CIO expects balanced portfolios to deliver positive returns this year, with potentially smoother returns thanks to diversification. (UBS)

Balanced portfolios can potentially boost returns and lower swings in wealth

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US stocks have reached new record highs on strong AI revenue forecasts. But cautious Fed commentary and geopolitical uncertainties suggest potential volatility in the second half.

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

US stocks have hit new record highs, but geopolitical and rate uncertainties remain.

- The S&P 500 Index hit a new record high on 13 June as strong revenue forecasts across a number of AI beneficiary and enabler companies drew inflows.
- But more cautious Fed commentary at its latest meeting, including just one rate cut for 2024 in the "dot plot," led US Treasury yields to climb.
- Geopolitical tensions remain, suggesting the need for diversification and careful risk management.

We see continued merit in balanced portfolios.

- 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. Since 1900, the standard deviation of real US equity returns has been 19.9%, while that of a 60/40 equity/bond portfolio was 13.5%.
- Balanced investing can overcome home bias and underexposure to growth sectors. For example, a Swiss-based investor seeking AI technologies will find little IT exposure in Swiss equity indexes. The MSCI Switzerland Index is dominated by healthcare stocks (33.6%) and consumer staples (around 20%), with IT comprising just 1.1% of the index (as of end April 2024).

Investment view

By diversifying across asset classes, regions, and sectors, investors can position for potential near-term gains, mitigate volatility, and take advantage of the long-term compounding effects of staying consistently invested.

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Original report: **Why invest in a balanced portfolio now?, 14 June 2024.**