By diversifying across asset classes, regions, and sectors, investors can position for upside both in the near and longer term while mitigating volatility. (UBS)

Why invest in a balanced portfolio now?

28 May 2024, 1:53 pm CEST, written by UBS Editorial Team

Market sentiment has improved amid a positive first quarter earnings season and signs of a soft landing for the US economy. But inflation, monetary policy, and geopolitical uncertainties remain.

CIO continues to believe that holding a balanced portfolio, including alternatives, is the most effective way for investors to preserve and grow wealth.

Market sentiment can shift in response to inflation, monetary policy, and geopolitical uncertainties.

- We see the current environment as constructive across asset classes, but shifts in investor sentiment may create volatility.
- Federal Reserve officials have emphasized their data-dependent approach.
- Geopolitical tensions remain elevated amid ongoing wars in Gaza and Ukraine.

But getting portfolios in balance would benefit investors.

- First, we expect balanced portfolios to deliver positive returns this year, with potentially smoother returns thanks to diversification.
- Second, a balanced and diversified approach can help navigate fast-changing market narratives.
- Third, we still see reinvestment risks to holding excess cash given our view that the Fed will likely ease policy by 50 basis points this year, with additional cuts expected in 2025.

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

- Including alternative investments in balanced portfolios ensures investors tap more sources of return than just stocks and bonds.
- Disciplined rebalancing can help investors navigate more volatile markets.
- 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?
- The UBS Global Investment Returns Yearbook, which analyzes financial markets going back to 1900, shows that an equity portfolio diversified across 21 countries would have experienced 40% less volatility than an average single-country investment.
- A portfolio with a 60/40 split between stocks and bonds has historically been less volatile than one composed solely of stocks. Indeed, a 60/40 portfolio has only delivered a negative return over a five-year horizon on 5% of occasions, and never over a 10-year horizon (compared with 12% and 5% of the time for equity-only portfolios).
- Select hedge fund strategies (e.g., equity market neutral) can help investors better navigate choppy markets. Investors in alternative assets should be aware of additional risks, including illiquidity.

Investment view
We see this as a constructive environment for investors across asset classes. By diversifying across asset classes, regions, and sectors, investors can position for upside both in the near and longer term while mitigating volatility.

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Original report - **Why invest in a balanced portfolio now?, 27 May 2024.**