(UBS)

CIO continues to recommend diversification across sectors and geographies

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While we continue to expect stocks to end the year higher amid a still-supportive economic backdrop, ongoing risks to the growth outlook and concerns over AI investment and disruptions suggest that the path upward may remain bumpy.

The reopening of the Strait of Hormuz remains elusive despite the ceasefire. While the White House suggests it is waiting for Iran to submit a new peace proposal, Tehran said it has no plans to take part in negotiations immediately. President Masoud Pezeshkian added that the US navy blockade and threats are the main obstacles to diplomacy. On Wednesday, Iranian gunboats fired on commercial ships in the Strait of Hormuz while the US intercepted two of the Islamic Republic's oil tankers. These developments point to the challenges of resolving the conflict and reopening the Strait to allow for a normalization of energy flows and production. In fact, there are already signs of strain in the physical market—some Japanese refineries are beginning to reduce output owing to shortages of specific types of crude oil that are typically sourced from the Middle East.

A prolonged period of elevated energy prices may weigh more heavily on growth. We expect Brent crude oil to stay above USD 90/bbl until the end of this year, but believe these energy prices to have a limited impact on core inflation. Our base case still calls for a sustained moderation in underlying inflation in the US as tariff effects fade in the coming months. But the risk of a further surge in oil prices amid a prolonged closure of the Strait of Hormuz remains, and the drag on global growth may be more severe than what markets have priced in so far.

Selectivity has become more crucial as the AI story enters the next phase of growth. South Korea's SK Hynix on Thursday reported a five-fold jump in quarterly earnings and forecast AI memory chip demand would continue to exceed manufacturing capacity, joining other leading semiconductor and hardware names that have reported so far in confirming robust demand. Without taking any single-company views, we remain constructive on memory, advanced semiconductors, and enabling infrastructure amid earnings visibility through 2026 and into 2027. But some early signs of soft spots in demand and intensifying competition also suggest that AI infrastructure bottlenecks may be shifting. Separately, ServiceNow's mixed results point to continued pressure in parts of the software sector due to AI disruption, while the upcoming earnings from large-cap US tech companies should offer more details on the progress of their monetization efforts.

So, while we believe investors should position for medium- to long-term upside in equities, we continue to recommend diversification across sectors and geographies. Structured investments may also be considered for more defensive positioning, especially after the recent rally. More broadly, portfolio exposure to quality bonds, gold, and broad commodities remains essential in navigating an uncertain environment.

Original report: **Stay diversified amid ongoing market risks, 23 April 2026.**

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