



Why the traditional balanced portfolio remains attractive

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- Traditional multi-asset investing, premised primarily on diversification across public equities and safe bonds, and most emblematically represented by the famous 60/40 portfolio, has been a bedrock of long-term investing for decades.
- Low interest rates and historically elevated equity valuation multiples following the Great Financial Crisis have prompted numerous obituaries on the framework.
- Critics of relatively simple multi-asset portfolios typically argue for the necessity of including alternatives such as hedge funds and private markets to achieve effective diversification and construct an efficient portfolio.
- In this article, we analyse the performance of traditional multi-asset portfolios over the past 25 years and estimate the evolution of the effectiveness of equity-bond diversification before and post-Great Financial Crisis, and take a critical look at the proposed alternatives.

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Diversification across public equities and safe-haven bonds has been a cornerstone in multi-asset investing for decades. Within this framework, the so-called balanced or 60/40 portfolio has risen to become one of the most popular asset allocations for institutional and private investors alike. After the Great Financial Crisis, however, stubbornly low interest rates depressed the expected returns for the traditional portfolio and, together with rising government debt, raised questions about its robustness. Investors have often turned to alternative investments to expand their asset allocation framework. Rightly so?

1 Those declared dead live longer

The 60/40 portfolio, describing a simple strategic asset allocation of 60% stocks and 40% bonds, has been a bedrock of multi-asset investing for decades. While it doesn't seem to have a single identifiable inventor, it essentially has its roots in Harry Markowitz's Modern Portfolio Theory (1952), which mathematically demonstrated the benefits of diversification for the risk-return profile of investment strategies and established mean-variance optimisation as a core portfolio construction method. The 60/40 mix, which is also often equated with a "balanced" or "moderate" allocation, is just one of many possible portfolios on the traditional efficiency frontier but it is the quintessential representative of traditional multi-asset investing and quickly became one of the most popular and most well-known portfolio

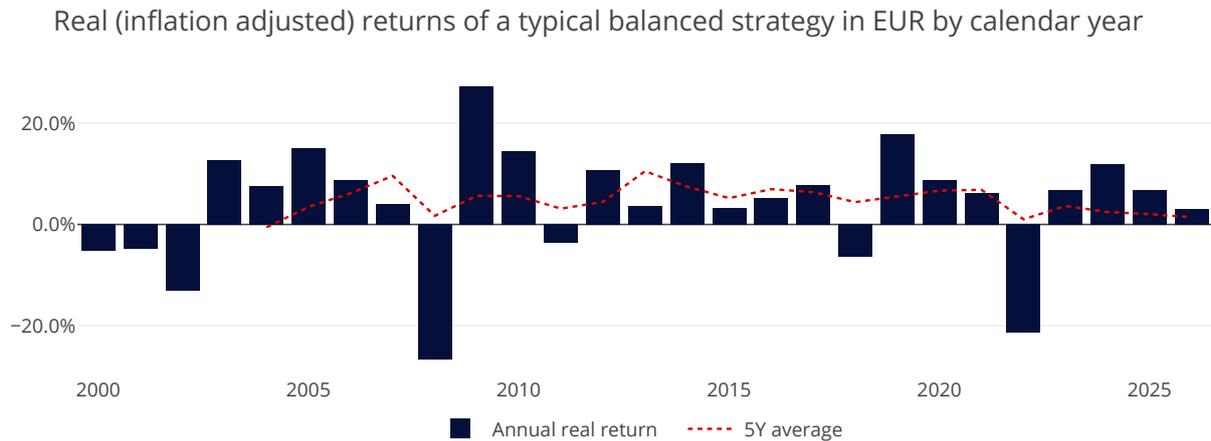
configurations with many institutional investors adopting it and large institutions popularizing it for retail investors investing.

Today, there are over 3000 funds competing in the Morningstar Moderate Allocation category (40-60% equities) in Europe, compared to 2500 in the cautious category (20-50% equities) and less than 1700 in the aggressive category (70-90% equities) with some fund's managing several billions in assets. It is probably fair to say that the 60/40 portfolio has been for



Source: Bloomberg, Amadeus Capital

Figure 1: The equity-bond correlation is unstable and has frequently turned positive, notably during periods when high inflation and rapid monetary policy tightening have simultaneously weighed on equity and bond markets. Nevertheless, save government bonds count among the rare assets whose returns are not, in some way, derived from exposure to the equity risk factor.



