Bear market guidebook

How to manage risk and harness opportunity in a market downturn

October 2024
Chief Investment Office GWM
Investment Research

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Introduction

Dear reader,

When it comes to understanding market risks and their impact on investment success, there is an elephant in the room—or rather, a bear.

A "bear market" occurs when there is a greater-than-20% peak-to-trough drop in the S&P 500.

Although the 20% threshold is arbitrary, crossing this level has historically been an important dividing line between painful-but-short-lived corrections—where recovery time is measured in months—and the years-long recovery period for bear markets.

Although they are a natural part of the investing experience, there's a certain taboo about discussing bear markets and recessions, as if acknowledging them increases the likelihood of experiencing one.

Our research suggests that this taboo is counterproductive. In studying bear markets closely, you will learn that they aren't as dangerous as they seem.

In this report, we answer three key questions:

1. **What are the characteristics of a bear market?**
2. **How can I prepare my portfolio and my financial plan?**
3. **What steps should I plan to take during a bear market?**

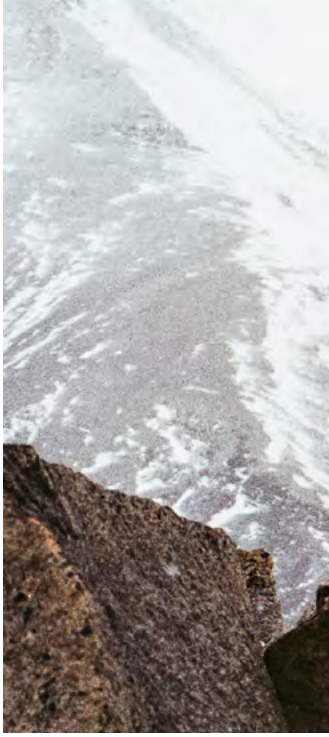
It's important to note that there is no panacea for bear markets. Almost all investors will experience at least a handful of bear markets—both in their working years and during retirement—and they will be painful.

But there's a difference between pain and damage, and our research tells us that bear market protection doesn't have to be expensive—especially if investors are proactive.

As we'll show in this report, bear markets needn't be a threat to financial success. In fact, for the well prepared, they can be an opportunity to improve long-term returns.

In addition to this report, you can visit our website, ubs.com/bearmarketguidebook, which includes an interactive calculator that you can use to stress-test your portfolio and your spending plan. After reviewing this research, you can work with your financial advisor to make sure you're prepared. It's never too early—and rarely too late—to plan.

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Part 1

Bear market characteristics

Let's start with the definition of what constitutes a bear market.

We define a bear market as an episode where US large-cap stocks fall by at least 20% from peak to trough. Rather than focus only on the peak-to-trough drop time period—what we call the "drawdown" period—we also include the time that it takes for stocks to register another all-time high—what we call the "recovery" period.

The 20% threshold may seem arbitrary, but it is useful because it filters out a large number of painful-but-short-lived drawdowns for that asset class. For drops greater than 10%, but less than 20%, we generally call them "bull market corrections." For less-than-10% drops, there are no agreed-upon definitions. Sell-offs of this magnitude are fairly common, and short-lived, and usually earn names like "dip," "sell-off," "reversal," "pullback," or "slide."

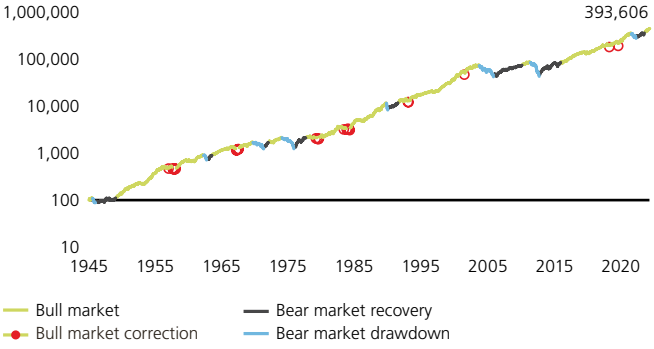
It's also important to note that, generally speaking, risk and return parameters are not relevant if we apply them directly to other asset classes or portfolios. After all, a "big" percentage change for one asset class may be a relatively minor move for another asset class or investment strategy. So while we use US large-cap stocks as the basis for defining bear markets, this is only for clarity, not because we're suggesting that investors should measure their performance against an all-equity benchmark like the S&P 500.

With this definition in mind, let's look at historical returns to evaluate what market cycles look like using our framework.

