CIO sees opportunities for investors to generate positive returns across stocks, bonds, and alternatives in 2024, albeit at perhaps more modest levels following the recent equity rally. (UBS)

Why invest in a balanced portfolio now?

11 March 2024, 2:22 pm CET, written by UBS Editorial Team

Equities and bonds rallied in unison in late 2023, though their performance has diverged in early 2024. We continue to believe that holding a core position in a balanced portfolio is the most effective way for investors to preserve and grow wealth over time.

Stocks and bonds rallied together in late 2023, though their performance has diverged in early 2024.

- In the final two months of 2023, a 60/40 portfolio of equities and bonds (MSCI All Country World in local currency and Bloomberg Global Aggregate indexes) delivered its third-best two-month return in at least three decades.
- The S&P 500 rallied to a record high in early 2024, but the 10-year US Treasury yield has risen more than 10 basis points year-to-date (as of 11 March).

We see six reasons for getting portfolios in balance today.

- First, we expect positive returns for balanced portfolios in our base case and upside scenarios for 2024.
- Second, a balanced, disciplined, and diversified approach can help navigate fast-changing market narratives.
- Third, market expectations for around 90 basis points of US rate cuts in 2024 increase the reinvestment risks of excess cash and raise the appeal of a balanced approach.

Balanced portfolios can potentially boost returns and lower swings in wealth.

- Fourth, balanced portfolios' mix of alternative investments and active management taps more sources of return than just stocks and bonds.
- Fifth, disciplined rebalancing can help investors navigate more volatile markets.

- And sixth, our capital market assumptions expect balanced portfolios (45% stocks, 35% bonds, 20% alternatives) to beat cash by around 5 percentage points each year over the long term.

Did you know?

- Vanguard research estimates that rebalancing can add about 14bps to annualized returns (for a 60% stock, 40% bond portfolio), as well as reducing the portfolio's expected risk.
- Over a 20- to 30-year investment horizon, our capital market assumptions imply expected returns for balanced portfolios of 2.7– 4.3 times those of cash.

Investment view

We see opportunities for investors to generate positive returns across stocks, bonds, and alternatives in 2024, albeit at perhaps more modest levels following the recent equity rally. Diversifying across assets, geographies, and sectors today can help investors prepare for 2024's challenges and access fast-changing opportunities in an efficient, risk-controlled way.

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