Truist Advisory Services, Inc.

Portfolio Perspective from the Investment Advisory Group

The 60/40 portfolio's death has been greatly exaggerated

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Key takeaways

Despite recent challenges, the 60/40 portfolio isn't broken

- The 60/40 portfolio (a portfolio allocated to 60% stocks and 40% bonds) has been a long-standing pillar of strategic asset allocation, exhibiting the benefits of diversification. The success of the 60/40 portfolio through the history of modern finance had garnered much acclaim as both stocks and bonds contributed to strong returns.

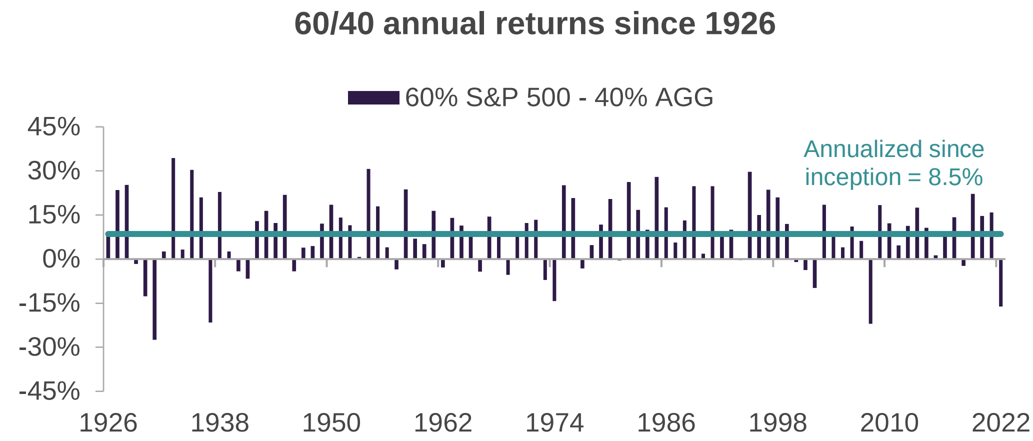
- The nature of the recent market turmoil has put both stocks and bonds in negative territory, a rare occurrence in the historical context of their relationship. The resulting 60/40 portfolio's negative return has some investors questioning the benefits of diversification.

- While the 2022 market selloff has hurt both stocks and bonds, with more potential volatility ahead, the longer-term correlation benefits of these major asset classes are still intact. Furthermore, the resulting higher yields have made bonds more attractive than they were at the end of 2021, boosting the expected return of the 60/40 portfolio and aligning it more with the historical experience.

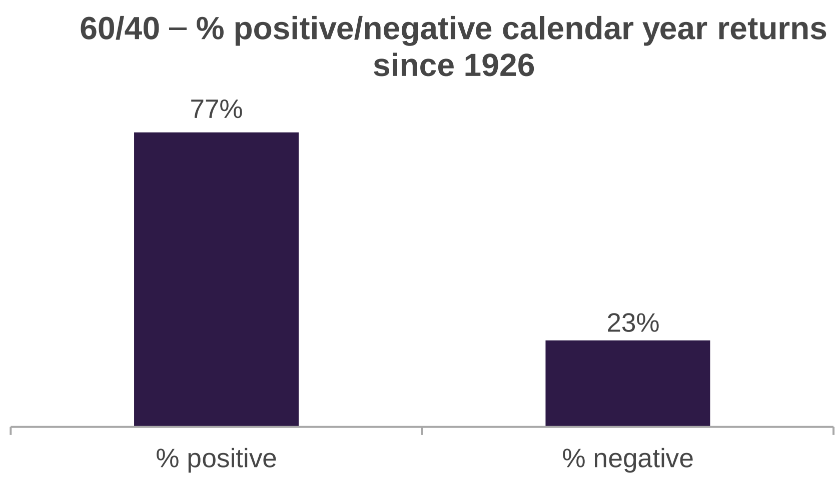
Keeping it simple

Some leaders in their fields become such groundbreakers that they have wide recognition through just one name, such as Jordan, Brady, Spielberg, Buffett, and the 60/40. Built with the simple yet elegant concept of diversification, a portfolio consisting of 60% stocks and 40% bonds, has delivered positive returns over numerous years, spanning many decades.

