(UBS)

Why investors should diversify, rebalance, and hedge

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The potential risks of portfolio concentration are rising. High energy prices are adding to uncertainty about the growth and inflation outlook. And concerns about the sustainability of AI capital spending and industry disruption risks have not gone away.

To participate in potential medium-term gains in stocks while managing specific risks, we favor hedging strategies and diversification across sectors, regions, and styles. Investors with concentrated positions should rebalance and diversify their portfolios.

Equity markets may face volatility amid geopolitical concerns, high energy prices, and AI uncertainty.

- The Middle East conflict is disrupting energy flows, which poses risks to the growth and inflation outlook.
- AI capex growth is decelerating from a high level and industry disruption concerns are likely to continue.
- Nevertheless, we retain an Attractive stance on global and US equities, expect markets to end the year higher, and believe investors should maintain long-term exposure.

So, investors should diversify, rebalance, and hedge.

- We recommend broadening equity exposure across sectors, regions, and styles.
- This includes going beyond US tech, adding to global industrials and US utilities, and building exposure to Asia (including Japan and China). In the US, we also like health care, consumer discretionary, and financials.
- Investors who are concerned about market risks can consider replacing some direct equity exposure with strategies that offer a degree of capital preservation.

We favor areas of the equity market that are likely to be relatively resilient.

- We see greater security in markets with secular growth and limited exposure to energy disruptions.
- Our preferred regions include the US, Switzerland, and emerging markets. In European equities, our preferred areas include health care and our "European leaders" theme.
- We also see opportunities in select stocks exposed to growth trends such as artificial intelligence, power and resources, and longevity.

Did you know?

- Over the medium term, we expect US stocks to be buoyed by a combination of solid profit growth and a Federal Reserve that remains broadly supportive, even if policy easing is delayed.
- We target the S&P 500 at 7,500 in December 2026 and forecast earnings per share of USD 310 this year (11% growth).
- Both Swiss equities and the European health care sector are typically low-beta (i.e., less volatile) markets that offer appealing dividend yields, which can help improve return stability.

Investment view

We believe investors should diversify their equity holdings, rebalance concentrated positions, and consider hedging strategies (e.g., capital preservation) to navigate specific risks. We favor parts of the market that are likely to be relatively resilient (e.g., health care, Swiss stocks) or offer structural growth potential.

Original report: **How can investors diversify their equity holdings?, 20 April 2026.**

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