DBi

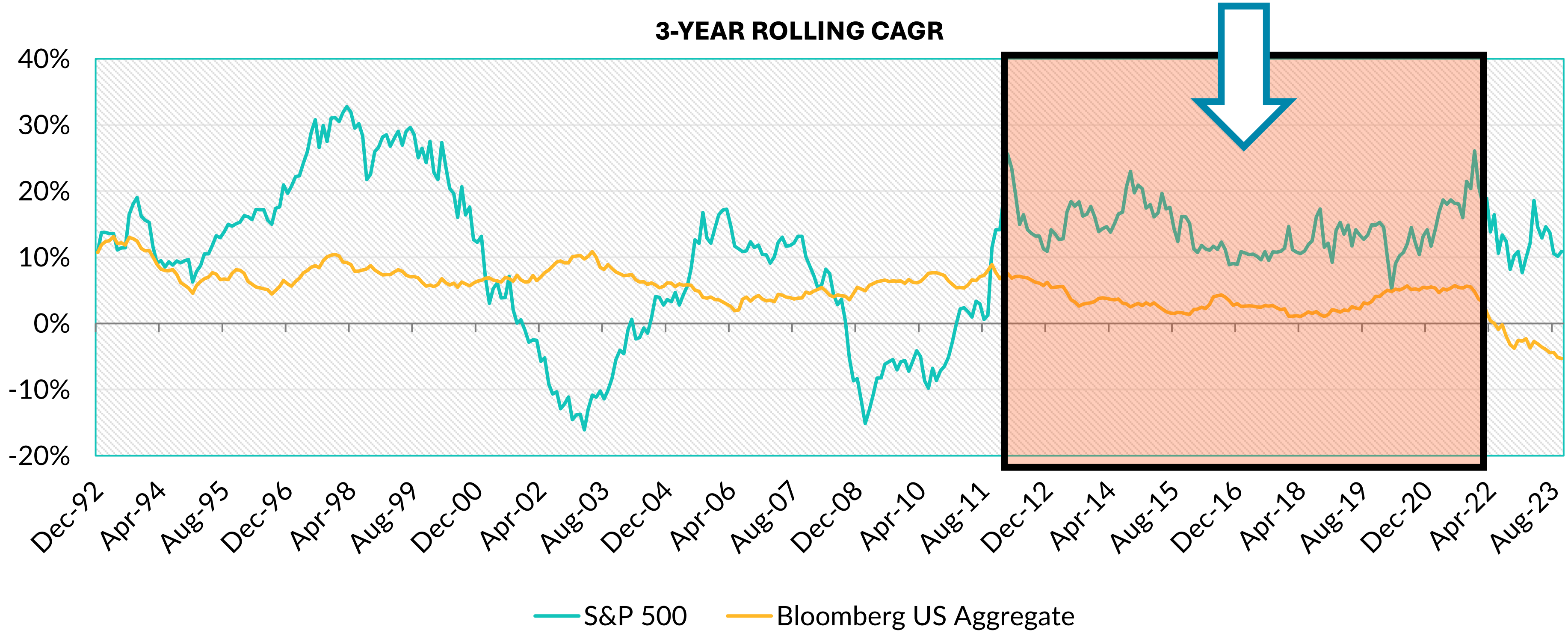
# The Great 60/40 Head Fake

October 2023

# Returns Were Unrealistically High

10/12/2023

- During the mid- to late- 2010s, the S&P 500 was compounding at 10-20% per annum.
- Bonds generated steady but modest returns as rates went to zero.

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# Volatility Was Unrealistically Low

