Consider capital preservation

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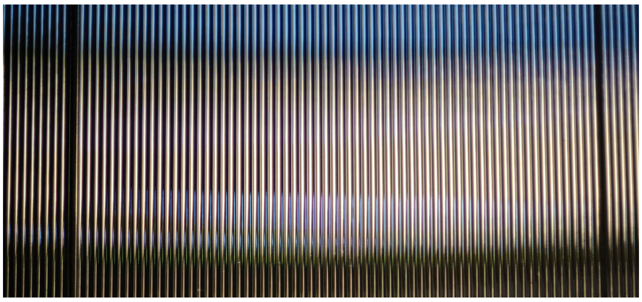
- **Why?** 1) Investors do not have to choose between pursuing upside and protecting against downside. 2) Capital preservation strategies can help limit losses while retaining participation in further market gains. 3) Combining diversified core equity exposure with tailored protection can help build a more resilient portfolio over time.
- **Why now?** 1) Renewed US-Iran tensions, higher valuations, and elevated bond yields have increased the risk of abrupt market swings. 2) At the same time, the medium-term equity outlook remains constructive, making strategies that combine downside protection with upside participation particularly relevant. 3) Investors with concentrated portfolios, near-term spending needs, or lower tolerance for drawdowns should consider reviewing their level of protection.


A diversified core equity allocation combined with capital preservation strategies can help investors balance upside participation with downside resilience. Source: Jason Leung_Unsplash

Renewed US-Iran tensions, higher valuations, and elevated bond yields have increased the risk of abrupt market swings, even as the medium-term equity outlook remains constructive. Investors can manage downside risk by combining diversified core equity exposure with capital preservation strategies designed to limit losses while retaining participation in further gains. This may be particularly relevant for investors with concentrated portfolios, near-term spending needs, or lower tolerance for drawdowns.

Locking in gains while retaining upside participation
Following strong equity-market gains, investors with concentrated positions may want to lock in some gains while retaining exposure to further upside. Capital preservation strategies can help limit losses while maintaining participation in potential market gains, whether linked to individual stocks or broader equity indices.

Derisking while maintaining exposure
Investors with holdings that are richly valued, cyclical, or vulnerable to market shocks can consider reducing risk by diversifying across regions or using strategies designed to provide downside protection. Capital preservation strategies can be tailored by tenor, degree of protection, and upside participation, allowing investors to select an approach that reflects their objectives and risk tolerance.

Taking advantage of relatively low implied volatility
Relatively low implied volatility—especially in US, Eurozone, and Swiss equity indices—can make capital preservation strategies more attractive. The move higher in many governments' shorter-dated bond yields can make zero-coupon structures cheaper, increasing the capital available for options and potentially supporting greater participation in market gains. However, investors should monitor implied volatility, as higher option prices can reduce participation rates. When volatility is low, capital preservation strategies can offer more compelling upside participation while helping limit losses.

Global asset class preferences definitions
The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid and commonly known indices, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.
Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.
Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities
Note: For equities, we have a five-tier rating system with two additional preferences
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
When equities are included with the other asset classes in the three-tier rating system, we collapse “Most Attractive” with “Attractive” and “Least Attractive” with “Unattractive.”

Appendix

Risk information
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Version C/2026. CIO82652744