Figure 1

Bear markets are rare, and over relatively quickly

Growth of USD 100 invested in US large-cap stocks in 1945, categorized by market environment using monthly total returns

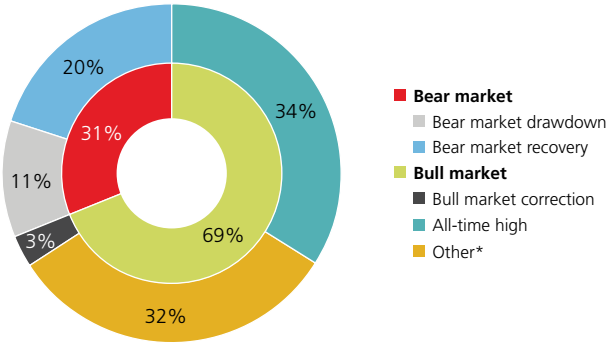


Note: 'Bull market' denotes periods where US large-cap stocks are at, or within 10% of, an all-time high.
Source: Morningstar Direct, Bloomberg, UBS, as of 31 August 2024

Figure 2

Stocks have spent about two-thirds of the time at, or within 10% of, an all-time high

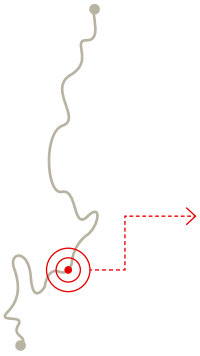
Time spent by market environment, US large-cap stocks, monthly returns since 1945



* A less-than-10% drop from last all-time high
Source: Morningstar Direct, Bloomberg, UBS, as of 31 August 2024

Rather than thinking of markets as a "cycle" or a "clock," this data helps us to see that markets are more like a runaway train when viewed over the long term. As investors, our job is to try to keep up with the train, which rarely stops and never truly goes backwards.

This context is important as we ask ourselves how much long-term growth we're willing to forfeit in order to improve our comfort level during the painful-but-rare "pauses."



Lookout stop
Since 1945, US large-cap stocks have spent approximately 27 years at an all-time high, 25 years within 10% of an all-time high, 25 years in a bear market, and 2 years in a bull market correction.

Figure 3

How have stocks and balanced portfolios performed in past bear markets?