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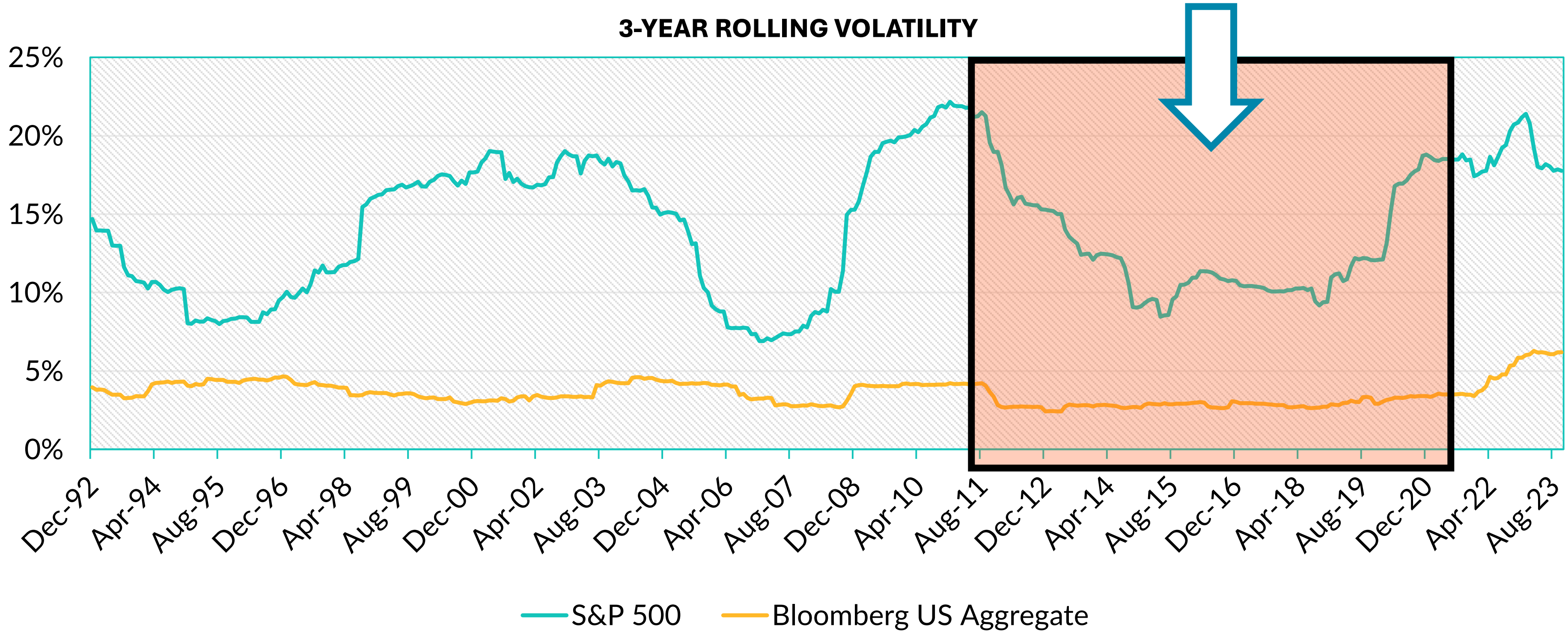
- Equity market vols were 10% during much of the 2010s.
- Bond market vols – always low – declined as well.

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# Correlations Were Negative

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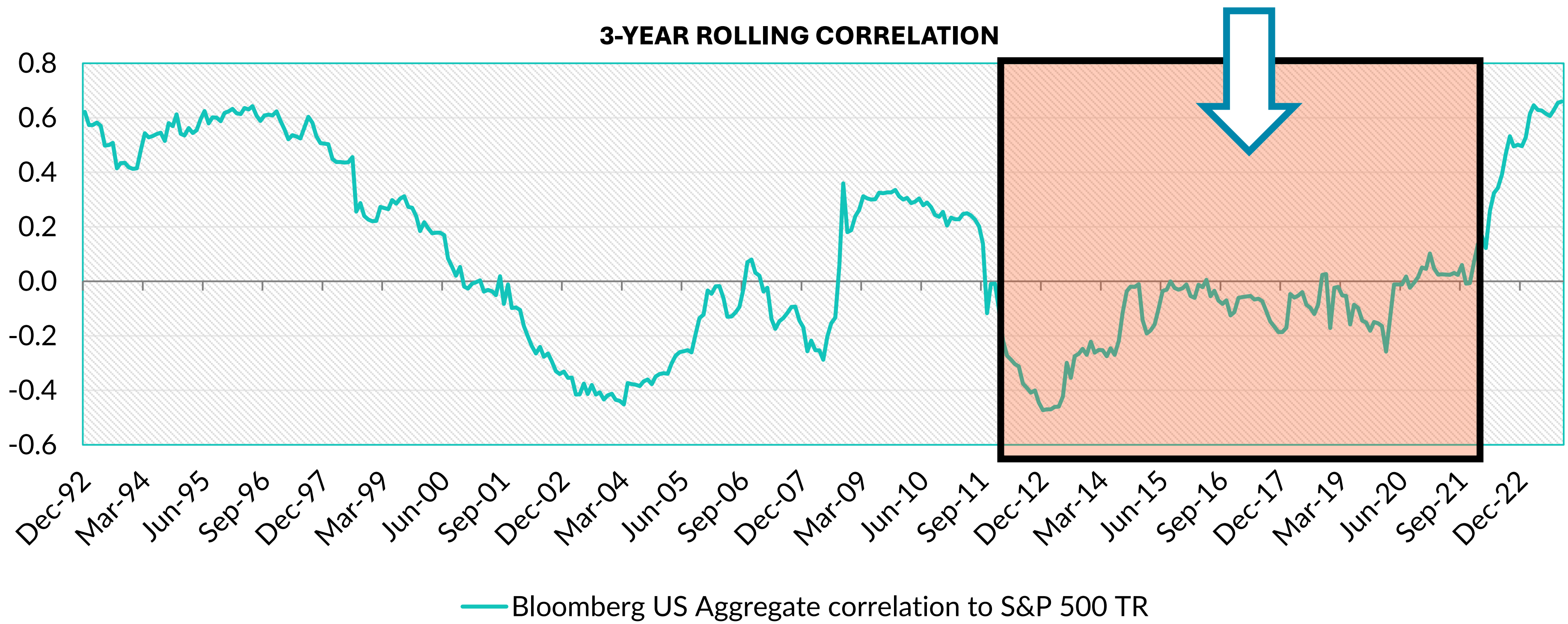
- Meanwhile, the correlation between stocks and bonds was persistently below zero.

