



(UBS)

Diversification and portfolio hedges can help manage volatility

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Global markets staged a relief rally after US President Donald Trump dropped the threat to impose 10% tariffs on European countries after announcing he reached a “framework of a future deal” on Greenland with NATO Secretary General Mark Rutte. He added that he “won’t use force” to take over the Arctic island.

Greenland is likely to stay in the headlines in the near term, and markets remain susceptible to fresh political or geopolitical developments. Data that challenge the economic outlook could also add to market volatility.

But the latest stock rebound serves as a reminder that favorable fundamentals remain in the driver’s seat. We maintain the view that staying invested via a diversified portfolio remains the most effective way to manage market uncertainty.

A favorable growth outlook, robust earnings, and structural trends should continue to support global equities. Headlines come and go, but underlying fundamentals consistently drive market performance. In particular, global economic growth has proven resilient, with the outlook improving as major economies pursue fiscal expansion. This supportive environment offers room for corporate profits to rise further, and we expect robust earnings growth across major markets to fuel equity returns.

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Fear of losses can lead to underperformance. The probability of seeing a loss on any given day is just under 50%, but losses have been much less common for longer time horizons. For example, the S&P 500 has never experienced a loss over a 20-year period. This means that short-term returns can skew our perception of risk and reward, making us more susceptible to making emotional decisions.

Diversification and portfolio hedges can help manage volatility. In addition to taking a longer-term approach to investing, our analysis shows that gains from a balanced, well-diversified portfolio tend to be even more consistent. Indeed, a portfolio diversified across asset classes, geographies, and sectors can consistently grow wealth, in our view, providing compounded returns and maximizing the chance of meeting one's financial goals.

So, we maintain our positive market outlook and see further upside in global equities. We also see value in quality bonds, and believe investors should consider exposure to gold and alternatives.

Original report – [**Stay diversified to navigate market volatility, 22 January 2026.**](#)

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