Statistics for bear markets since December 1945

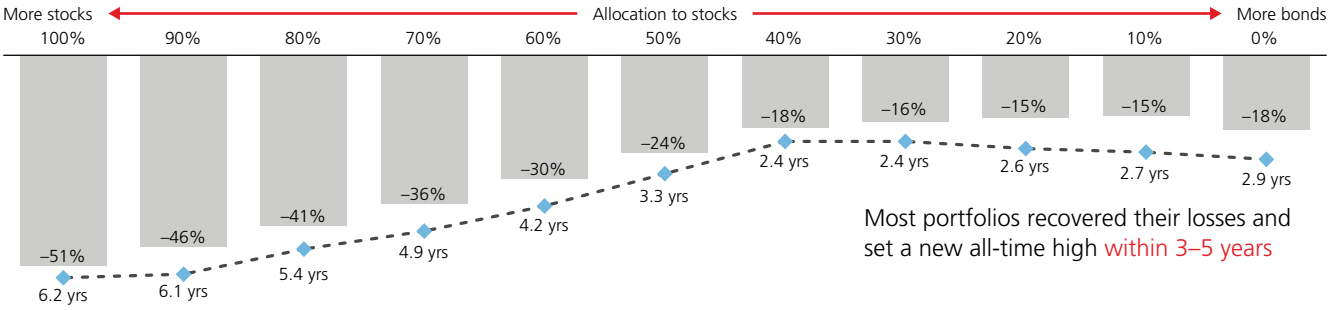
Peak year	1947	1962	1969	1973	1988	2001	2008	2020	2022	Average	Average including 2020
Market cycle overview											
Length of prior bull market*	13.9 yrs	15.1 yrs	6.4 yrs	2.5 yrs	12.9 yrs	12.8 yrs	5.1 yrs	10.8 yrs	1.8 yrs	**9.0 yrs**	**9.8 yrs**
Time between market cycles**	16.7 yrs	15.6 yrs	6.9 yrs	4.1 yrs	14.7 yrs	13.0 yrs	7.2 yrs	12.2 yrs	2.0 yrs	**10.3 yrs**	**11.2 yrs**
Peak	May 1946	Dec 1961	Nov 1968	Dec 1972	Aug 1987	Aug 2000	Oct 2007	Dec 2019	Dec 2021		
Trough	Nov 1946	Jun 1962	Jun 1970	Sep 1974	Nov 1987	Sep 2002	Feb 2009	Mar 2020	Sep 2022		
US large-cap stocks											
Recovery date	Oct 1949	Apr 1963	Mar 1971	Jun 1976	May 1989	Oct 2006	Mar 2012	Jul 2020	Dec 2023		
Max drawdown	–21.8%	–22.3%	–29.4%	–42.6%	–29.6%	–44.7%	–51.0%	–19.6%	–23.9%	**–31.6%**	**–34.5%**
Time to full recovery (new all-time high)	3.4 yrs	1.3 yrs	2.3 yrs	3.5 yrs	1.8 yrs	6.2 yrs	4.4 yrs	0.6 yrs	2.0 yrs	**2.8 yrs**	**3.3 yrs**
Drawdown time	0.5 yrs	0.5 yrs	1.6 yrs	1.8 yrs	0.3 yrs	2.1 yrs	1.3 yrs	0.3 yrs	0.7 yrs	**1.0 yrs**	**1.1 yrs**
Recovery time	2.9 yrs	0.8 yrs	0.8 yrs	1.8 yrs	1.5 yrs	4.1 yrs	3.1 yrs	0.3 yrs	1.3 yrs	**1.8 yrs**	**2.1 yrs**
Years of prior gains 'erased'***	1.2 yrs	2.9 yrs	5.4 yrs	9.7 yrs	1.5 yrs	5.3 yrs	11.6 yrs	2.2 yrs	1.6 yrs	**4.6 yrs**	**5.4 yrs**
60/40 stock/bond portfolio											
Recovery date	Oct 1948	Mar 1963	Dec 1970	Jan 1976	Jan 1989	Oct 2004	Dec 2010	Jun 2020	Feb 2024		
Max drawdown	–13.4%	–13.0%	–17.6%	–26.4%	–17.4%	–21.7%	–29.9%	–9.1%	–19.4%	**–18.7%**	**–19.9%**
Time to full recovery (new all-time high)	2.4 yrs	1.3 yrs	2.1 yrs	3.1 yrs	1.4 yrs	4.2 yrs	3.2 yrs	0.5 yrs	2.2 yrs	**2.3 yrs**	**2.5 yrs**
Drawdown time	0.5 yrs	0.5 yrs	1.6 yrs	1.8 yrs	0.3 yrs	2.1 yrs	1.3 yrs	0.3 yrs	0.8 yrs	**1.0 yrs**	**1.1 yrs**
Recovery time	1.9 yrs	0.8 yrs	0.5 yrs	1.3 yrs	1.2 yrs	2.1 yrs	1.8 yrs	0.3 yrs	1.4 yrs	**1.3 yrs**	**1.4 yrs**
Years of prior gains 'erased'***	1.2 yrs	1.4 yrs	3.3 yrs	6.1 yrs	1.2 yrs	4.3 yrs	9.2 yrs	0.9 yrs	1.9 yrs	**3.3 yrs**	**3.8 yrs**

* Time from previous trough to this cycle peak
** Time between previous peak and this cycle peak
*** At the bear market's trough, how much earlier could an investor have bought at that level?
Source: MorningstarDirect, Bloomberg, UBS, as of 31 August 2024

Figure 4

Balanced portfolios lose less and recover more quickly

Bear market performance, based on allocation to US large-cap stocks (the remainder is invested in intermediate US government bonds), since December 1945, in %



Worst bear market drawdown
Longest time to new all-time high (during a bear market)

Important note: Bonds and bond-heavy portfolios are currently experiencing their longest ever drawdown, and haven't fully recovered their losses. Therefore, for portfolios with an 80% or greater bond allocation, this figure includes an estimated "longest time under water" figure for the 2022 bear market.
Source: Morningstar Direct, Bloomberg, UBS, as of 31 August 2024



Part 2

How to prepare for a bear market

Unfortunately, history tells us that the quest for "the perfect hedge" may be a wild goose chase. No matter how well intended or designed, the strategies that provide the most potent protection against equity downside risk also tend to be the most costly in terms of sacrificing long-term growth potential.

That's particularly true if the goal is to hedge against all downside movements, instead of only against the long and deep sell-offs that characterize bear markets. That's because—in order to make sure that there is a high negative correlation during all downside episodes—a strategy must risk also having a high negative correlation when markets go higher. In a world where stocks usually go higher, strategies that seek to go "short" or directly hedge equities seem doomed to fail. This cost is especially high for strategies that employ leverage to "make the most" of their short windows of opportunity.

