REZCO

What has happened to the tried and tested 60/40 investment portfolio?

Brian Du Plessis
Client Relationshios Head
& Executive Director

In the past, a traditional starting point for investment portfolios has been a 60-40 split between equities and bonds. The weightings around these percentages are adjusted based on the client's risk tolerance, time horizon, and financial goals. A traditional 60-40 investment portfolio is similar to a balanced fund in the South African context.

The last few years have been unpredictable for South Africa and global markets.

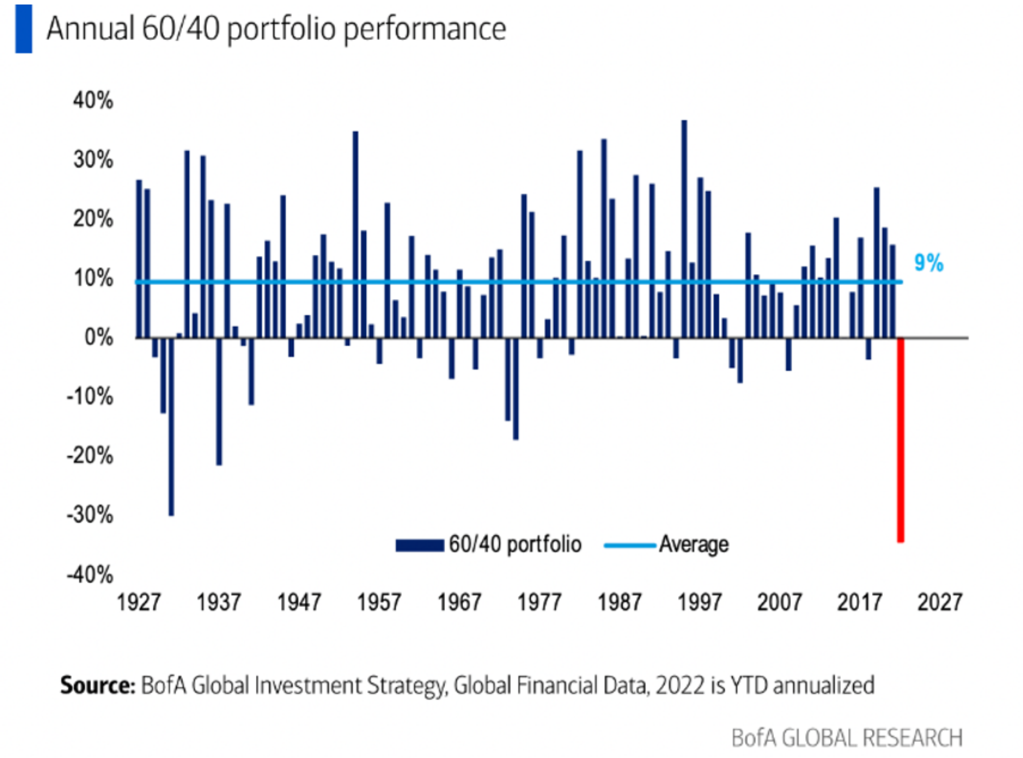
> A fascinating market attribute this year has been the development of a positive correlation between global bonds and global equity markets.

Correlation measures the tendency of different investments to move up or down at the same time. When measuring correlation, a reading of 0 indicates stocks are moving with no relationship to each other, while a correlation of 1 means gains or losses are in perfect unison. A reading of negative 1 means they uniformly move in the opposite direction.

Traditionally, investors favoured bonds over equities in a risk-off environment and favoured equities over bonds in a risk-on environment. So far, this year has been the first since 1928 that the S&P 500 and the 10 YR Treasury bond have fallen more than 10%.

Taming rising inflation across the globe has posed a challenge to central banks and, as a result, to the stock-bond portfolio. The positive correlation that has developed between these two traditionally negatively correlated asset classes has caused both to fall in unison.