Source: Bloomberg, Amadeus Capital

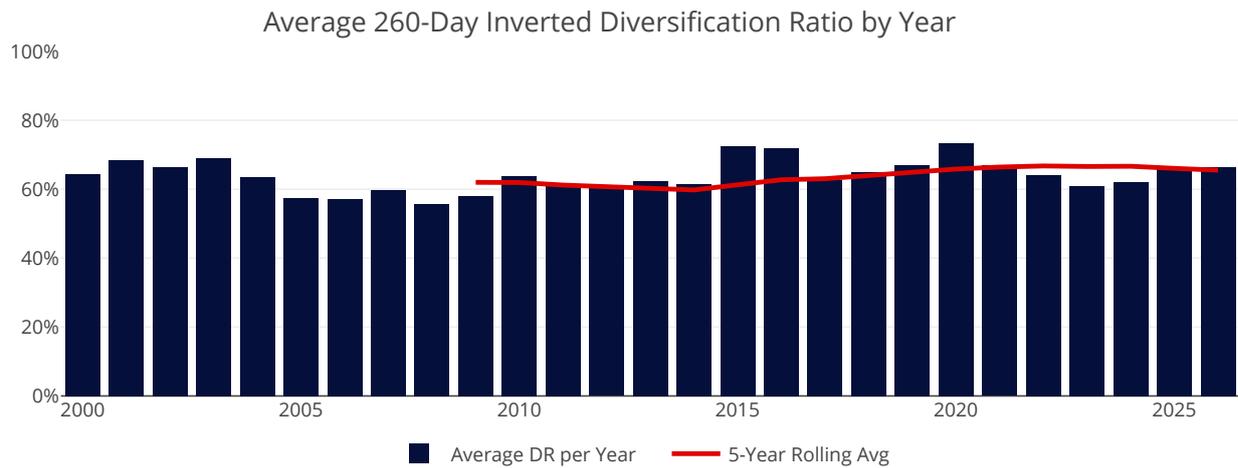
Figure 2: The above graphic shows annual returns of a typical balanced strategy in EUR after HICP inflation. Despite all the prophecies of doom, the traditional multi-asset portfolio has produced solid returns in the low-rate environment of the 2010s. The often predicted interest rate shock finally materialised only in 2022 and was rather short-lived.

traditional investing in highly liquid public markets, what the Yale Endowment Portfolio is for investors with a heavy focus on alternatives (30-35% Private Equity and Venture Capital, 20% Real Assets, 15-20% Hedge Funds, 20-25% Public Equities, 5-10% Fixed Income), though the latter tends to have a longer time horizon and correspondingly higher return targets[1]. Over the past decade, the 60/40 portfolio, in particular, and traditional public-market-focused investments in general have come under pressure from more complex alternatives. The Yale Endowment Portfolio, in particular, has become an often-cited example of an allegedly more sophisticated investment approach with superior risk/return characteristics. The proliferation and re-tailization of private market offerings have been one consequence of this phenomenon.

2 Why the traditional multi-asset portfolio has come under pressure

The argument is frequently made that alternatives such as hedge funds or private markets have become essential for an efficient allocation. The main argument put forward against the simpler 60/40 or, more generally, the traditional multi-asset portfolio is an alleged decline in the effectiveness of equity-bond diversification. Developed-market government bonds, in particular, were historically viewed as a safe-haven asset, expected to stabilise the multi-asset portfolio during periods when riskier assets are under pressure. This worked well during the Great Financial Crisis of 2008, but as interest rates subsequently declined due to loose central bank policy and low inflation, investors have begun to question whether the relationship between financial market stress and rising bond prices will hold in the future. More recently, investors were burnt by the simultaneous drawdown in bond and stock prices