As a result of these challenges, we don't usually recommend direct hedges as a part of our strategic or tactical asset allocation. As we will note below, it's important to prioritize cost-effective protection before moving onto less-reliable or costlier hedging strategies. Here are some "damage mitigation" strategies, in declining order of efficiency:



1. Think structurally
Make sure that your portfolio is taking the right amount of risk to meet your short- and long-term objectives; if those objectives appear in conflict, the Liquidity. Longevity. Legacy. (3L) strategy can help you to make sure that your portfolio is able to meet both sets of goals.

2. Plan strategically
The most direct way to manage equity risk is to trim some stocks from the portfolio in favor of a higher allocation to core bonds (government and municipal bonds) (Figure 6).

3. Consider hedges
There are many strategies that could mitigate the portfolio's downside exposure if used to replace a part of the equity allocation.

4. Manage liabilities prudently
If used carefully, borrowing strategies can be highly beneficial to improving bear market returns. Having reliable access to credit during a bear market—when interest costs are record-low and investment opportunities are the most attractive—can help investors avoid selling at bear market prices and amplify return potential during the first stages of a bull market recovery. When considering the role that borrowing might play in your strategy, make sure that you have a plan to maintain a safe level of portfolio leverage. This will help you manage the risk that a market decline could trigger a margin call.

Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability.
This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

Figure 5

Segmenting your portfolio into three strategies can help you meet your short- and long-term goals

The Liquidity. Longevity. Legacy. framework



Cash, bonds, and borrowing capacity to help you avoid bear market damage

A balanced strategy, prioritizing consistent growth and income, to help you avoid outliving your savings

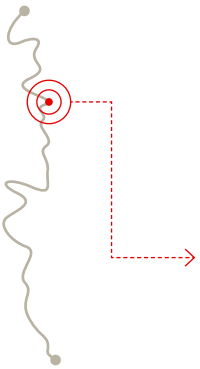
A growth-oriented strategy to help maximize the after-tax wealth you can give to others

Source: UBS. Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

1. Think structurally

The Liquidity. Longevity. Legacy. framework provides a structure for developing a purpose-built investment strategy that is aligned with your personal goals and objectives. This framework can help you ensure that you have the right amount of investment risk—not too much, and not too little—for your current situation.

A Liquidity strategy provides the main defense against bear market risk. By funding your Liquidity strategy during a bull market and spending it down during a bear market, you are able to build a buffer between market volatility and your ability to meet your short-term objectives. This allows you to keep the rest of your assets fully invested and positioned for a recovery.



Lookout stop
Our Liquidity. Longevity. Legacy framework helps investors structure an investment strategy based on their goals and objectives throughout their lifetime.

Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

If you're working, your **Liquidity** strategy might simply be an emergency fund that can be accessed in the event of a period of unemployment. In retirement, we recommend funding the Liquidity strategy with resources to cover the next 3–5 years of spending from your portfolio (your total spending minus guaranteed income from annuities, pensions, etc.).

Your Liquidity strategy assets should be invested in strategies that provide capital preservation during periods of stock market volatility—for example, cash, savings accounts, and high-quality bonds.

By setting aside some of your borrowing capacity, you may be able to manage the amount of safe (and low-returning) assets that you need to set aside in the Liquidity strategy, but it's important to manage your borrowing strategies carefully (see *4. Manage liabilities prudently,* page 15).

The **Longevity** strategy is designed to reflect all of the assets and resources that you need to fund the rest of your lifetime spending. The primary objective of the Longevity strategy is to provide consistent growth and income, with an eye to growing your purchasing power after inflation over the long term.

With your Liquidity strategy funded and invested to manage the risk from bear markets, your Longevity strategy can afford to invest in a growth-oriented portfolio without worrying about the risk of being forced to lock in otherwise temporary losses because of a short-term cash flow need.

With that being said, we recommend a balanced asset allocation for the Longevity strategy, with a bond allocation of at least 20–30% in most circumstances. The risk of your Longevity strategy—specifically, how long it will take for your portfolio to fully recover from a bear market—will affect how many years of spending you should set aside in your Liquidity strategy. For this reason, it's rarely effective to invest the Longevity strategy in an Aggressive or all-equity portfolio.

