Semper Salutaris
Disciplined Financial Wellness

On The Mark

August 2023

Back to the Future 60/40

Key Takeaways

- Inflation regimes impact the returns of a 60/40 portfolio
- 60/40 portfolios are effective in a range bound inflation environment
- Along with stable inflation, there are other tailwinds to support the efficacy of the 60/40 portfolio

As students head back to school getting ready for another year of learning, we question whether we should learn from history and whether it's time to go back to the 60/40 portfolio for future goals.

We have been here before

Just as the equity market sees cycles of being in and out of favor, there are plentiful articles about the death and rebirth of the 60/40 portfolio. This is a portfolio comprised of 60% equities and 40% bonds, which has generally stood the test of time and become the defacto portfolio for many.

But what about 2022?

2022 felt very different, and the 60/40 portfolio tumbled as we saw markets move together with high inflation and the Federal Reserve raising rates at a very fast pace. Historically, periods of extreme inflation are the worst for 60/40 portfolios. For example, real returns (which take into account the impact of inflation) for the 60/40 portfolio were negative in the 20-year period 1962-1981 of extreme inflation.

The impact of inflation regimes

Whether the cycles are longer-term secular, or shorter-term cyclical, the impact of inflation on portfolio returns is similar.

Periods of falling inflation are the best for the 60/40 portfolio. Think back to the 1980s through the 2020s—it was generally a great time to be invested. Average returns for the 60/40 portfolio at 16.1% were not far behind the equity market at 17.2%. And in real terms, it was a 9% return. To feel good, all an investor needed to do was to get market exposure.

Inflation Regimes: 50 years (1973-2023)
Annualized Returns

Regime	US 60/40	Equities	Bonds
Rising	2.1	0.7	3.1
Range Bound	10.2	13.0	5.2
Falling	16.1	17.2	13.5
All	9.2	10.4	6.6

Source: Ned Davis Research, "Do 60/40 portfolios have greater efficacy today?", June 8, 2023. Equities represented by S&P 500, Bonds represented by Bloomberg US Aggregate post 1976, and Bloomberg Government/Corporate prior to 1976.

Periods of rising inflation are generally the hardest times for 60/40 portfolios. Looking at the secular cycle from 1944 to 1981, the average real return for the 60/40 portfolio was 3.0%. During the past 50 years, the average return was lower at 2.1%. Equities tend to struggle, given concerns about Federal Reserve moves and the potential for recession. These are times when active management and inclusion of strategies that are not tied to the moves of the equity and fixed-income markets can help a portfolio.

Periods, when inflation is more stable or range-bound, tend to offer reasonable returns for the 60/40 portfolio. Investors are not so worried about the economic environment and more focused on the outlook for growth. During these periods, equities averaged a return of 13.0%, with the 60/40 portfolio not far behind with a return of 10.2%.

What should investors do?

Inflation has come down substantially from its high of 9%, and whether it will hit the Federal Reserve target of 2% or not, it's likely to be more range-bound going forward. After falling to 3% in June, we saw CPI increase to 3.2% in July.

In this environment, we believe the 60/40 should hold up not only due to a more stable inflation regime but also due to a couple of other tailwinds.

1. Correlations are reverting back to normal, and bonds are again providing a stable anchor to portfolios.
2. After tough years like 2022, the longer-term outlook for returns increased and is shifting toward long-term norms.
3. We're starting to see a broadening of market drivers allowing active management and diversification to benefit.

But just remember that not everything is going to work in the portfolio in every period. If it did, you're not properly diversified! The diversified 60/40 portfolio is built to help smooth the ride for the long term.

AssetMark, Inc.

1655 Grant Street
10th Floor
Concord, CA 94520-2445
800-664-5345

Important Information

This is for informational purposes only, is not a solicitation, and should not be considered investment, legal or tax advice. The information in this report has been drawn from sources believed to be reliable, but its accuracy is not guaranteed and is subject to change. Investors seeking more information should contact their financial advisor. Financial advisors may seek more information by contacting AssetMark at 800-664-5345.

Investing involves risk, including the possible loss of principal. Past performance does not guarantee future results. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio. No investment strategy, such as asset allocation, can guarantee a profit or protect against loss. Actual client results will vary based on investment selection, timing, market conditions, and tax situation. It is not possible to invest directly in an index. Indexes are unmanaged, do not incur management fees, costs, and expenses and cannot be invested in directly. Index performance assumes the reinvestment of dividends.

Investments in equities, bonds, options, and other securities, whether held individually or through mutual funds and exchange-traded funds, can decline significantly in response to adverse market conditions, company-specific events, changes in exchange rates, and domestic, international, economic, and political developments.
Bloomberg® and the referenced Bloomberg Index are service marks of Bloomberg Finance L.P. and its affiliates, (collectively, "Bloomberg") and are used under license. Bloomberg does not approve or endorse this material, nor guarantees the accuracy or completeness of any information herein. Bloomberg and AssetMark, Inc. are separate and unaffiliated companies.

AssetMark, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission.
©2023 AssetMark, Inc. All rights reserved.

106297 | C23-20280 | 08/2023 | EXP 08/31/2025