



(UBS)

Ways to manage and take advantage of volatility

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Markets have been digesting the impact of President Trump's changes in US economic policy, with equities falling sharply, bonds and gold rallying, and the US dollar depreciating against most major currencies. In this note we consider some ways to not only manage volatility, but also to take advantage of it.

Manage volatility

Navigate political risks. We believe that trade and geopolitical uncertainty, as well as rising risks to global growth, will continue to spur demand for gold among private and institutional investors. We expect gold, now above USD 3,100/oz, to continue serving as an effective hedge against geopolitical and inflation risks.

In equities, higher volatility has made **capital preservation strategies** more expensive to implement, but they can still be an effective means of limiting potential portfolio losses while maintaining exposure to potential gains. Extending the tenor of such strategies can help improve cost-effectiveness.

Seek durable income. While there is now less potential upside for quality bonds in our base case, as bond markets have already begun to price slower economic growth, we believe that high grade and investment grade bonds continue to offer attractive risk-reward and that they are particularly attractive as portfolio diversifiers. We would expect substantial upside for quality bonds in the event of a deep recession in the US, which could hurt other parts of investor portfolios.

Diversify with alternatives. Given the increasingly complex investment landscape, diversifying with alternatives is becoming essential. By dynamically adapting to macro shifts, sector rotations, and geopolitical developments, hedge fund strategies like discretionary macro, equity market neutral, select relative value or multi-strategy can cushion portfolios in

down markets and capitalize on dislocations. Their flexibility to hedge in real time, selectively deploy leverage, and exploit pricing anomalies translates into opportunities for asymmetric returns that traditional assets might miss.

Take advantage of volatility

In equities, high uncertainty related to tariffs and economic developments makes timing market entry difficult. But at current levels, we believe investors should consider monetizing currently high levels of equity volatility with yield-generating strategies. Single-stock volatility has risen by an even greater margin than index level volatility, suggesting greater scope for yield generation. Meanwhile, we believe S&P 500 levels between 5,000 and 5,250 would represent attractive entry points in our base case.

In fixed income, we believe it may be premature to “buy the dip” in riskier credits, given the uncertainty about the economic outlook. Nonetheless, investors with a longer-term perspective may consider capitalizing on dislocations that could materialize in the coming weeks. We retain a constructive stance on select BB-rated issuers we consider rising star candidates, as well as on select subordinated/hybrid bonds.

In currencies, we believe that investors can benefit from currently elevated levels of currency volatility by trading what we expect to be near-term ranges in key pairs, including EURUSD (centered around 1.10), USDCHF (centered around 0.87), and GBPUSD (centered around 1.31).

For more, see [Trade war: Our latest views](#), 4 April, 2025.

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