Why investors are increasingly willing to trade upside for resilience

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Key Takeaways

- S&P 500 valuations are elevated, with a price/earnings ratio of 28 compared to a 20-year average of 20.
- Defensive autocalls trade some potential upside for a predefined return across a wider range of market outcomes.
- Greater predictability can support long-term planning and investor discipline, particularly for those approaching or in retirement.

It would be hard to criticise an investor who allocates a significant proportion of portfolio to the S&P 500. It has returned 11.3% annualised over the last 20 years[1], a period that includes the global financial crisis and covid. However, a quick look at price/earnings ratios of the S&P 500 tells us that valuations are currently relatively high at 28 compared to an average of 20 over the last 20 years[2].

Valuations are elevated relative to their long-term average, while market concentration, geopolitical uncertainty and questions over the durability of AI-led growth are encouraging some investors to reassess the traditional risk-return trade-off. Investors might be asking if the conditions that supported such strong returns over the past two decades will persist.

Market uncertainty is increasing demand for more predictable outcomes

Allocating to the S&P 500 has certainly worked over the last 20 years, albeit with some setbacks along the way. But past performance does not tell investors what the next 20 years will look like. Investors wary of the possibility that future growth may not play out as hoped, or those looking for other ways to achieve equity-like returns, have options available to them in the form of defined outcome investments. They are designed to offer a predefined return across a specified range of market outcomes. Investors can therefore balance the return they are seeking against the level of market risk they are prepared to take.

Structured notes can be tailored to different investor objectives. One of the most popular forms is the autocall, which offers a predefined annual return if certain market conditions are met, and can mature early. Getting more specific, the most popular type of autocall has been the defensive autocall linked to one or more developed equity markets. They are considered defensive because coupons may be payable

even when the underlying equity markets have declined, provided the relevant conditions are satisfied at the specified observation dates. To make investing in these autocalls easier, funds containing investments that give autocall-like payoffs have been accessible for the investor for over a decade.

Limiting downside can improve long-term investment discipline

A typical defensive autocall with two equity indices, say Eurostoxx50 and S&P500, as the underlyings currently offers an annual coupon of around 10%. This is less than you would have got from simply investing in an S&P500 ETF over the long term. Indeed, structured investments like autocalls naturally cap the upside. That is the trade-off at the heart of defined return investing. In a strongly rising market, investors may be better off simply owning equities. But the objective is not to capture every percentage point of upside; it is to generate an attractive return across a wider range of possible market outcomes. Foregoing some potential upside may give investors more comfort that an attractive return can still be achieved even in choppy or moderately falling markets.

For this typical defensive autocall linked to Eurostoxx50 and S&P500, as long as neither index has fallen by more than 25% at the relevant observation point, the investor would receive the 10% annual coupon. There is, of course, no free lunch. Investors can miss out on substantial gains if equity markets rise strongly, while losses can still occur if markets fall beyond the protection built into the strategy.

The investment journey therefore tends to be more predictable and smoother than the autocall's underlying equity markets. This should be caveated with the likelihood that if equity markets fall sharply, as they did in COVID, the prices of autocalls can also fall sharply in the short term. But the key point here is the final outcome depends on where markets sit relative to the predefined levels over the life of the investment, rather than on short-term market moves alone. The defensive autocall therefore works in a wide range of equity market outcomes. If the investor wants a higher return, they can opt for a narrower range thereby taking on more downside risk.

For some investors, that can be as much a behavioural benefit as a financial one: a wider range of acceptable outcomes may make it easier to remain invested through periods of market volatility.

The tables below show how an autocallable strategy might perform in different market conditions. Each row shows the length of time you hold the investment, and each column shows how much the EURO STOXX 50 has risen or fallen. Where they meet is the estimated return.

Table 1: Estimated return scenarios based on EURO STOXX 50 movements and time invested

	If the EURO STOXX 50 moves by						
Time in-vested	**-30%**	**-20%**	**-10%**	**0%**	**10%**	**20%**	**30%**
3 months	-16%	-8%	-2%	2%	4%	5%	5%

1 year	-13%	-4%	2%	7%	9%	10%	10%
2 years	-9%	2%	9%	14%	16%	17%	17%
3 years	-5%	7%	16%	21%	23%	24%	24%
4 years	-1%	13%	23%	28%	30%	31%	31%

Source: WisdomTree. Calculated estimates as of 11 November 2026. The following table illustrates hypothetical returns from an autocallable strategy under different market scenarios and holding periods. The estimates are based on specified assumptions regarding market movements and the structure of the investment. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

Defined return strategies offer a different approach to managing risk and reward

A greater degree of predictability like this can enable investors to plan with more clarity over the long-term. This can be especially beneficial to individuals approaching or in retirement when predictability and downside protection is even more important. The shift does not mean investors have stopped wanting growth. Rather, some are becoming more conscious of the path taken to achieve it. Sacrificing some potential upside is becoming an acceptable potential price to pay for greater resilience and a more predictable investment journey.

[1] Source: Bloomberg L.P., as of 12 August 2026.
[2] Source: Bloomberg L.P., as of 12 August 2026.

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