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Broaden equity diversification

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In a geopolitically uncertain environment, we see strong reasons to diversify equity exposure more broadly and not rely on just a few market segments or megacaps. We find emerging markets, luxury and lifestyle, and select Swiss high-quality, health care, and dividend stocks particularly interesting, as they can open up new sources of return and a more balanced risk profile.

Given the uncertain geopolitical environment, we consider broader diversification of equity exposure to be particularly sensible. Global equity markets have remained resilient despite various hotspots and are once again trading near record highs. At the same time, the rally of recent weeks has been driven by only a few narrowly defined areas: Energy stocks in particular and the recovery in the technology sector lifted indices, while other areas—especially on the consumer side in Europe—still have catch-up potential. That is precisely why investors should spread equity exposure more broadly, to reduce concentration risks and participate in a possible widening of market leadership.

In our view, the case for greater diversification is supported not only by market structure but also by the macroeconomic backdrop. Fundamentals remain solid overall: After a sluggish period, industrial output has moved back into expansion territory. In addition, monetary policy remains supportive, and we continue to expect robust earnings growth for global equities. Structural drivers such as artificial intelligence, power and resources, and longevity also play a role. At the same time, persistent disruptions in energy markets, intense competition in technology, and the risk that investors become overly concentrated in the best-performing companies and sectors argue for a broader allocation. Anyone who is currently too heavily focused on a handful of megacaps, a single style, or just one market is taking on unnecessary concentration risk, in our view.

As target investments for a broader positioning, we particularly like emerging markets. We see robust fundamentals and progress in corporate governance across several markets. South Korea benefits from tight supply of memory chips

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and from initiatives aimed at increasing shareholder returns. China remains an important market for AI applications and technological self-sufficiency. Brazil offers diversification and partial protection against higher energy prices. Precisely because exporters and importers of energy commodities react differently to the current environment, regional diversification within emerging markets remains crucial.

We also see opportunities in consumer discretionary, particularly in our new “Luxury and Lifestyle” theme. After the sharp valuation decline, the segment looks attractive again. Demand for luxury goods is stabilizing, and the European automotive sector is undergoing profound change that selectively creates opportunities. For us, this is a good example of how diversification is not only defensive, but can also provide access to areas that become more compelling after a correction.

We also continue to view the Swiss home market constructively. Switzerland is less dependent on energy imports than the Eurozone, and we believe it currently offers the more compelling risk-return profile. We particularly like health care stocks after the sector corrected significantly. In addition, we favor high-quality Swiss dividend stocks as well as select quality companies with structural growth. Three points support diversification in Switzerland: more defensive macroeconomic characteristics, more attractive valuations in parts of the health care sector, and reliable cash flows from quality and dividend companies.

Our conclusion is clear: Diversifying across equity markets does not simply mean holding more stocks. Rather, it means combining regions, sectors, and themes so that cyclical, defensive, and structural return drivers work together. That is why we favor a broader equity allocation focused on emerging markets, “Luxury and Lifestyle,” and certain Swiss segments such as health care, quality growth, and dividend stocks.

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