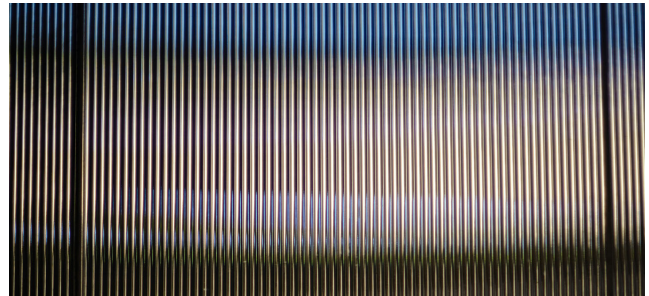


Consider capital preservation

Consider capital preservation

Author: Sagar Khandelwal, Strategist, UBS Switzerland AG

- **Why?** 1) Investors do not have to choose between pursuing upside and protecting against downside. 2) Capital preservation strategies can help investors remain invested while reducing the impact of drawdowns. 3) In our view, combining diversified core equity exposure with tailored protection can build a more resilient portfolio over time.
- **Why now?** 1) After a strong rally in AI-linked and other high-performing stocks, investors may want to lock in gains from a position of strength. 2) Parts of the market have held up well but remain exposed to cyclical, valuation, energy, and geopolitical risks, making this a timely moment to review downside protection. 3) Falling implied volatility, especially in US, European, and Swiss equity indices has improved the appeal of capital preservation strategies by supporting better upside participation.



A diversified core equity allocation combined with capital preservation strategies can help investors balance upside participation with downside resilience. Source: Jason Leung_Unsplash

Global equities have shown resilience, but risks persist—from geopolitical uncertainty and intensifying AI competition to elevated fiscal deficits. In this environment, we see value in locking in gains where appropriate, derisking select exposures, and using capital preservation strategies to help manage downside risk.

Locking in gains for transformational innovations

After a strong rally in transformational innovation-linked stocks—especially AI, semiconductors, and select single companies—investors may want to lock in some gains. Structured investments can help crystallize returns while maintaining some upside exposure, whether in individual stocks or on an index level.

Derisking while maintaining exposure

For areas that have held up well but remain cyclical, richly valued, or exposed to shocks (such as energy or geopolitics), investors can consider derisking by shifting toward more defensive sectors, diversifying across regions, or using structured strategies with built-in downside buffers.

Capital preservation strategies can be customized for tenor, loss avoidance, and participation, allowing investors to tailor the degree of protection and upside. Variants such as “bearish” and “twin-win” strategies offer flexibility for different market views and can help investors stay invested during downturns, reducing the temptation to sell and lock in losses.

Taking advantage of falling volatility

Falling implied volatility—especially in US, EU, and Swiss equity indices—makes capital preservation strategies more attractive. The sharp move higher in many governments’ shorter-dated bonds has made zero-coupon structures cheaper, increasing the capital available for options and thus participation in market gains. However, investors should monitor implied volatility, as higher option prices can reduce participation rates. When volatility is low, capital-preservation strategies can offer more compelling upside participation while helping limit losses.

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Global asset class preferences definitions

The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid and commonly known indices, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

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

Risk information

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