The graph indicates this clearly:

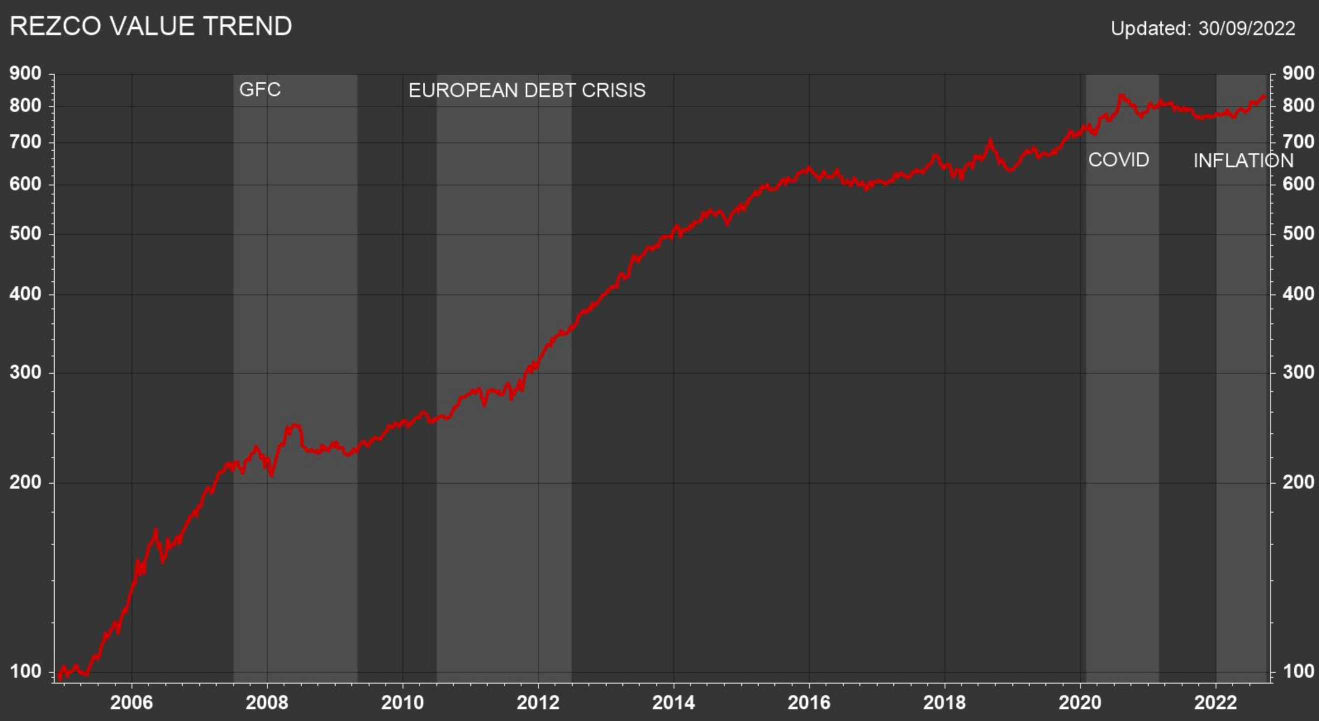


Bonds may be a reliable diversifier when economic growth is slowing – but not necessarily when inflation increases. The reason is that when equities decline due to rising inflation concerns, central banks may have to raise interest rates to slow inflation simultaneously.

The role of the active asset manager has become increasingly important when navigating these unprecedented markets. Active asset managers have an opportunity to offer clients robust solutions that can protect investors on the downside but also participate on the upside.

> We are navigating unprecedented times in global investment markets.

The Rezco Value Trend Fund is a Reg 28 high equity fund willing to take material active asset allocation calls on behalf of our clients. We are constantly trying to generate risk-adjusted returns by making active decisions about which asset classes to be in, based on rigorous top-down and bottom-up research and using proprietary AI technology. The fund has significantly reduced its exposure to risk assets during previous financial crises. It has also been willing to be fully invested during times that have been positive for risk assets.



Source: Refinitiv Datastream / Rezco

REZCO