The source of this success is diversification. Stocks and bonds have proven to be a complementary investment dynamic duo. Often, when one is zagging, the other one is zigging. Stocks give investors participation in the economic benefits created by companies and primarily deliver the growth in a portfolio. However, stocks are inherently volatile in the short term and can exact a toll on portfolios in periods of market volatility. Bonds, on the other hand, are relatively more stable and serve two key functions in a balanced portfolio. They are a primary source of income, and they are less volatile, serving as the portfolio's ballast in periods of stock volatility. Bond stability in the face of equity volatility has been one of the key attributes of the 60/40 and similar balanced portfolios. Since 1926, a portfolio allocated 60% to U.S. large cap stocks and 40% to U.S. core bonds has been positive in 75 of these 97 calendar years, a 77% success rate.



Data source: Truist IAG, Morningstar; S&P 500 = IA SBBI U.S. Large Cap Equity from 1926 through January 1970; thereafter, S&P 500, AGG = IA SBBI U.S. Intermediate-Term Government Bond Index from 1926 through December 1975; thereafter, Bloomberg U.S. Aggregate Bond Index. The 60% S&P 500/40% AGG portfolio assumes monthly rebalancing. Past performance does not guarantee future results.



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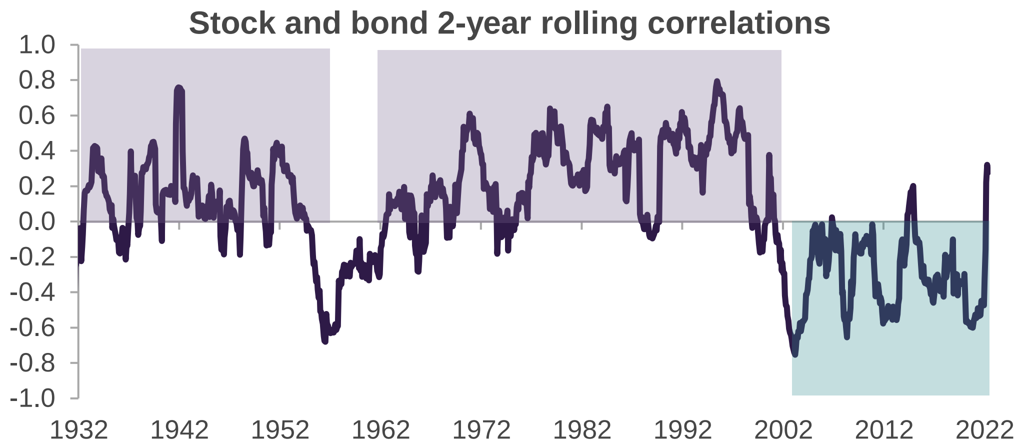
Historical context

In 2020, the Federal Reserve's (Fed) stimulus response in the depths of the pandemic helped move both stocks and bonds higher. As a result, the 60/40 portfolio did very well through 2021 as near-zero interest rates helped both stocks and bonds. Some of those gains have been unwound so far in 2022, as the Fed has become more hawkish in response to higher-than-expected inflation. Normalizing interest rates have been putting pressure on both stocks and bonds, creating a challenging environment, even for this balanced portfolio.

The negative returns experienced in the first half of 2022 have led many to question the 60/40 portfolio's viability – commenting that its reign might be over. However, when looking through the historical evidence, such attention-grabbing statements don't ring true. Since 1926, stocks and bonds have maintained this long-term complementary relationship, with a low average correlation, even though it has ranged between high and low points in history. Despite these changing correlations, the 60/40 portfolio has still managed to provide positive returns most of the time.



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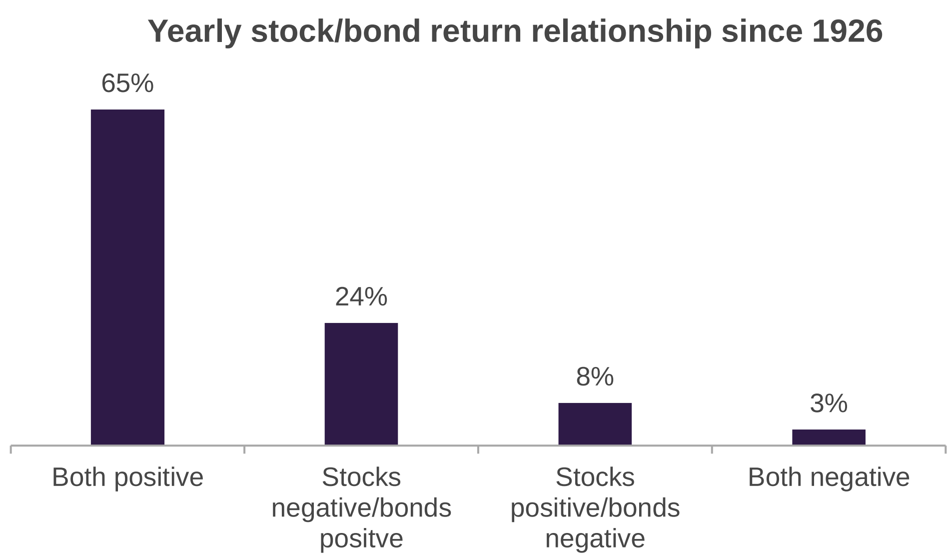
There have been more years (65% of the time) when they have both been positive and only three years (including 2022 so far) where both stocks and bonds have been negative. Rising rates negatively impacting bond prices might be a concern for investors. However, even in the 1970s, when rates rose dramatically, the 60/40 portfolio averaged a 7.2% return.