in 2022, as an inflationary wave drove a steep increase in interest rates (inversely related to bond prices) and clouded the broader economic outlook, which, alongside higher required returns, weighed on equity prices. Consequently, the widely observed statistical correlation between longer-dated government bonds and equity markets turned positive (Graphic 1). Historically elevated earnings multiples in public equity markets, alongside increasing index concentration driven by the persistent outperformance of a relatively small number of very large firms, have further heightened concerns about the reliability and sufficiency of the traditional multi-asset portfolio as a core store of wealth. Undoubtedly, these arguments made intuitive sense and reflected an actually challenging outlook. However, they also present a cautionary tale about market and economic predictions. In fact, many critical comments proved premature. According to a 2022 Morningstar article, Fortitude Financial called the 60/40 portfolio dead as early as 2009. Pimco's bond star investor Bill Gross "also laid the strategy to rest" soon after[2]. Princeton professor Burt Malkiel called the allocation 'outright dangerous' in the low-interest-rate environment back in 2013[3]. At the end, the 2010's turned out all but bad for the popular allocation. We find that a classical mix of high-quality developed-market bonds and a globally diversified equity portfolio generated an annualised real (inflation adjusted) return in USD of roughly 5% between 2010 and 2020 (4% in EUR as shown in Graphic 2), compared to an average real return of only 2% between 2000 and 2010 (1% in EUR). Unsurprisingly, the 10-year average return declined significantly following the 2022 reset in interest rates. But even if we include this challenging period, it only drops to around 2% as of the end of 2022 (1.5% in EUR), before rebounding to almost 5% as of today (2.5% in EUR). Counter-intuitively, results were even better for Swiss investors who, helped by



Source: Bloomberg, Amadeus Capital

Figure 3: The diversification ratio is a straightforward metric that quantifies the effect of diversification (investments in assets whose returns are not perfectly correlated) on a portfolio's volatility. Traditionally, the weighted-average volatility of the assets in the portfolio is divided by the portfolio's volatility. In this graphic, we plot the inverted diversification ratio, which is the portfolio's volatility divided by the weighted average volatility of the assets held. A value of 65% indicates a volatility reduction of 35% thanks to the diversification effect.

low inflation, gained slightly over 5% per year between the end of 2010 and 2020 compared to less than 1% between 2000 and 2010. Even at the lowest recent point in 2025, the 10-year average real returns of the 60/40 portfolio in CHF dropped to around 1.5% before rebounding to close to 5% in February. In other words, an investor who bought into the 60/40 allocation in 2015, when the Federal Funds Rate was at 0%, still did considerably better than an investor who bought it in 2000, when interest rates were around 6%, or in 2005, when interest rates were between 2% and 4%. When it comes to risk, the year 2022 obviously stands out as it brought exactly what many market participants had feared, namely a simultaneous drawdown in bonds and equities on the back of a fast rise in interest rates. Indeed, for the typical 60/40 portfolio, it marked the worst drawdown since 2010, eclipsing the short-lived crash during the Covid-19 pandemic. It was, nevertheless, less severe than the drawdown following the burst of the Dotcom bubble and the Great Financial Crisis and notably occurred after a period of exceptionally strong performance in 2021. When looking at realised volatility of the popular allocation, we do not detect an uptick in measured risk during the low-rate regime. In fact, 260-day rolling volatility dropped to levels as low as 4% in 2005 and again in 2017/2018 (regardless of the reference currency) but generally trended around 7-9%, not different from levels observed in the early 2000s.

3 Why diversification has worked better than feared

As mentioned earlier, one of the most common arguments used against the 60/40 allocation and traditional

equity-bond portfolios in general post-Great Financial Crisis was the low interest rate environment and the inability of rates to "fall even further" in a crisis, impairing their ability to buffer the portfolio. In practice, the interest rate on 10-year US Treasuries declined from 5% to 2.25% during the Great Financial Crisis, which mathematically equates to a price appreciation of 23.1% (assuming a 7% coupon), which produced exactly the negative correlation between safe bonds and equities that lies at the root of equity-bond diversification[4]. During the Covid-19 shock, the interest rate on the same government bonds decreased from 3% to 0.55%, corresponding to a gain of 22.6% under the same assumptions. In other words, despite a much lower starting point, US Treasuries were no less effective at protecting the multi-asset portfolio in 2020 than in 2008. The effectiveness of diversification can be estimated more directly through the so-called diversification ratio. This ratio divides the weighted average volatility of the portfolio's positions by the volatility of the portfolio. We prefer to work with the inverted diversification ratio (1/Diversification Ratio or Portfolio Volatility/Weighted Average of Asset Volatilities), which provides a more intuitive measure of the degree to which low or negative correlations between the assets held reduce the risk of the allocation (see example in Graphic 3). At Amadeus, we generally complement the traditional equity-bond portfolio with strategic holdings in listed real estate and gold. Our typical balanced portfolio is therefore better described as a 55/35/5/10 rather than a 60/40 allocation. Gold in particular proved its value as a highly effective portfolio diversifier during more recent, geopolitically challenging times. We have estimated the evolution of the diversification ratio since the turn of the century based on the simulated performance of our strategic as-

