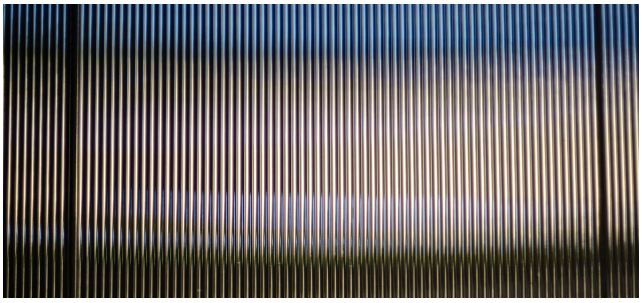
Report Completion Date
23 October 2026, 14:42 UTC
Chief Investment Office GWM
Investment Research

Consider capital preservation

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- **Why?** 1) Investors do not have to choose between pursuing gains and protecting against losses. 2) Capital preservation strategies can help limit losses while retaining participation in further market gains. 3) Combining diversified core equity exposure with tailored capital preservation approaches can help build a more resilient portfolio over time.
- **Why now?** 1) Investors with concentrated portfolios, lower tolerance for drawdowns, or near-term liquidity needs may wish to strengthen portfolio resilience without stepping away from long-term investment opportunities. 2) Capital preservation strategies can help investors balance participation in potential gains with greater protection against adverse scenarios. 3) The current interest rate environment continues to support the attractiveness of many conventional capital preservation strategies.



Capital preservation strategies can help investors stay invested through volatility, limiting losses with potential for gains. Source: Jason Leung_Unsplash

Investors can make their portfolio more resilient to potential adverse scenarios by incorporating strategies designed to help limit losses while retaining participation in potential gains. This may be particularly relevant for investors with concentrated portfolios, lower tolerance for drawdowns, or near-term liquidity needs. Capital preservation approaches can strengthen portfolio resilience while allowing investors to maintain some upside exposure.

Locking in gains while retaining participation
Following strong equity market gains, investors with concentrated positions may want to lock in some gains while retaining exposure to a further rally. 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 loss limitation. Capital preservation strategies can be tailored by tenors, the level of downside protection, and the participation rate, allowing investors to select an approach that reflects their objectives and risk tolerance.

Taking advantage of relatively low implied volatility
Relatively low implied volatility can make capital preservation strategies more attractive. High stock-level dispersion and low correlations, particularly in US and Eurozone markets, have helped keep index-level volatility relatively subdued. Lower implied volatility can reduce the cost of the options used in capital preservation strategies, potentially supporting greater participation in market gains.

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. Investors may also need to hold these strategies to maturity to receive the contractually specified repayment, which remains subject to the issuer's creditworthiness.

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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.
Absolute view
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. 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."
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.
Relative preferences
For the multi asset view, we also include relative preferences to help investors compare between items.
Preferred: We view this item more favorably than others within its asset class.*
Neutral: We see this item similarly to others within its asset class.*
Least preferred: We view this item less favorably than others within its asset class.*
*In the case of cross-asset, compared to other asset classes.
Note: 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.

Appendix

Risk information
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