The **Legacy** strategy includes assets that are in excess of what you need to meet your own lifetime objectives. It clarifies how much a family can do to improve the lives of others—either now or in the future. Legacy strategy portfolios are often invested in an Aggressive or all-equity portfolio, aiming to maximize after-tax growth potential. The Legacy strategy may also include collectibles, charitable funds, and homes. To learn more, please ask your financial advisor for a copy of "Modern retirement monthly: Which assets are best to use in retirement?."

Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability.
This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

Figure 6

Your Strategic Asset Allocation has a big influence on your exposure to bear market risk

Performance, based on asset allocation (US large-cap stocks and intermediate US gov't bonds), during bear markets since December 1945

Allocation (stock/bond)	Average return since December 1945 (CAGR*)	Bear market performance: Average drawdown	Average years of gains erased**	Average time under water (years)	Worst drawdown	Longest time under water (years)
100% / 0%	11.2%	-32%	5.4	2.9	-51%	6.2
90% / 10%	10.7%	-29%	4.9	2.9	-46%	6.1
80% / 20%	10.1%	-25%	4.5	2.6	-41%	5.4
70% / 30%	9.6%	-22%	4.3	2.5	-36%	4.9
60% / 40%	9.0%	-19%	3.8	2.3	-30%	4.2
50% / 50%	8.4%	-15%	2.8	1.6	-24%	3.3
40% / 60%	7.8%	-11%	2.2	1.2	-17%	2.4
30% / 70%	7.1%	-8%	1.8	1.0	-16%	2.4
20% / 80%	6.5%	-5%	1.4	0.9	-15%	2.6
10% / 90%	5.8%	-3%	1.1	0.7	-14%	2.7
0% / 100%	5.1%	-2%	0.9	0.4	-15%	2.9

Less time
More time

* Compound Annual Growth Rate
** At the bear market's trough, how much earlier could an investor have bought at that level?
Important note: Bonds and bond-heavy portfolios are currently experiencing their longest ever drawdown, and haven't fully recovered their losses. Therefore, for portfolios with an 80% or greater bond allocation, this figure includes an estimated "longest time under water" figure for the 2022 bear market.
Source: Morningstar Direct, Bloomberg, UBS, as of 31 August 2024

2. Plan strategically

To be a successful investor, you need to calibrate your overall asset allocation positioning to ensure that the portfolio continues to align with your family's goals and objectives. It's important to ensure that large changes in the portfolio's allocation are done rarely and proactively.

By contrast, we don't recommend jumping into or out of the market based on short-term forecasts (accurate crystal balls remain hard to come by), and emotions tend to trump reason once markets become volatile.

Although equity-heavy and concentrated portfolios can work very well during bull markets, less-diversified portfolios are fragile, exhibiting larger drawdowns and longer recovery times in bear markets.

If you do have a less-diversified Longevity strategy portfolio, consider funding your Liquidity strategy with more resources (cash, bonds, and borrowing capacity) to give yourself a longer runway for the market recovery.

Figure 7

Overview of defensive equity strategies

Strategy type	Advantage	Disadvantage	Best suited to
Low volatility and quality	Higher upside potential in positive equity markets than some other more defensive strategies More diversification than focusing just on defensive sectors	Still have equity market risk and can experience large drawdowns Single-factor strategies can experience long periods of underperformance	Position portfolios more defensively while maintaining 100% long equity exposure
Dynamic allocation (market timing)	Lowering equity risk by shifting to cash & cash equivalents or VIX futures can help to avoid large drawdowns Allocations to VIX futures can potentially more than offset equity declines	Market timing risk: Selling stocks too late and/or buying back stocks too late For strategies using VIX futures, cost of rolling VIX futures typically detracts from returns	Try to outperform during large, protracted equity market declines
Covered call	Premium generated from selling call options provides a partial offset to losses on equities	Capping upside potential on portion of portfolio covered Still have equity market risk and can experience large drawdowns	Position portfolios more defensively while maintaining 100% long equity exposure and to generate income Tends to work best in sideways or modestly positive/negative markets
Put-writing	Premium generated from selling put options provides a partial offset to losses on equities	Unless the put is exercised, the gain is limited to the premium collected Still have equity market risk and can experience large drawdowns	Position more defensively within equities Tends to work best in sideways or modestly positive/negative markets
Convertible securities	"Bond-like" characteristics can help in weaker equity markets while option to convert to equities helps when equities are rising	Still have equity market risk and can experience large drawdowns; "bond-like" floor may be based on expected recovery rates in the event of a default	Position more defensively within equities

For more information, please see the latest version of our full report, "*Exchange-traded funds: Managing equity downside.*"
Source: UBS

3. Consider hedges

Bull markets are far more common and long-lasting than bear markets, so when it comes to choosing portfolio hedges, we prefer strategies that don't "cost" the investor too much—either explicitly or implicitly—but should provide meaningful downside protection during a bear market.

