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PERSPECTIVES

The 60/40 Portfolio: Down but Not Out

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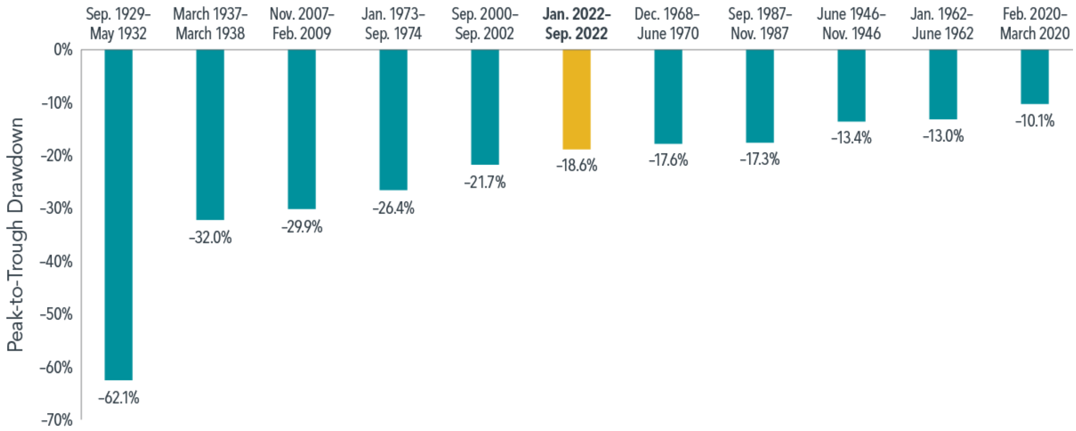
This has been a challenging year for investors. On top of the equity bear market, the steep losses in bonds[1] have been especially surprising, leading some investors to question whether the classic 60/40 portfolio is dead. Although 2022 has seen the worst start to a year in history for many bond indices,[1] the year-to-date experience for a 60/40 portfolio has not even cracked the top (or, alternatively, worst) five historical drawdowns of the last century. A 19% loss of wealth is not all that fun, but it's only two-thirds of the drawdown investors endured through the financial crisis of 2008–2009 (see **Exhibit 1**).

Exhibit 1

Not Such a Low Blow

60% S&P 500 Index / 40% Five-Year US Treasury Notes: January 1926—September 2022



Peak-to-Trough Drawdowns for a 60/40 Portfolio1,2 Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.**Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.**

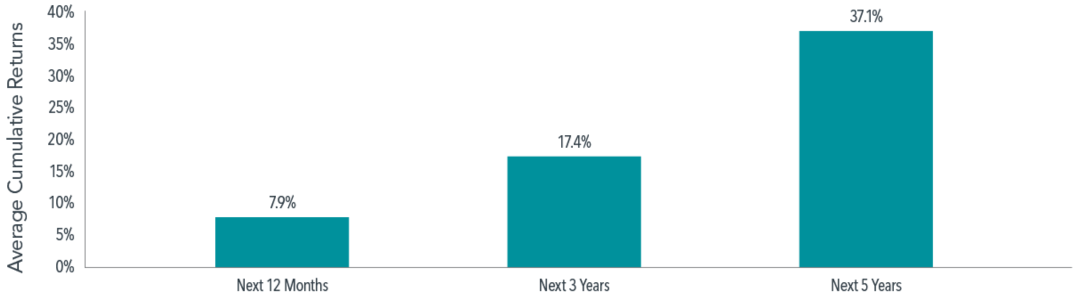
A CASE FOR OPTIMISM

It is important, and especially so during difficult market conditions, for investors to focus not solely on where returns have been but also on where they could be going in the months and years ahead. Looking at the performance of a 60/40 portfolio following a decline of 10% or more since 1926 (see **Exhibit 2**), we see clearly that returns on average have been strong in the subsequent one-, three-, and five-year periods. History makes a strong case for investors to stick with their longer-term plan and should help serve as a reminder that steep declines shouldn't derail investors' progress toward reaping the expected benefits of investing.

Exhibit 2

Still in the Fight

60% S&P 500 Index / 40% Five-Year US Treasury Notes: January 1926—September 2022



60/40 portfolio returns following 10% drawdowns1,3 Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.**Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.**

ROLL WITH THE PUNCHES

Markets have proven quite resilient over the long run. Like a boxer stepping inside the ring, investors should expect (and prepare) to take a few shots and get pushed up against the ropes every so often. The most important thing, though, is to roll with the punches and not get knocked out by short-term moves. If history is any guide, there's reason to believe the classic 60/40 portfolio is alive and well and could be poised to deliver healthy returns going forward.

1. Source: Morningstar Direct as of September 30, 2022.
2. In USD. The 60/40 portfolio consists of the S&P 500 Index (60%) and five-year US Treasury notes (40%). Rebalanced monthly. Peak-to-trough drawdowns include all periods where the 60/40 portfolio declined by 10% or more from the prior peak. Peaks are defined as months where the 60/40 portfolio's cumulative return exceeds all prior monthly observations. Troughs are defined as the months where the 60/40 portfolio's cumulative return losses from the prior peak are the largest. Five-year US Treasury notes data provided by Morningstar. S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.
3. In USD. The 60/40 portfolio consists of the S&P 500 Index (60%) and five-year US Treasury notes (40%). Rebalanced monthly. Drawdowns include all periods where the 60/40 portfolio declined by 10% or more from the prior peak. Peaks are defined as months where the 60/40 portfolio's cumulative return exceeds all prior monthly observations. Returns are calculated for the one-, three-, and five-year look-ahead periods beginning the month after the 10% decline threshold is exceeded. The bar chart shows the average cumulative returns for the one-, three-, and five-year periods post decline. There are 10, nine, and nine observations for the one-, three-, and five-year look-ahead periods, respectively. Five-year US Treasury notes data provided by Morningstar. S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

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