(UBS)

Good opportunity for investors to strengthen portfolio resilience

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The UBS Chief Investment Office (CIO) believes equities will rise further over the medium term as progress in the Middle East leads investors to focus more on solid economic and corporate fundamentals. CIO expects earnings per share for the S&P 500 to rise by 20% this year, supporting their year-end target of 7,900 for the index, from 7,563 as of 28 May.

But although CIO expects further advances in stocks, they also see recent market strength as providing an opportunity for investors to increase the resilience of their portfolios.

The outsized gains by top US tech companies have added to concentration risks for many portfolios, making it prudent to consider diversifying across equities. CIO thinks the next phase for market gains is likely to be characterized by a broadening of leadership beyond the megacaps, increased rotation within equities, and more frequent episodes of volatility as capital is reallocated. Against this backdrop, the key question is how to reduce portfolio concentration without stepping away from the underlying drivers of the cycle. CIO recommends several actions. First, investors can improve geographical diversification across CIO's preferred equity markets and sectors. These include Japan, China—including its tech sector—and emerging markets more broadly, Switzerland, global health care, and European consumer discretionary. Second, while megacap growth stocks remain central to earnings delivery, the impact of AI is expanding into other sectors, including infrastructure, power, and industrial supply chains.

The recent bond sell-off has created an opportunity to lock in attractive yields, in CIO's view. The increase in energy prices since the start of the US-Iran conflict in late February has added pressure on policymakers mindful of

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higher inflation, and bond yields have moved higher. CIO believes the European Central Bank will raise interest rates in the coming months, and that the Fed is likely to wait until the final meeting of 2026 to resume rate cuts. However, CIO believes market pricing for the policy outlook for most major central banks has moved too far in a hawkish direction. Meanwhile, after many years of strong equity performance relative to bonds, CIO views it as a good time to rebalance toward bonds, to bring allocations back in line with long-term plans, and to help manage potential equity risks. CIO sees opportunities in high-quality government bonds with short to medium maturities, which are less vulnerable to market concerns over rising government debt burdens.

The recent period of moderate equity market volatility makes it more appealing to add hedges to portfolios. Given the strong recent performance, investors concerned about market risks can consider substituting some direct equity exposure with structured investments that offer more defensive characteristics. These include capital preservation strategies, which can offer participation in market upside while potentially limiting some downside risk. Investors can consider using these in areas that have held up well but are more cyclical, expensive, or susceptible to a prolonged energy shock. Investing in capital preservation strategies requires careful consideration of their tenor, issuer-specific risks, the participation rate, and liquidity factors.

So, while recent developments are in line with CIO's base case for an eventual diplomatic solution in the Middle East, risks remain. Even if a US-Iran deal is reached in the near term, investors should brace for a bumpy road toward a lasting peace, and a return to pre-conflict levels of shipping through the Strait will take time. In addition, despite a strong tech earnings season, it remains unclear which companies will emerge as leaders in monetizing AI—creating the potential for investor disappointment and volatility. As a result, CIO believes recent market strength provides a good opportunity for investors to strengthen portfolio resilience, with the goal of reducing the risk of large drawdowns while maintaining participation in rising markets.

Original report – **Use equity market strength to rebalance, 29 May 2026.**

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