



CIO sees ways investors can consider improving the resilience of portfolios, such as proper diversification, including an allocation to hedge funds and exposure to gold. (UBS)

# How can investors deal with geopolitical risks?

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**The ceasefire between Israel and Hamas has raised hopes that tensions in the Middle East could ease. But the durability of the truce remains open to question, and the incoming Trump administration has promised renewed pressure on Iran.**

The war in Ukraine is ongoing. Meanwhile, President Trump has increased tariffs on Chinese goods and threatened other nations with higher trade levies too. Against this backdrop, we favor strategies to improve portfolio resilience while participating in potential market gains.

**Geopolitical uncertainty remains high, despite the Israel-Hamas ceasefire.**

- The ceasefire between Israel and Hamas—though a promising development—could prove fragile.
- The Trump team has expressed a desire to reintroduce a “maximum pressure campaign” on Iran. The war between Russia and Ukraine remains ongoing.
- The Trump administration has raised tariffs on imports from China, and threatened to increase trade levies on other nations.

**But we advise investors against exiting risk assets in response to this uncertainty.**

- Market shocks from war and geopolitical crises have historically had only temporary effects on asset prices and long-term market growth.
- While CIO has forecast aggressive action on tariffs from the Trump administration, we expect US policymakers to be alert to the risk of rekindling inflation, stopping Fed easing, and harming markets.
- Selling assets risks locking in otherwise temporary losses and hampers investors' ability to participate in the next market recovery.

### **We favor strategies to improve the resilience of portfolios and remain invested.**

- A well-diversified portfolio can potentially reduce swings in wealth.
- Structured strategies can help investors retain exposure to further potential gains in stocks while reducing sensitivity to a correction.
- Investors may consider using gold as a portfolio hedge.

### **Did you know?**

- The effects of international conflicts on markets typically fade fast. Since the attack on Pearl Harbor in 1941, the S&P 500 has been higher two-thirds of the time 12 months after the start of a crisis. Half the time, markets have only taken a month to recover, according to our analysis.
- Diversification has been shown to help reduce portfolio volatility, ensure investors tap more sources of return, and help investors avoid behavioral bias amid uncertainty.
- Hedge funds have historically exhibited an ability to capture tactical dislocations across sectors and asset classes to generate alpha, while still adhering to strict risk limits.

### **Investment view**

We believe exiting markets in response to immediate geopolitical uncertainty tends to be counterproductive. Instead, we see ways investors can consider improving the resilience of portfolios, such as proper diversification, including an allocation to hedge funds and exposure to gold.

Original report: [How can investors deal with geopolitical risks?, 10 February 2025.](#)

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