set allocation portfolios in USD, EUR and CHF. Again, we find little evidence of a structural change in the measured effectiveness of diversification. On average, our inverted Diversification Ratio stood at 65% in CHF (66% in EUR) over the past 10 years, implying that the diversification effect reduced portfolio volatility by 35%. This is not meaningfully different from the 62% (also 62% in EUR) measured over the 10 years between 2000 and 2010. The difference is slightly bigger for USD-based investors, where the 10-year average Diversification Ratio increased from 61% in 2010 to 68% in 2025. We find that the diversification effect was relatively more pronounced for our USD portfolios before the Great Financial Crisis, with values as low as 55% (45% volatility reduction through diversification) in some years. This observation may partly be driven by the weakness of the USD against the EUR and emerging-market currencies [5] during this period, as we measure weighted-average volatilities in local currency but have translated local-currency returns into USD returns to derive portfolio volatility. As we generally don't hedge the currency for international equity investments in a USD portfolio, USD weakness may, in some cases, have stabilised the portfolio. On balance, we find that a traditional balanced multi-asset portfolio, be it 60/40 or 55/35/5/10, continued to achieve a diversification reduction in the range of 35-40% throughout the low-interest-rate regime. We also find that this ratio is similar to that achieved with more defensive allocations (e.g., 60% high-quality fixed income), implying that the 60/40 allocation is fairly efficient from a diversification perspective. An even greater diversification effect is achieved with bond allocations above 70% which tends to be too low-yielding for long-term-oriented investors.

4 What really are the alternatives?

Critics of traditional multi-asset investment, often advocating the endowment model, frequently emphasise the importance of adding exposure to alternative investments to the framework. This generally includes private markets and hedge funds. We have ourselves written about the topic and, for example, presented the benefits of merger arbitrage as an attractive low-duration alternative to high-yield corporate bonds in the zero-rate environment[6]. However, both alternatives are and will continue to be difficult to access, in particular for smaller investors. The frequently heralded retailization often causes considerable damage, as the recent example of Blue Owl's semi-liquid private credit fund demonstrates [7]. Smaller investors generally struggle to achieve sufficient diversification in the alternatives space or are forced to rely on non-transparent offerings that add several layers of fees. Concentrated alternative allocations also entail substantial manager-selection risk, particularly in subcategories with historically elevated manager return dis-

person. Venture Capital or Private Equity, in particular, has on average produced fantastic returns during the 2010s, but performance can vary widely across funds. Most importantly, true portfolio diversifiers remain rare. We attempt to assemble some of them, such as Trend Following, Credit Arbitrage, Convertible Arbitrage, Long Volatility, Mean Reverse or Short-Term Trading, in our own alternatives offering. The majority of hedge fund strategies, though, tend to be highly correlated with public equities and credit spreads, in particular during bear markets. Meanwhile, private markets can surely generate attractive risk-adjusted returns and help with diversification by giving investors a stake in parts of the economy not reflected in public equity and credit markets (generally smaller corporations often trading at lower valuation multiples, and buy-and-build strategies). Infrequent net asset values (NAV) can not mask the fact that these strategies are, in essence, exposed to the same underlying risk factors as public equities and credit. We have outlined this relationship with respect to macroeconomic shocks in our 2024 paper, Challenges and Solutions in Quantifying Risks in Private Markets [8]. More recently, the disruption caused by AI has exposed the vulnerability of many private equity portfolios to another kind of systematic shock that has also rattled public equity markets. Moreover, both hedge funds and private markets are not isolated from interest rate risk. In some cases, such as private credit, lower rates automatically translate into lower expected returns, just as in public credit markets. In some cases, such as hedge funds, the relationship is less straightforward, but CTAs, for instance, generally benefit from higher interest rates as they invest their idle cash into money-market instruments. Traditional, highly liquid, and cost-effective multi-asset portfolios remain an attractive investment and should be the go-to solution, particularly for investors who lack institutional-grade size. Some exposure to carefully selected alternatives can make sense in the context of a core-satellite approach, but its benefits should not and need not be overestimated.