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# Which Led to Unrealistically High 60/40 Returns

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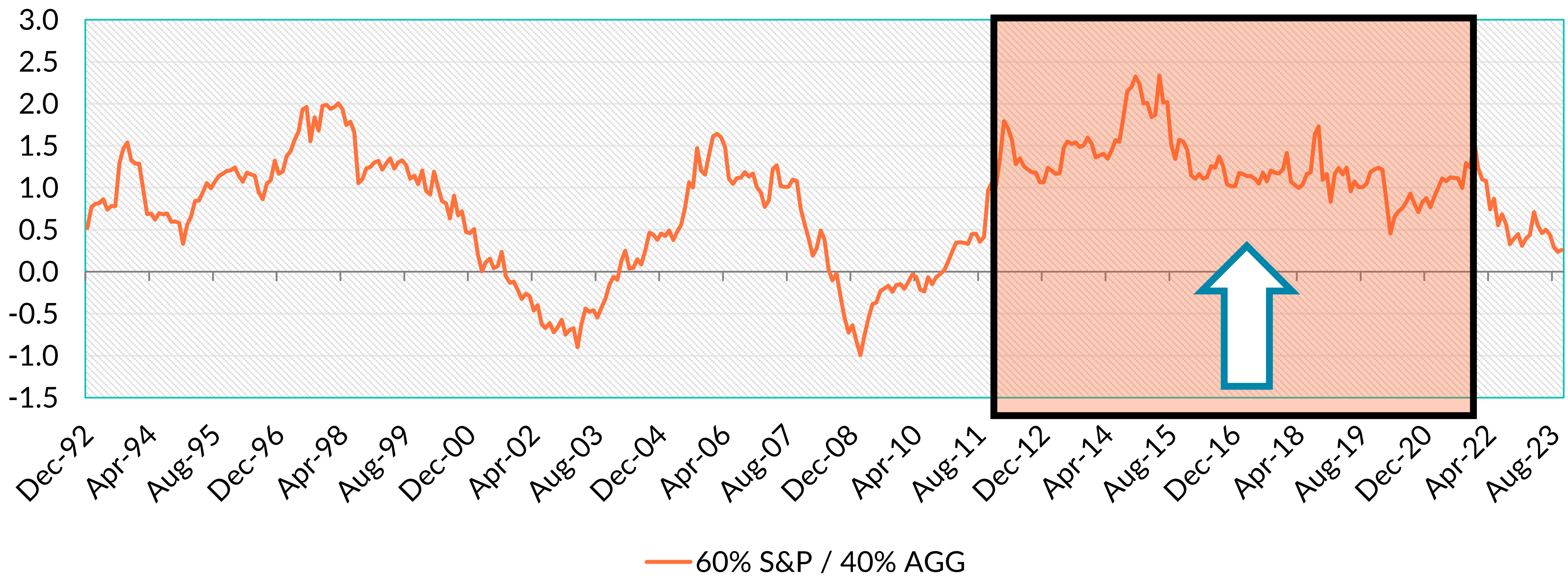
- The Sharpe Ratio of a 60/40 portfolio was above 1.0 for nearly a decade – approximately double the long-term average.

