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CIO believes that holding a balanced portfolio is the most effective way for investors to preserve and grow wealth over time. (UBS)

Balanced portfolios can potentially boost returns and lower swings in wealth

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US stocks reached new record highs on expectations of Fed easing and strong AI revenue forecasts. But geopolitical and US election 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 over time.

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

- The S&P 500 index broke the 5,500 level for the first time on 2 July.
- Geopolitical tensions and the uncertainty about the November US elections lead us to expect market volatility to increase.

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 for excess cash, given our expectations of 50 basis points of Fed cuts this year and additional cuts 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%.

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. Those considering alternative assets should be aware of the associated risks—including illiquidity and complexities.

Main contributors - Matthew Carter, Vincent Heaney, Christopher Swann

Original report - **Why invest in a balanced portfolio now?, 5 July 2024.**

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