To expand on the strategies mentioned in Figure 7, investors should give special consideration to three hedging strategies: long-duration bonds, dynamic asset allocation strategies, and structured investments that offer explicit downside protection.

Long-duration bonds

Interest rates typically fall during bear markets, because during recessions the Federal Reserve lowers interest rates and inflation pressures abate. As a result, fixed income assets typically perform well, enjoying a "flight to safety" rally. This return boost is greater for assets with higher duration.

In addition to considering longer-duration Treasuries, investors can also consider zero-coupon bonds or STRIPS ("Separate Trading of Registered Interest and Principal of Securities"), which pay no interest to the holder and offer a higher sensitivity to interest rate moves (e.g., duration risk) than interest-bearing securities. These assets exhibit what is known as positive convexity, which means that as interest rates fall they become even more sensitive to interest rate declines.

As shown in Figure 8, long-duration Treasuries' response to recession-risk concerns is more potent, making them an effective "hedge" that may detract from gains during particularly strong market environments but should on average provide a positive return even if a recession doesn't occur.

Regime-shifting strategies

These are market-timing strategies that aim to add and reduce risk dynamically in order to manage risk and opportunity through market cycles. One example is a dynamic asset allocation strategy that shifts some portion of the equity allocation toward bonds when market momentum deteriorates—for example, if the S&P 500 falls below its 200-day moving average (Figure 9).

A regime shifting model can be useful, in particular, for investors that will be taking withdrawals from their portfolios and therefore have to worry about sequence risk. For those investors, potentially limiting drawdowns can help to improve long-term outcomes, even if the strategy does trigger more capital gains taxes or causes the portfolio to miss out on the full market upside during sharp stock market recoveries.

Figure 8

Long-duration Treasuries have rallied during 70% of equity selloffs, with an average gain of 6–8%

Total returns for 20+ year Treasuries, 20–30 year STRIPS, during 6-month periods with a negative return for the S&P 500

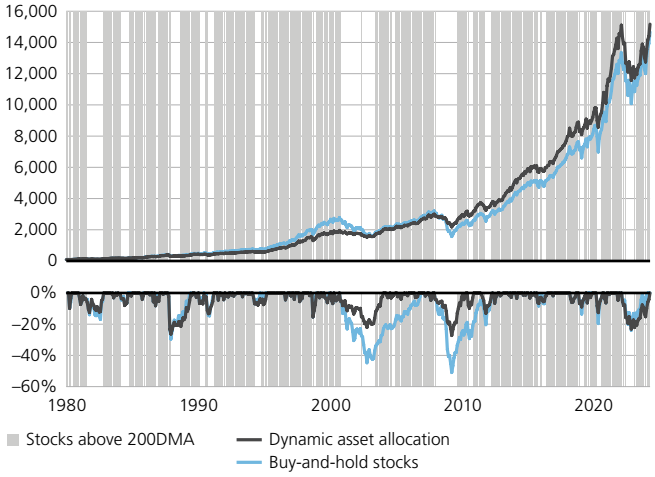


Source: Bloomberg, UBS, as of 31 August 2024

Figure 9

A dynamic asset allocation driven by momentum can help to manage risk

Hypothetical growth of USD 100 (upper chart) and drawdown from all-time high (bottom chart) invested in two strategies, since 31 December 1979



The dynamic asset allocation portfolio is 100% invested in the S&P 500 normally, but switches to a 50% S&P 500, 50% intermediate Treasury portfolio if the S&P 500 is below its 200-day moving average on a monthly closing basis. This hypothetical simulation does not reflect any tax consequences from realizing capital gains.
Source: Morningstar Direct, Bloomberg, UBS, as of 31 August 2024

Structured investments
These are investment vehicles, sometimes called structured notes, that use derivatives to adjust the risk-reward of an underlying index over a certain time period. They can be useful for fine-tuning risk and return characteristics for an asset class, and thus should be considered an important option in an investor's "bear market tool belt." For example, an investor that wants to add exposure to emerging market stocks, but is concerned about downside risk, may feel more comfortable using a structured note, accepting illiquidity and sacrificing some of the asset class's potential upside in exchange for some downside protection. For example, a five-year structured note tied to the MSCI Emerging Markets Index might give an investor 80% of the upside of the index, but help protect the investor against the first 10% of the index's loss as long as the note is held to maturity.