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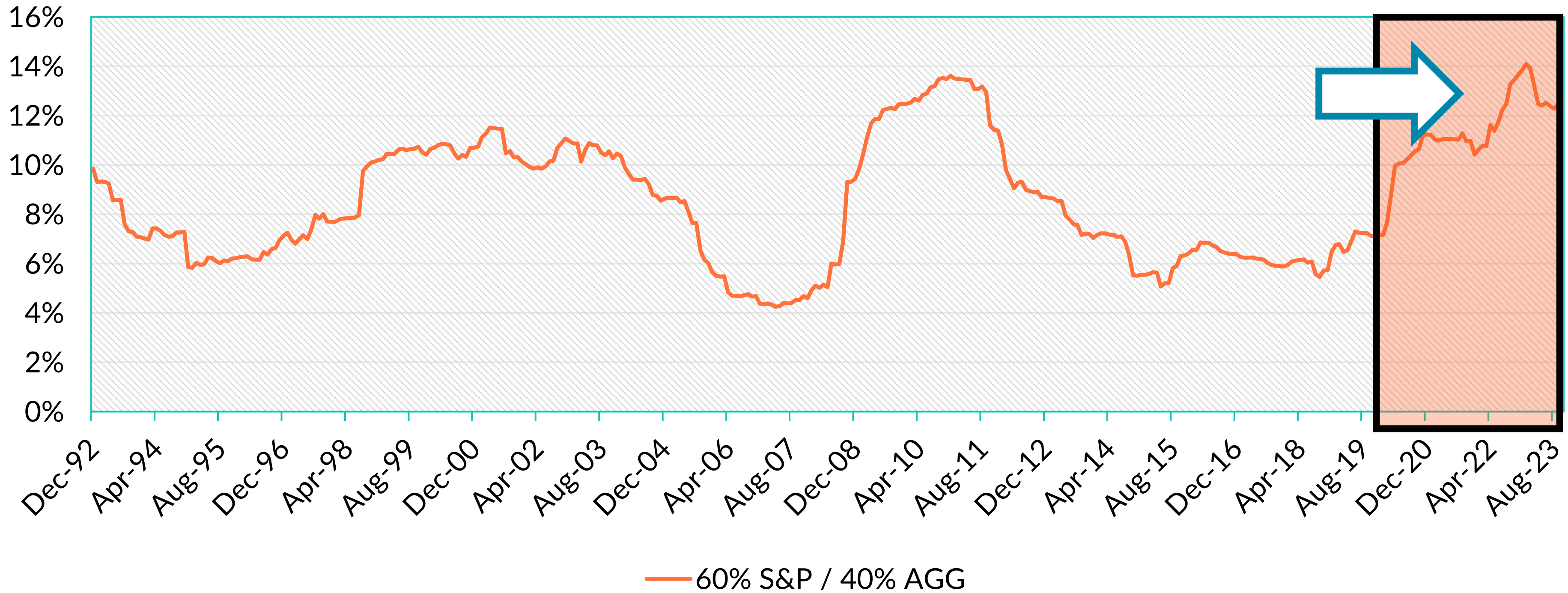
# The Problem Today



- The rise in vols plus rise in correlations has led to a rise in 60/40 vol akin to the depths of the GFC.

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# Diversification: Old vs New World

