



(Shutterstock)

Portfolio components to cushion equities' future wobbles

11 April 2025, 12:32 pm MYT, written by UBS Editorial Team

While the inverse relationship between equities and bonds has been somewhat less consistent in recent years, it has been quite evident over the last week or so. With risk aversion likely to remain elevated, investors should ensure that the lower-risk components of their portfolios are properly maintained. We continue to stress the importance of quality bonds, both in the global and Asian contexts. Gold's recent demonstration of resilience highlights its utility as a portfolio hedge and investors should ensure an optimal allocation to their portfolios.

In the wake of the Trump administration's announcement of its new round of its "Liberation Day" tariffs, volatility has hit both equities and bonds. The VIX equity volatility index spiked from 21.5 to a little over 60 in just three sessions, and continued to linger around 50 till the 90-day pause was announced.

But investors would do well to note that the volatility visited on both the equity and bond markets has not been to the same extent. For sure, the amount of damage felt has been starkly different. Between 2 April and 8 April, the S&P 500 fell just over 12% and global equities (MSCI ACWI) fell just over 11%. During that time, high grade and investment grade bonds have remained fairly stable, meaningfully outperforming the more pro-cyclical equities. Also noteworthy is that we have recently turned Neutral (from Preferred) on equities overall in response to the harsher-than-expected raft of tariffs.

This highlights the importance of the rest of a diversified portfolio, which can help cushion returns during bouts of risk aversion that hurt equities. Let's review these now.

Deploy idle cash to high and investment grade bonds. We continue to see quality bond yields as still attractive and would encourage investors to deploy idle cash to lock in these yields. Portfolio income helps to stabilize returns, especially during uncertain times like the present. Case in point: over the fuller 19% correction in the S&P 500 from 19

February to 8 April, the 5-year US Treasury (UST) yield fell 42bps despite a 28bp rise at the end of that period. Although the outperformance has been less pronounced for the longer tenors—which are more sensitive to inflation and supply (issuance) concerns—that segment has nonetheless proved resilient amidst the spike in risk aversion. Going forward, US government bonds are set to benefit from policy rate cuts in the months ahead as US economic growth slows. The steepening of the UST yield curves of late also offers up opportunities for roll-down returns for medium tenors. For global investment grade (IG), we recommend bonds of more defensive and domestically oriented issuers with an average duration of around five years. Potential further spread widening might be offset with carry and further falling government bond yields.

Of course, USTs are susceptible to shifts in the market's expectations of fiscal discipline in the US. While it is clear that the debt path for the US is on a steep upward trend, driven by an excessive fiscal deficit and increased funding costs, we think a debt crisis is unlikely in the near term.

Asia IG remains our favored segment for the region. We continue to recommend that investors hold on to Asia IG credit, and keep duration more toward the short end (up to 5 years). Issuers in this space are mostly domestically focused, so the direct fundamental impact on Asia credit from tariffs should be limited. Furthermore, a large portion of Asia credit is made up of financials, which do not face a direct impact from tariffs. Asia credit has historically been less pro-cyclical compared to global/US credit, which would make it more resilient in an environment of slowing economic growth and rising risk aversion. We expect that any spread widening will likely be accompanied by falls in US Treasury yields. We recommend only modest exposure to Asia high yield (HY), limited to selected quality BB rated names from a bottom-up perspective.

Go for gold, still. Gold's limited fall to just under USD 2,956/oz amid liquidity concerns in financial markets and a subsequent rebound underline the resilience of this favored portfolio hedge. The collection of ongoing concerns in financial markets—trade and economic uncertainties, fears of stagflation, recession risks, and geopolitical tensions—will likely continue to burnish gold's allure. With the US at the heart of the ongoing trade war, longer-term allocations to gold by investors are quite likely to rise. The global move to diversify reserves away from the USD that has seen central banks buy gold at a record pace of over 1,000 metric tons annually over the last three years is unlikely to be impeded by the trade war. Private investors appear to be following suit and seem to have spurred a reversal of the multi-year ETF redemption cycle. Our base-case target remains USD 3,200/oz through 1Q26. But we would also caution that if trade and geopolitical risks deepen, our upside case of USD 3,500/oz will come into play. We reiterate our preference for gold, and stay long in our global asset strategy. We continue to recommend a 5% allocation to gold within a USD balanced portfolio as optimal from a diversification standpoint.

Disclaimer

This document is prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland), its subsidiaries or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. In the USA, UBS Financial Services Inc. is a subsidiary of UBS AG and a member of FINRA/SIPC. Additional Disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.

This document and the information contained herein are provided solely for your information and UBS marketing purposes. Nothing in this document constitutes investment research, investment advice, a sales prospectus, or an offer or solicitation to engage in any investment activities. This document is not a recommendation to buy or sell any security, investment instrument, or product, and does not recommend any specific investment program or service.

Information contained in this document has not been tailored to the specific investment objectives, personal and financial circumstances, or particular needs of any individual client. Certain investments referred to in this document may not be suitable or appropriate for all investors. In addition, certain services and products referred to in the document may be subject to legal restrictions and/or license or permission requirements and cannot therefore be offered worldwide on an unrestricted basis. No offer of any product will be made in any jurisdiction in which the offer, solicitation, or sale is not permitted, or to any person to whom it is unlawful to make such offer, solicitation, or sale.

Although all information and opinions expressed in this document were obtained in good faith from sources believed to be reliable, no representation or warranty, express or implied, is made as to the document's accuracy, sufficiency, completeness or reliability. All information and opinions expressed in this document are subject to change without notice and may differ from opinions expressed by other business areas or divisions of UBS Group. UBS is under no obligation to update or keep current the information contained herein. **The views and opinions expressed in this material by third parties are not those of UBS.**

Accordingly, UBS does not accept any liability over the content shared by third parties or any claims, losses or damages arising from the use or reliance of all or any part thereof.

All pictures or images ("images") herein are for illustrative, informative or documentary purposes only and may depict objects or elements which are protected by third party copyright, trademarks and other intellectual property rights. Unless expressly stated, no relationship, association, sponsorship or endorsement is suggested or implied between UBS and these third parties.

Any charts and scenarios contained in the document are for illustrative purposes only. Some charts and/or performance figures may not be based on complete 12-month periods which may reduce their comparability and significance. Historical performance is no guarantee for, and is not an indication of future performance.

Nothing in this document constitutes legal or tax advice. UBS and its employees do not provide legal or tax advice. This document may not be redistributed or reproduced in whole or in part without the prior written permission of UBS. To the extent permitted by the law, neither UBS, nor any of its directors, officers, employees or agents accepts or assumes any liability, responsibility or duty of care for any consequences, including any loss or damage, of you or anyone else acting, or refraining to act, in reliance on the information contained in this document or for any decision based on it.

Additional Disclaimer relevant to Credit Suisse Wealth Management: Except as otherwise specified herein and/or depending on the local entity from which you are receiving this document, this document is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website <https://www.credit-suisse.com>. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.

Please visit <https://www.ubs.com/global/en/wealth-management/insights/chief-investment-office/marketing-material-disclaimer.html> to read the full legal disclaimer applicable to this document.

© UBS 2025. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.