Liquidity strategy: Refilling for 2026 and beyond

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It's important for families to build a Liquidity strategy and keep it filled during bull markets so that they will have sufficient funds to cover expenses, even if there is a market disruption. To be effective, a Liquidity strategy should be funded with enough resources to cover three to five years of portfolio withdrawals, and invested in solutions that prioritize capital preservation.

Why fund a Liquidity strategy?

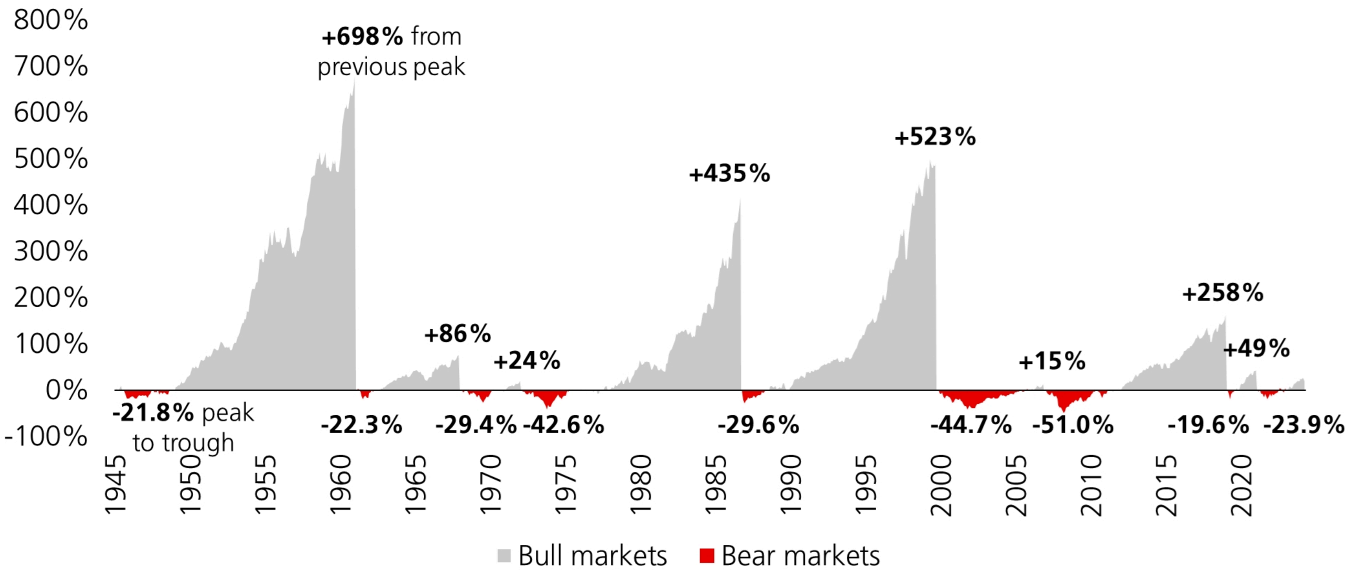
- A Liquidity strategy may help families maintain their lifestyle, even during pockets of market volatility. This approach may also reduce the risk of being forced to lock in otherwise-temporary losses in the rest of an investment portfolio.
- Forecasting market volatility is difficult. Rather than try to time the market cycle, it is prudent to keep Liquidity strategies well-funded during bull markets so that there will be sufficient reserves available to outlast a bear market decline and recovery. Historically, it has taken around three to five years for balanced portfolios to fully recover their losses after a bear market decline.[1]
- To be effective as a buffer between spending needs and market volatility, a Liquidity strategy portfolio must be invested in assets that aim to prioritize capital preservation, especially during an equity market drawdown. Income may be a secondary objective.

Why refill now?

Stocks are currently trading near an all-time high, and it has been about four years since the last bull market peak, set in December 2021. This could be just the beginning of a long bull market; after all, post-World War II bull markets have lasted an average of 10 years from market peak to market peal, with some bull markets lasting as long as 16 years (Figure 1).[1]

Figure 1 - We are in the early days of a bull market

Cumulative gain or loss since prior bull market peak, US large-cap stocks



Source: Morningstar Direct, Bloomberg, UBS, as of 30 November 2025.

As the UBS CIO Investment Research team notes in the *Year Ahead 2026* report, published 12 November 2025, the economic expansion is expected to continue, supporting continued growth in stock prices:

> We expect the economic backdrop to be supportive of stocks in 2026. Growth enters the year somewhat uneven, but as the year evolves, we expect business and consumer confidence to improve, fiscal stimulus in major advanced economies to gain traction, and tariff effects to fade.
>
> We expect global equities to rise by around 15% by the end of 2026, as markets continue to build on the momentum established in recent years, and we think investors underallocated to stocks should add to equities. Our positive views on US tech and US equities are core drivers, but we also expect performance from the health care, utilities, and banking sectors, as well as in Europe, Japan, China, and emerging markets.

While this base case may indeed play out, there are many potential risks that could derail the economic expansion or catalyze the next bear market. As the CIO research team also notes in their Year Ahead 2026 report, "If AI progress slows, inflation picks up again, or debt problems resurface, markets could face new challenges."

It is difficult to predict the precise timing of market volatility. Rather than trying to predict the future, it is prudent to prepare defenses in case downside risks materialize. It's never too early to plan.

Sizing a Liquidity strategy

The appropriate size of a family's Liquidity strategy should reflect the funds they plan to withdraw from their portfolio:

- **During working years**, regular paychecks typically cover most day-to-day expenses and leave enough income to also fund retirement plan contributions. To help manage unexpected expenses or periods of unemployment, it would be prudent for working-age families to set aside an emergency fund with resources to cover six to 12 months of spending. If the family has any major planned expenses in the next three to five years—such as a home purchase—

it may also be sensible to set aside a Liquidity strategy earmarked to fund those expenses using assets that prioritize capital preservation.

- **Families nearing, or already in retirement**, may wish to build a Liquidity strategy with funds needed for portfolio withdrawals over the next three to five years. Cash, bonds, and borrowing capacity are prudent resources for a Liquidity strategy.

Maintaining a Liquidity strategy

Periodically reviewing spending plans—including changes in spending habits and anticipated one-off expenses—can help ensure the strategy remains aligned with evolving needs. Discussing these plans with family members and a financial advisor may provide additional perspective.

Adjusting spending in response to market performance may be a prudent strategy for families. For example, when markets are healthy—as they are currently—it may be a good time for families to set aside "extra" Liquidity strategy assets to fund discretionary spending items in their short-term plans, such as an additional holiday trip, a home renovation, or seasonal gifts—so long as their financial plan confirms that these additional expenses will not jeopardize the family's financial success. By the same token, families may benefit from cutting spending—or simply delaying certain purchases—when markets decline. This type of spending flexibility may help families to improve the longevity of their investment assets.

Further reading

If you are interested in learning more about implementing the Liquidity straegy, please see the CIO Global Investment Management team's report, How to build a Liquidity strategy, published 25 October 2025.

End notes

[1] Waring, Justin; Carbone, Ainsley; and Scansaroli, Daniel. (10 October 2024). *Bear market guidebook: How to manage risk and harness opportunity in a market downturn,* accessed at www.ubs.com/bearmarketguidebook. UBS Chief Investment Office Global Wealth Management Investment Research.

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