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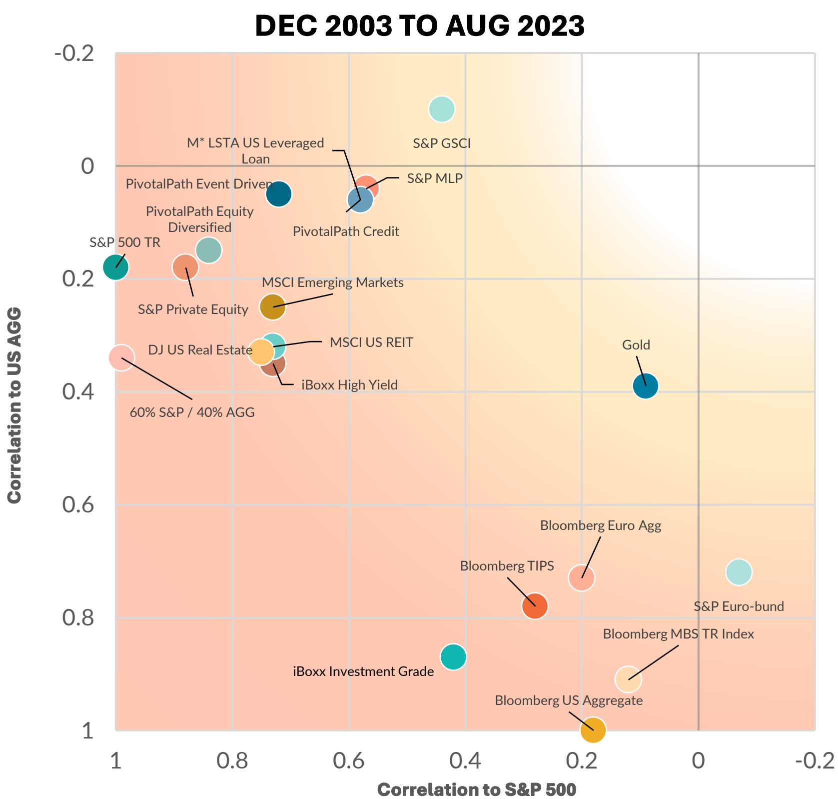
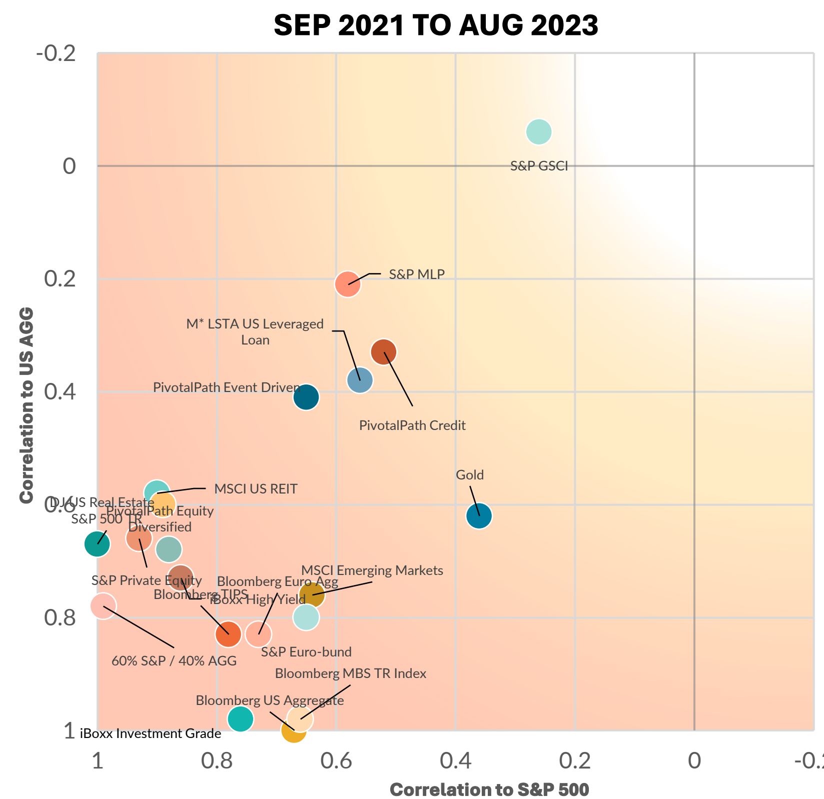
- Traditional diversifiers are highly correlated to *either* stocks or bonds.
- Today, most are correlated to *both* stocks and bonds.

