

Daily: Strengthen portfolio defenses as volatility rises

UBS CIO · 2026-10-22 · English original

Thought of the day

Brent crude oil hit USD 112/bbl for the first time since May and is on track for a third consecutive week of price gains as fresh attacks in the Middle East have heightened concerns about further disruptions to energy supplies. Since the start of this month, Brent crude has risen 9.4%.

Saudi Arabia reported attacks on an Aramco oil field and an airport in its Eastern Province, while the US ordered diplomats to leave the country amid Houthi strikes. Separately, the New York Times reported that the US and Israeli militaries had developed specific plans for renewed attacks on Iran after the US midterm elections, which take place on 3 November.

With the Russia-Ukraine conflict also continuing, geopolitical risks are unlikely to subside in the near term, keeping inflation concerns elevated and adding to macroeconomic uncertainty.

But geopolitics are not the only factor driving market performance. Resilient economic growth, robust corporate earnings, and strong AI demand continue to underpin equity gains. Our view remains that investors should focus less on the possibility of short-term drawdowns associated with geopolitical events and more on ensuring that their portfolios can withstand periods of volatility.

History suggests that geopolitical shocks are rarely a sufficient reason to stop investing. Since 1941, the S&P 500 has been higher 12 months after the start of a geopolitical crisis roughly three-quarters of the time. For diversified portfolios, the long-term cost of remaining uninvested has often proved greater than the temporary cost of living through a geopolitical drawdown.

The global energy system should continue to adapt to the disruption. While still below its pre-war levels, OPEC crude production rose by 0.92 million barrels per day in September to 25.1 million, or around 85% of February's output, according to the group's latest Monthly Market Report. Trade routes are also shifting, while the G7 decision to release additional emergency oil stocks should provide some temporary relief. Together, these developments demonstrate the global oil market's ability to respond to disrupted supplies. We acknowledge that the physical oil market remains tight and is vulnerable to further supply shocks, but our base case is that a gradual recovery of energy flows and production should allow oil prices to moderate into next year. This means that the impact of higher energy prices on the global economy should remain insufficient to derail growth.

Exposure to commodities can help manage volatility. Instead of retreating from markets, investors can use energy exposure to insulate portfolios against such supply-driven volatility and boost diversification. In fact, we think investors should consider broad commodities as a differentiated source of return, especially as rising power demand, AI infrastructure investment, electrification, and constrained supply are supportive of an upcycle. Historically, commodities have exhibited low correlations with traditional asset classes, and we think an actively managed approach can help investors navigate across the commodity complex.

So, we retain a constructive market outlook and believe investors should stay invested for further equity gains via broadly diversified exposure across sectors and regions. We also believe investors can strengthen their portfolio resilience by incorporating fixed income, broad commodities, and select alternatives according to their risk tolerance, liquidity needs, and financial objectives.

Source: <https://www.ubs.com/global/en/wealthmanagement/insights/chief-investment-office/house-view/daily/2026/latest-22102026.html>