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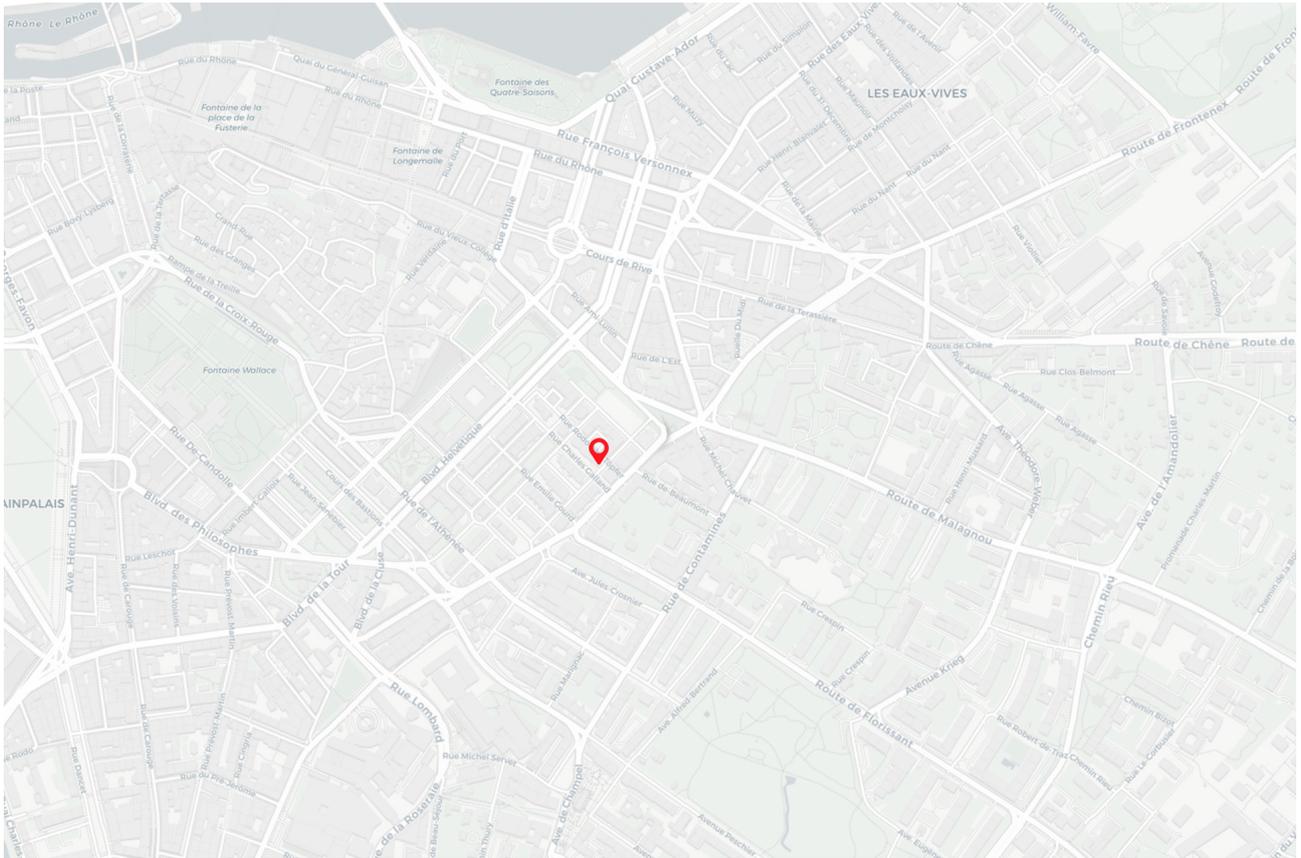
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