

Three suggestions for turbulent times

CIO Essentials

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- Three suggestions to help investors sleep well during these turbulent times:
- First, build a broadly diversified portfolio as a foundation that reflects the investor's investment objectives.
- Second, consider important long-term trends. Investors who are not, or are only marginally, exposed to equities—especially in the technology sector—should consider increasing their allocation to the asset class in their portfolios.
- Third, avoid market timing. It is sensible to enter the market gradually and with discipline. To avoid having to sell equities at the worst possible moment, a long investment horizon is necessary.



Source: UBS

Given the current developments in financial markets, investors may feel at a loss. On one hand, equity markets, driven by US technology stocks, are reaching new highs, raising the question of whether we are approaching a stock market bubble similar to the dotcom era at the turn of the millennium. On the other hand, gold, generally seen as a “shelter in a storm,” is also climbing to new record prices. Financial markets seem to be driven by both euphoria and fear.

Many of these mixed feelings stem from the US: Concerns that current US economic policy could weigh on the US dollar are fueling gold prices, while optimism regarding artificial intelligence (AI) is spurring equity markets there. We noted the potential of AI in our September edition of CIO Essentials, “[Are we facing an AI bubble?](#),” arguing that the risk of a stock market bubble today is significantly lower than it was during the dotcom era. Unlike in 2000, technology companies today appear more reasonably valued and are generating profits. At the same time, we expect interest-rate cuts from the US Federal Reserve in the coming months, whereas at the turn of the millennium, US key interest rates were being raised. Accordingly, we see further potential in technology stocks and the equity market in general over the next 12 months. As a result,

we upgraded global equities to Attractive this month and moved Chinese technology stocks to Most Attractive. We do not consider a bubble likely, but cannot rule it out, which currently makes the situation challenging for investors.

Three suggestions should help investors sleep well during these turbulent times:

Build a broadly diversified portfolio as a foundation. In turbulent times, a portfolio should meet the following requirements: first, reflect the investor's investment objectives; second, offer broad diversification; and third, consider the important long-term trends of the coming years. While we cannot rule out that technology stocks are currently in a bubble, we are convinced that AI will shape society and the economy in the years ahead.

Avoid market timing. Those who are not, or are only marginally, invested in (technology) equities should consider increasing their allocation to the asset class in their portfolio. This raises the question of when to enter the market. Waiting for the right moment often results in not investing at all and missing important trends. It is more sensible to enter the market gradually and with discipline.

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Maintain a long investment horizon. Although the dotcom bubble burst in the early 2000s, the internet nevertheless prevailed, and investors who positioned for this trend have benefited over the past 25 years. The prerequisite for this, however, was a long investment horizon. To avoid having to sell equities at the worst possible moment, sufficient—but not excessive—liquidity and a cautious use of leverage are essential.

Appendix

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