(UBS)

Global equity markets may face challenges over the summer months

4 August 2025, 16:31 UTC, written by UBS Editorial Team

Stock investors may face a period of limited potential gains and heightened risk as summer trading volumes thin out, thanks to expiring US tariff deadlines, uncertainties about tariff effects on inflation, and concerns about what politicians and central bankers will do next.

Beyond near-term ideas in equity income, quality stocks, and structured strategies, we explore the potential long-term merits of a systematic strategy for phasing into markets.

After a strong rebound since April, global equity markets may face challenges over the summer months.

- Global markets (MSCI AC World) have rallied around 23% and US stocks (S&P 500) are roughly 25% higher since "Liberation Day" lows, with US trade deals with the UK, EU, and others easing some investor concerns.
- But fresh tariffs for those countries that did not broker a trade deal before the 1 August trade deadline, uncertainties about sector tariffs, and signs of tariffs feeding into US inflation may limit near-term stock gains.

Investors already fully allocated to equities should consider short-term hedges.

- Structured strategies with capital preservation features may help investors stay allocated to stocks and forego some potential gains in exchange for limiting of losses, if a strategy is held to maturity.
- However, investors should be aware of their unique risks, including potential capital loss, limited potential for gains, and liquidity constraints.

Investors underallocated to stocks should prepare to add exposure on dips.

- We see opportunities—including through structured strategies that buy stocks on dips—to put money to work in US tech, health care, utilities, and financials; Swiss high-quality dividends, European quality, and our "Six ways to invest in Europe" theme; and in China's tech sector, Singapore, India, and Brazil.
- A disciplined approach to phasing into stocks or balanced portfolios may help manage the risk of poor timing, reduces the influence of emotion, and provide more opportunities to benefit from market dips and rebounds.

Did you know?

Balanced portfolios (60/40) have delivered positive returns in 88% of rolling five-year periods in the US, and since 2003, in 85% and 87% of periods for Europe and Switzerland, respectively, based on CIO analysis.

Investment view

After a strong run for global equities and with risks on the horizon, investors who are already allocated to equities in line with their strategic benchmarks should consider implementing short-term hedges and those underallocated should prepare to add exposure on potential market dips in the weeks ahead. In the US, we like US tech, health care, utilities, and financials. In Europe, we like Swiss high-quality dividends, European quality, and our "Six ways to invest in Europe" theme. In Asia, we like China's tech sector, Singapore, and India. We also like Brazil.

Original report - **How can I prepare for equity market volatility?, 4 August 2025.**

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