Bottom line
As a general rule of thumb, the more "perfect" a hedge is, the more costly it becomes. If you find something that seems to be an exception to this guideline, tread carefully—it may be too good to be true. When it comes to meeting long-term goals, missing out on equity downside is probably less important than it seems, so always bear this in mind when deciding whether the opportunity cost of direct hedges is worth the value of mitigating downside risk.

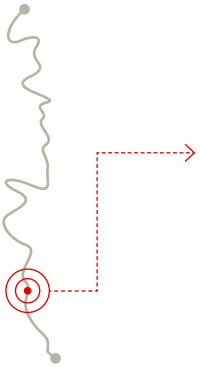
4. Manage liabilities prudently

Debt can be segmented into two general categories: strategic debt and tactical debt. Investors should evaluate their usage of both.

Strategic debt is generally long term, used to acquire a significant balance sheet position, and helpful for maintaining diversification and flexibility on a balance sheet. Mortgages to purchase real estate and student loans to acquire human capital are two examples.

We define tactical debt as debt that's used opportunistically on a short-term basis to improve outcomes. For example, in lieu of liquidating portfolio positions and realizing taxable gains, a family might borrow against their investment portfolio to pay for a large expense. We recommend that all families have borrowing capacity available in order to easily execute on those types of opportunities.

One note of caution: A bear market can quickly turn leverage from a "carry trade" to a "margin call." Investors should have a plan to pay down debt when markets are healthy; this, along with consolidating assets to increase availability and improve borrowing terms, can help make sure that borrowing capacity is available during bear markets.



Lookout stop
When used prudently, borrowing can provide a "Plan B" to avoid liquidating risk assets at "bear market prices." Even so, take care; too much leverage can increase the risk of forced selling. Be sure to review your borrowing capacity (e.g., securities-backed lending and home equity lines of credit) with your UBS financial advisor.



Part 3 (open in case of emergency)

What to do during a bear market

There are a handful of tactics that investors can employ during a bear market.

Don't panic
Remember that bear markets are painful but temporary. Sticking to your plan is key, so resist the urge to change the risk profile of your portfolio or make sizable shifts out of stocks or into cash.

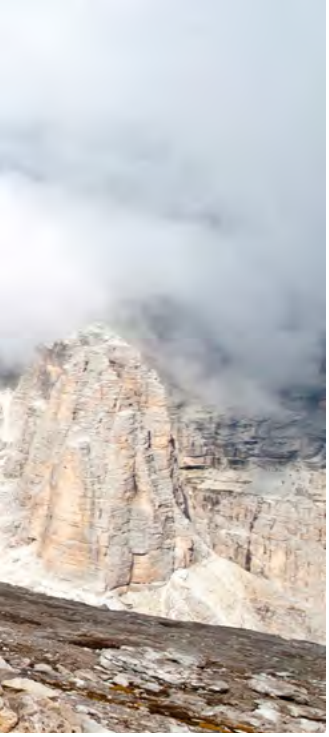
Portfolio management
Investors should use sell-offs as opportunities to harvest capital losses—a strategy that over time we estimate can add about 0.5% to after-tax annual portfolio returns. And rebalancing the portfolio can also enhance upside by ensuring that your portfolio doesn't drift too far from your target allocation. These fall into the category of "high-probability" alpha generation, because they'll probably help improve after-tax returns regardless of how long it takes for markets to recover.

Play for time
Investors should look for ways to increase their savings rate or cut back on spending. While you wait for the market to fully recover its losses, you should tap into your Liquidity strategy resources, spending down your cash and high-quality bonds and tapping into your borrowing capacity so that you can avoid locking in otherwise-temporary losses in your long-term investments. Your Liquidity strategy can also help you keep your Longevity strategy portfolio positioned to take advantage of strong gains during the "bear market recovery" phase (Figure 10).

Figure 11 demonstrates one example of how spending down your Liquidity strategy during a bear market could have improved portfolio outcomes. In this illustration, we look at two portfolios with a starting value of USD 10 million, invested at the market peak in October 2007:

- In the "all-in-one" portfolio, the investor maintains a 60% stock, 40% bond portfolio and funds their day-to-day spending from their investments.
- In the Liquidity. Longevity. Legacy. portfolio, the investor segments their investments into separate Liquidity, Longevity, and Legacy strategies, and funds their spending down an all-bond Liquidity strategy. In this portfolio, the asset allocation starts at 58% stocks, 42% bonds, but the allocation to stocks rises during bear markets (because the all-bond Liquidity strategy is depleted to fund spending).

Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability.
This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

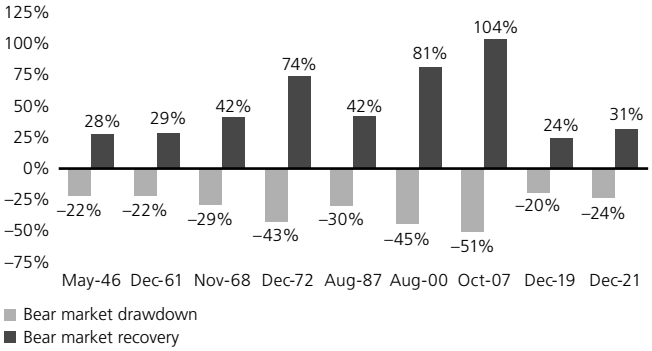


Tactical opportunities
While every bear market is different than the last, there is one constant: There are always market dislocations that can provide opportunities to enhance returns. Generally, we recommend "leaning in" to risk assets when market prices are out of step with fundamentals. For investors that enter a bear market well prepared (having isolated their cash flow needs from market risk), it may be appropriate to unwind portfolio hedges and increase portfolio risk temporarily to take advantage of higher return potential.

Figure 10

Stocks have generated strong returns during the "Bear market recovery" phase

Returns for US large-cap stocks, in %

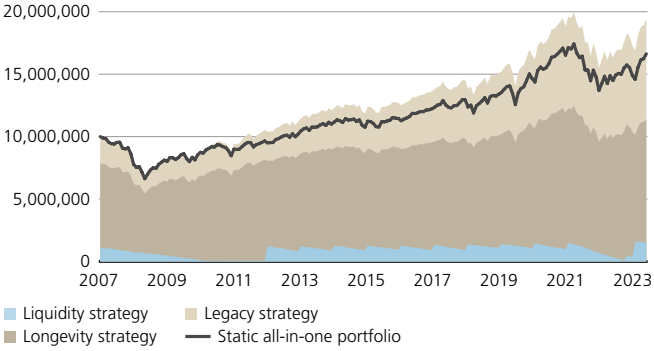


Source: Morningstar Direct, Bloomberg, UBS, as of 31 August 2024

Figure 11

Your Liquidity strategy can help you avoid locking in losses during bear markets, enhancing your long-term growth potential

Growth of USD 10 million invested on 31 October 2007

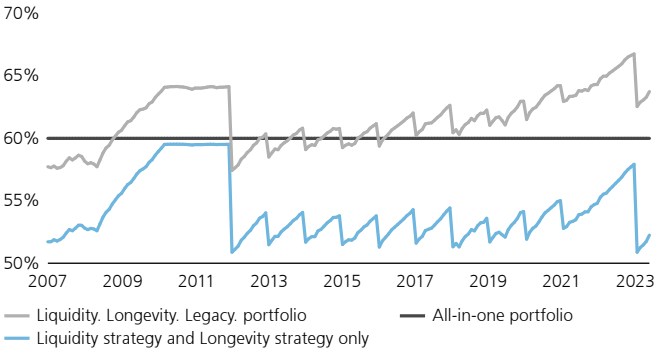


Both portfolios have a starting value of USD 10 million, with annual spending of USD 350,000, increased 2.4% p.a. to account for inflation.
All-in-one portfolio details: USD 10 million invested in a 60% stocks, 40% bonds portfolio.
Liquidity. Longevity. Legacy. portfolio details: USD 1.1 million Liquidity strategy (Bloomberg US Agg Bond Index), USD 6.8 million Longevity strategy (60% stocks, 40% bonds), USD 2.1 million Legacy strategy (80% stocks, 20% bonds). The Liquidity strategy is sized to fund 3 years of spending, refilled annually unless S&P 500 down >10% from all-time high. All portfolios are rebalanced monthly. For illustration purposes only. Does not reflect the impact of taxes or fees.
Source: Morningstar Direct, Bloomberg, UBS, as of 31 August 2024

Figure 12

The Liquidity. Longevity. Legacy. strategy creates a dynamic asset allocation

Stock allocation throughout market cycles



Assumes annual refilling of the Liquidity strategy (refilling is skipped if the S&P 500 is down more than 10% from its all-time high)
Source: Morningstar Direct, Bloomberg, UBS, as of 31 August 2024

Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability.
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