Abbey Capital

Why now might be the right time to reassess the 60/40 portfolio

February 2022

Quick-read analysis

3 minutes

What's included?

This analysis revisits the key points from our 2021 white paper: **Low bond yields and the 60/40 portfolio**.*

It covers:

1. The performance of the 60/40 portfolio over the last 10 years

2. Why now might be the right time to reassess the 60/40 portfolio

3. Three reasons why managed futures can present a compelling alternative strategy

***Defining the 60/40 portfolio**

The 60/40 portfolio is a common industry benchmark portfolio representing a portfolio of 60% equities and 40% bonds. For the purposes of this document, the 60/40 portfolio consists of 60% S&P 500 TR Index and 40% JP Morgan US Government Bond Index. Performance figures that combine S&P 500 TR Index and the JP Morgan US Government Bond Index are hypothetical. While based on the actual historical data of each, results are purely the product of simulation and there was no actual trading or actual profits for these scenarios. An explanation of the indices can be found on page eight of this document. The actual historical returns of the S&P TR Index and JP Morgan US Government Bond Index can be found on page 28 of the white paper. Please see page seven for information about the inherent limitations of hypothetical performance results.

1.

The performance of the 60/40 portfolio over the last 10 years

Performance review

The 60/40 portfolio - 60% equities and 40% government bonds - has long been touted as a simple yet effective asset allocation plan for investors.

It has delivered an annualised return of just under 11%* in the last 10 years and little more than half the volatility of equities.

There were three key driving forces for this performance.

Favourable valuations

Starting valuations for equities and bonds were not high by historical standards at the start of the last decade, unlike today.

