 3 percent provide a stable income stream. Additionally, covered call strategies can further enhance income and increase yields to around 7 percent annually. Reverse convertibles are also a viable option for generating income by combining bond coupons with options premiums.

In the current market environment, global diversification is also crucial. Historically, global equities have clearly outperformed Swiss equities. Structured strategies, including writing put options, can help investors engage in securities with long-term potential at favorable prices.

Alternative investments, such as private markets and hedge funds, can also help reduce the overall volatility of a portfolio. In an emerging low-interest-rate environment, investors should also consider credit strategies to optimize liquidity.

Investors, however, must be comfortable with and aware of the unique risks of alternatives of option strategies.

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