



Diversification has been shown to help reduce portfolio volatility, increase exposure to more sources of return. (UBS)

# Diversification has been shown to help reduce portfolio volatility

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## **US Treasury Secretary Scott Bessent defended President Donald Trump's tariffs at the Milken Institute Global Conference on Monday.**

Scott Bessent telling the crowd of Wall Street chief executives and financial leaders in Beverly Hills that the administration's policies would, over the long term, solidify the US position as the "home of global capital."

He said trade, tax cuts, and deregulation are "interlocking parts of an engine designed to drive long-term investment in the American economy," and that betting against the US economy was a time-tested mistake.

Investment managers and bankers at the conference, however, highlighted that companies have paused investment plans while waiting to see how trade talks play out. While they largely remain cautiously optimistic about the outlook, they warned that elevated uncertainty risks damaging the economy.

We expect the US economy to avoid a full-blown recession this year as trade deals are agreed and tariffs are reduced, but the expansion of GDP is likely to slow significantly from 2.8% last year to around 1.5% this year. While tariff headlines may start to improve, economic data could weaken as the impact of tariffs feeds into the economy.

For investors, this means that while we expect US stocks to grind higher for the remainder of the year, the journey is unlikely to be a straight line. Investors should consider quality bonds, gold, and hedge funds to help diversify their portfolios.

Diversification has been shown to help reduce portfolio volatility, increase exposure to more sources of return, and help investors avoid behavioral bias amid uncertainty. For those considering hedge funds, investors should be willing and able to manage the risks inherent to alternatives, including but not limited to illiquidity.

Original report: [Diversifying portfolios to navigate uncertainty, 6 May 2025.](#)

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