Investing at all-time highs: tips to ease anxiety

Investment strategy insights

Author: Matthew Carter, Strategist, UBS AG London Branch

- Investors who've stayed on the sidelines this year in the face of geopolitical uncertainty, oil supply shocks, and AI disruption risks are missing out.
- While investors with surplus cash may be nervous about putting money to work with equity markets at all-time highs, we believe there are better alternatives to waiting for a pullback.
- We outline the potential merits of topping up diversified portfolios, rebalancing positions, and supplementing core holdings with satellite allocations.

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Investors who've stayed on the sidelines this year in the face of geopolitical uncertainty, oil supply shocks, and AI disruption risks are missing out.

The US S&P 500 and Nasdaq indexes have recently notched all-time highs, while the Euro Stoxx 600 is trading not far below its peak. Markets closely linked to the AI value chain, such as South Korea's Kospi, have gained nearly 90% this year.

It's true that bond yields have been choppier and, in some instances, hit post-2007 highs on fears that higher-for-longer oil prices will force central banks to raise rates. Gold's insurance value at the height of the Iran war was marred by expectations that higher inflation would lead to higher interest rates, with the metal around 13% below its 2026 highs.

And investors outside the US may still be concerned about whether European central bankers will have to raise borrowing costs to check inflation, at the cost of growth, as well as the ongoing war in Ukraine.

Nevertheless, benign macro forces, strong first-quarter corporate earnings momentum, and below-average positioning all speak to further gains for global stocks by year-end. But the ride may be bumpy, suggesting a need for nimbleness and diversification.

Cashed-out investors nervous about putting money to work at all-time highs have better alternatives to waiting for a pullback, in our view. Here are three ways to strengthen core portfolios and overcome all-time-high anxieties:

1. Top up balanced portfolios across stocks, bonds, and alternatives. We believe a robust core portfolio is the foundation for long-term success. CIO suggests allocating 30-70% of assets to equities, with at least half in US stocks and at least 20% global, including Europe and emerging markets. Up to 30% can be dedicated to structural growth themes such as *AI, Power and resources,* and *Longevity*. Fixed income could comprise 15-50% of assets, balanced across government bonds and credit, with a five- to seven-year duration and alignment to currency needs. Alternatives—including hedge funds, private markets, and infrastructure—can further enhance diversification and risk-adjusted returns.

2. Rebalance portfolios. Large market moves over the year to date may have shifted portfolios away from target allocations. It may be prudent to rebalance, reducing relative outperformers, and adding to relative underperformers, to return to long-term asset allocations. This disciplined approach may help lock in gains, manage risk, and maintain exposure to future growth. Regular rebalancing is a core part of professional portfolio management—and an activity

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self-directed investors can try to copy, especially in volatile environments, to help avoid emotional decision-making and stay focused on long-term goals.

3. Enhance core portfolios with wealth preservation and tactical ideas. Strengthening the core isn't just about asset allocation—it's also about managing risks and seeking new opportunities. Risk-averse investors can hedge market risks by substituting some equity exposure with capital preservation strategies or adding gold exposure, which has proven to be an effective longer-term hedge against market stress and systemic risks. Return-seeking investors can pursue tactical equity opportunities, including structured strategies that offer limited exposure to losses or enhanced yield while waiting to "buy on dips." Long-term investors can consider alternative investments as diversifiers and potential sources of fresh returns, including private equity, private credit, and infrastructure. CIO suggests that EMEA investors with an "endowment" style may benefit from allocating up to 20-40% to alternatives, with careful manager selection and effective diversification across strategies. This approach can improve portfolio resilience and adaptability to changing market conditions. Investors considering alternative assets must be mindful of risks including illiquidity and lower transparency.

Holding excess cash may have felt prudent at the height of the Iran conflict. Market overhangs persist, including uncertainty about oil supply resumptions, the extent of stress in credit markets, and the sustainability of the AI trade. But recent market action has also shone a spotlight on the opportunity cost of not being invested. Now is the time to strengthen core portfolios.

Appendix

Non-traditional asset classes are alternative investments that include hedge funds, private equity, private credit, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. **An investment in an alternative investment fund is speculative and involves significant risks.**

Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- **Hedge Fund Risk:** There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- **Managed Futures:** There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- **Real Estate:** There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- **Private Equity:** There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- **Private Credit:** There are risks specifically associated with investing in private credit. This could include losses stemming from defaults on loans, which in significant adverse circumstances could result in a substantial loss of investment.
- **Foreign Exchange/Currency Risk:** Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

Global asset class preferences definitions
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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
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.
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."

Appendix

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