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How can investors protect themselves against market volatility?

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The markets have weathered the turbulence of the first half of the year well. The medium-term outlook remains positive, but in the short term, the likelihood of price setbacks is increasing. The good news is that investors can prepare for higher market volatility.

- Investors who maintained their investment strategy despite higher volatility and uncertainty were rewarded with solid returns for their discipline in the first half of the year.
- Further progress has been made in recent weeks in the trade dispute between the US and the rest of the world. Nevertheless, there are several reasons why volatility may temporarily increase, making market setbacks more likely.
- Investors should protect themselves against such risks through good portfolio diversification and should not stop investing regularly, even if volatility may be higher. Investments in structural growth opportunities, such as in the areas of AI, Energy and resources, as well as Longevity, can also make an important contribution to long-term wealth accumulation.

Summer is vacation time. But you often have to earn your holiday. A busy schedule at work, packing, watering the plants one last time, and surviving the journey with the usual turbulence—only then can you fully enjoy your vacation.

This scene resembles what we currently observe in financial markets. The long-term outlook is positive. Despite a possible economic slowdown in the second half of the year, companies appear to be doing well enough to withstand potential turbulence. Fiscal policy stimulus and interest rate cuts should also help support the global economy. However, in the short term, volatility could increase. We see several reasons for this:

First, uncertainty in trade policy remains, even with the agreements reached in recent days. The agreement between the US and the EU was an important milestone, but there is still a risk that other agreements may fail or that additional tariffs may be introduced for certain sectors. Both could weigh on Switzerland and the local stock market. There is also the risk that the agreements don't have sufficient legal foundation. In particular, in the case of the trade agreement between the US and the EU, it is unclear whether the European Commission actually has the necessary authority to make, for example, investment commitments.

Second, we expect US tariffs to rise to about 15% by the end of the year, making them roughly six times higher than last year. This is likely to increasingly weigh on the economy, especially in the US, although we see the risk of a recession as moderate.

Third, tariffs are already affecting US inflation: prices for goods are at their highest level in two years. If inflation continues to rise, this could dampen consumption and reduce the US Federal Reserve’s room for maneuver. The decline in immigration to the US could also lead to a shortage of labor, which poses another inflation risk. And if companies are unable to pass on higher costs from tariffs to customers, their profits could shrink, which in turn would weigh on stocks worldwide.

And finally, we note that volatility is currently quite low and market valuations offer little room for negative surprises.

Despite all these risks, there is also good news: investors can prepare themselves for market setbacks. Here are four effective strategies:

- Diversification is arguably the most effective way to protect a portfolio against volatility. According to our calculations, a diversified portfolio for a Swiss investor has delivered positive returns in almost 90% of all rolling five-year periods since 2003, which is a key prerequisite for long-term wealth accumulation.
- Our analyses also show that it can be worthwhile to invest a fixed amount on a regular basis. This minimizes the risk of investing a larger sum at the “wrong” time or, and even more importantly, waiting too long for the “right” time and missing out on potential price gains in the meantime.
- Structural growth opportunities are ideally suited for long-term wealth accumulation. Although these market segments are also subject to price fluctuations, themes such as AI, Energy and resources, as well as Longevity, are likely to deliver attractive returns in the coming years. Investors should use any price setbacks as opportunities to build positions.
- Tactical investors can hedge equities with structured products or partially shift realized gains into more defensive market segments. Swiss and global equities with high dividends offer significantly more attractive returns than government bonds and can potentially serve as a buffer against broader market declines. And shares of companies with high profitability, stable earnings, and solid balance sheets have historically outperformed during periods of slow growth and high uncertainty.

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