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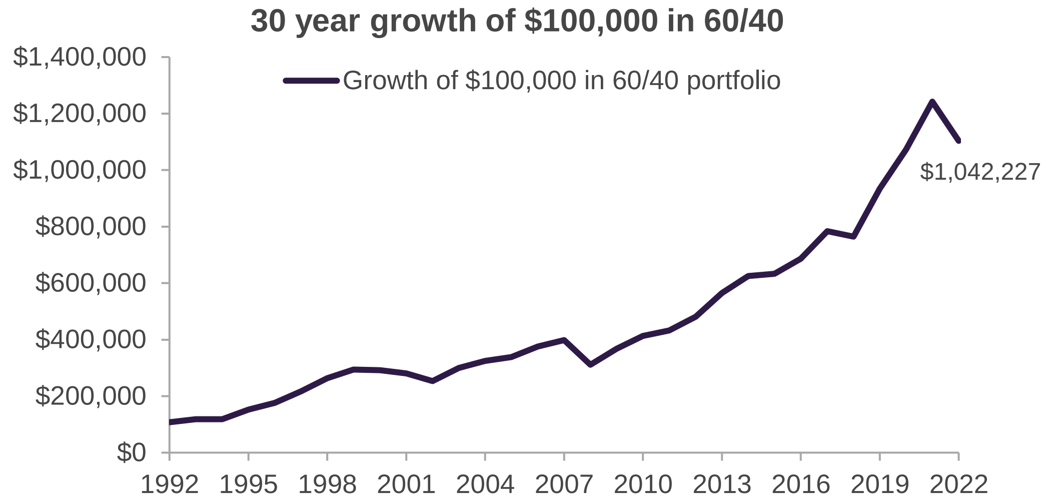
Since 1926, the 60/40 portfolio has posted two consecutive negative years only twice and three consecutive negative years only twice as well – periods marked by recessions. While bonds have been hurt this year with the rise in rates in response to the Fed's hawkishness as it fights the inflation shock, yields are now at a level where they can provide higher income and stronger ballast in balanced portfolios. While the journey to higher rates has been painful for bonds, we believe these more productive rates provide greater ballast and should support the historical relationship that has benefitted the 60/40 portfolio.

Bottom line

The 60/40 has been a foundational portfolio structure for decades, serving investors in both performance as well as risk diversification in meeting their investment plans. Despite recent calls for the demise of this structure in the face of negative returns, the inherent complementary nature of stocks and bonds should continue to provide the diversification benefits long-term investors have enjoyed.

While going through negative market environments is painful for investors, it is helpful to see that volatility through the context of a longer-term time horizon – a period similar to most investment and financial plans. Matched with such a time horizon, the 60/40 portfolio is expected to continue its reign as a dominant investment portfolio structure.



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S&P 500 Index is comprised of 500 widely-held securities considered to be representative of the stock market in general

The IA SBBI U.S. Intermediate-Term Government Bond Index is constructed using a one-bond portfolio. The bond chosen each year is the shortest non-callable bond with a maturity between five and six years, and it is held for the calendar year.

The IA SBBI U.S. Large Cap Equity Index tracks the monthly return of the S&P 500. The historical data from 1926 to 1969 is calculated by Ibbotson.

The Bloomberg U.S. Aggregate Bond Index which is the broadest measure of the taxable U.S. bond market, including most Treasury, agency, corporate, mortgage-backed, asset-backed, and international dollar-denominated issues, and maturities of one year or more.

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