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# The Search for Diversification Today

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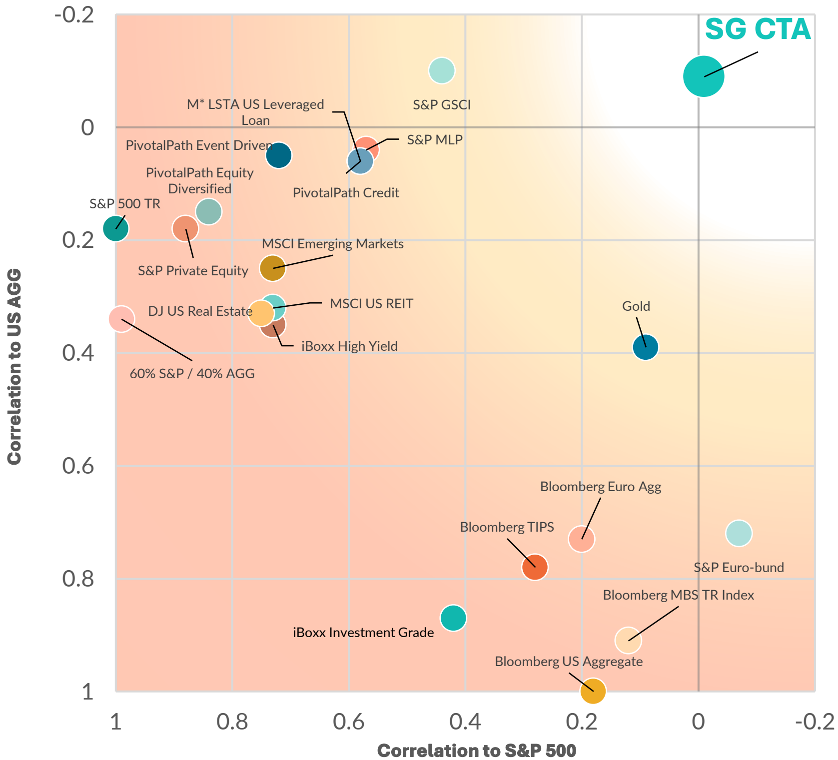
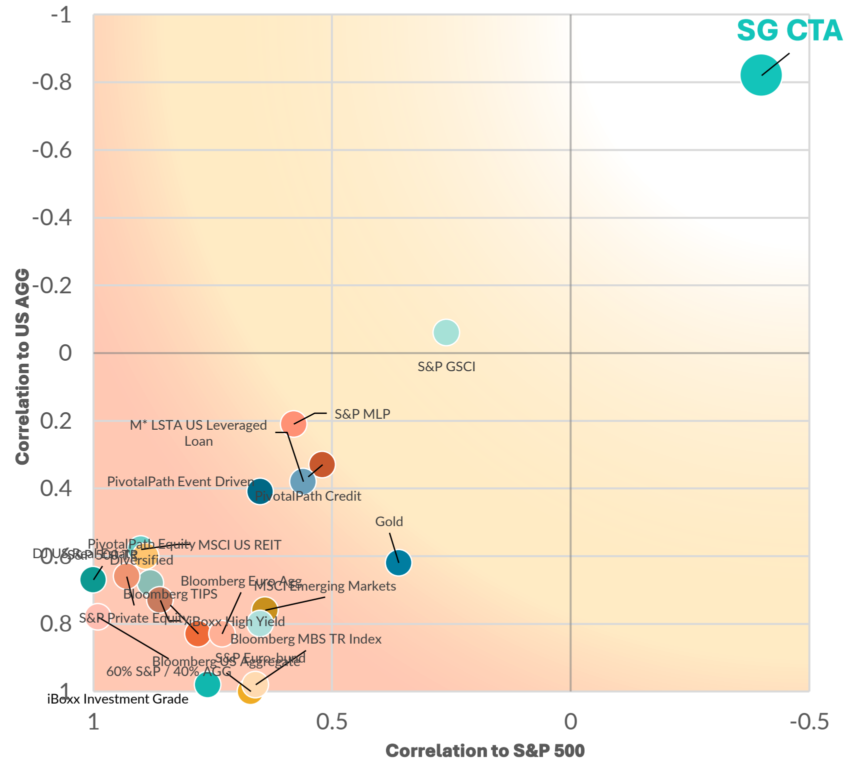
- Managed futures is one of the few strategies with zero (or recently, negative) correlations to both stocks and bonds.

**DEC 2003 TO AUG 2023**




**SEP 2021 TO AUG 2023**

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**Definitions:**

3yr Rolling CAGR – (Compounded Annual Growth Rate) -Refers to compounded annualized annual returns of a time series, utilizing monthly data, in continuous three-year windows.

3yr Rolling Volatility – Refers to the annualized standard deviation of the time series, utilizing monthly data, in continuous three-year windows.

3yr Rolling Correlation – Refers to the degree in which the percentage change of the movement of two time series are related, utilizing monthly data in continuous three-year windows.