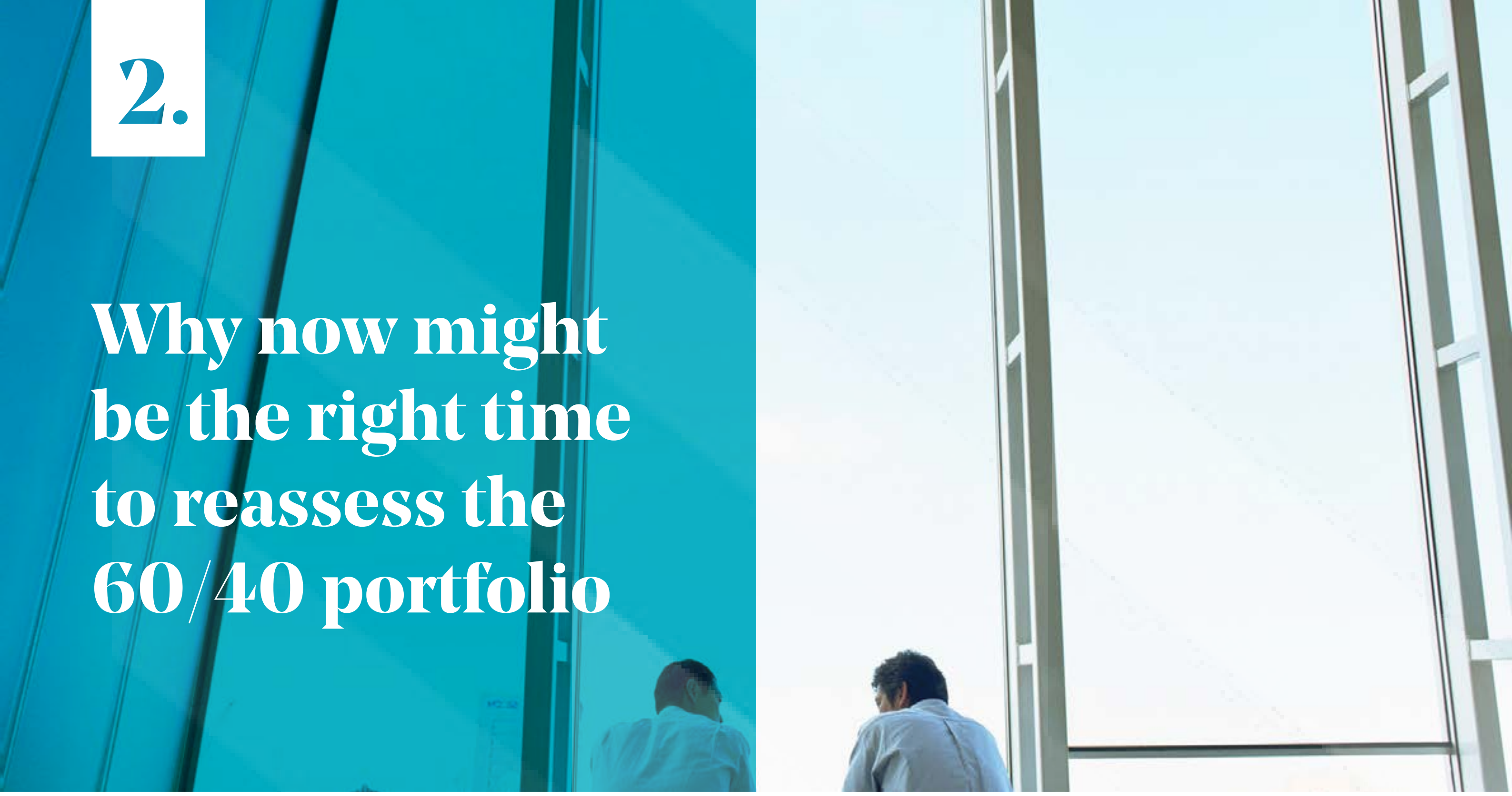
Favourable market conditions

Low inflation, steady economic growth and ongoing monetary policy support- aided bonds and equities for much of the period.

Negative correlation

Bonds and equities have had a negative correlation, reducing the volatility of the 60/40 portfolio.

*As of December 20221. Please see page seven for information about the inherent limitations of hypothetical performance results.



2.

Why now might be the right time to reassess the 60/40 portfolio

The changing landscape

The conditions that led to success for the 60/40 portfolio in the last 10 years are shifting: investors are facing a new and changing landscape ahead.

The outlook for government bonds

In particular, there are reasons to be cautious about the outlook for government bonds - with three key factors to consider.

Low bond yields

Despite rising in 2021, global yields remain low in a historical context. Over the long term, the starting level of yields has been a good predictor of future returns - so lower bond yields could point to lower returns in the years ahead.

Interest rate risk

At lower levels of yields, bonds are more sensitive to a rise in interest rates. With tighter monetary policy now being signaled for 2022 and beyond, this means that interest rate or duration risk may be higher.

Correlation uncertainty

It's possible the bond-equity correlation could turn positive, as we saw at times in 2021 amid rising inflation. With positive correlation, the volatility of the 60/40 portfolio would increase as there may be periods when bonds and equities are both declining.

3.

Three reasons why managed futures can present a compelling alternative strategy

Key considerations

When considering alternative strategies to government bonds - including other fixed income strategies, real assets, hedge funds and managed futures - we believe investors need to think about multiple factors.

They need to look at not just historical returns, but also the correlation to equities and the ability to generate positive performance in crisis periods.

Assessed against these criteria, we believe managed futures* can present a compelling alternative strategy for investors considering diversified alternatives to the 60/40 portfolio.

Correlation to equities

Managed futures have historically had a low to slightly negative correlation to equities.

Performance in crisis periods

Managed futures can deliver positive performance in equity bear markets and have tended to exhibit a convex return profile in periods of stress for equities.

Performance during periods of higher inflation

Managed futures have the potential to benefit from higher inflation - particularly if it was associated with price trends in commodities as we saw in 2021.

*The SG CTA Index is used to represent the managed futures industry for the purposes of this paper. This index may not be directly comparable with specific managed futures products and is included for illustrative purposes only. A description of the SG CTA Index is included on page eight.

For more information and analysis, download our 2021 white paper on this topic: Low bond yields and the 60/40 portfolio.

The white paper explores the same themes in depth - assessing the implications of low bond yields for the 60/40 portfolio, why now might be the time to reassess allocation plans and the merits of including managed futures as alternatives to government bonds.

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Description of Indices

S&P 500 Total Return Index (Start Date: Feb-1988) Used to represent US equities: The S&P 500 Total Return Index ("S&P 500 TR") is a market capitalisation-weighted price-only index, comprised of 500 widely-held common stocks listed on the NYSE and NASDAQ. The performance data of the S&P 500 Total Return Index includes the reinvestment of all dividends but does not subtract fees or expenses.

JP Morgan US Government Bond Index (Start Date: Dec-1985) Used to represent US Treasuries: The JP Morgan US Government Index is a leading measure of US government bond market performance. The index measures the total return of US Treasury securities across the whole yield curve.

SG CTA Index (Start Date: Jan-2000) Used to represent Managed Futures: The SG CTA Index is an equally weighted index. It is calculated daily using a pool of CTAs selected from the larger managers that are open to new investment. The index is rebalanced annually.

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