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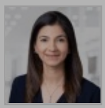
Data Affirm Our Long-Term Confidence Portfolio



Jitania Kandhari
Head of Macro and Thematic Research
Emerging Markets Equity

KEY POINTS

1. The 60/40 portfolio experienced a rollercoaster ride, down 17.5% in 2022 and up 17.2% in 2023. [1]

2. Whenever U.S. inflation exceeded 2.4%, there was an increase in the median correlation between stock and bond returns.

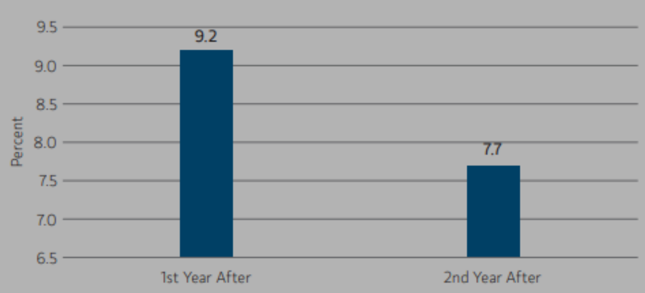
3. Two hundred years of historical analysis suggests there is an 80% probability of positive returns in the two years following a year of negative returns for both stocks and bonds.

The 60/40 portfolio, defined here as a mix of 60% U.S. equities and 40% U.S. Treasury bonds[1], experienced a rollercoaster ride, dipping 17.5% in 2022 and rising 17.2% in 2023. Many market participants, perhaps fueled by a recency bias[2] belief that the declines of 2022 would persist, questioned the value of the traditional strategy. In our view, those concerns were overstated.

Since 2000, bonds often offered an effective hedge against equity-led losses. However, this dynamic dramatically changed in 2022 when both bonds and stocks produced negative returns, resulting in the worst performance of the 60/40 portfolio since 1937.

Returns of 60/40 Seen Improving in the Two Years Following Sharply Negative Returns for Both Equities and Bonds

60/40 median returns in year 1 and year 2 post a year when both are negative. ***Past performance is no guarantee of future results.***



Source: MSIM, Bloomberg, FactSet, Haver. As of December 31, 2023. Data is based on historical trends and is subject to change. The information is not intended to predict the future performance of any specific investment or Morgan Stanley product.

A unique set of circumstances led to the challenging 2022 macro conditions, and we had predicted that the 60/40 strategy would rebound. Two-hundred years of historical analysis suggests there is an 80% probability of positive returns in the two years following a year of negative returns for both stocks and bonds. Last year, stocks surged with the S&P, gaining 26.3%, and U.S. 10-year treasuries rose 3.6%. As a result, the 60/40 mix returned 17.2%, far above its historical annual median return of +7.8%.

Analyzing the data reveals inflation has been the most important driver of the correlation between stocks and bonds: whenever U.S. inflation exceeded 2.4%, there was an increase in the median correlation between stock and bond returns. We believe that a drop in inflation in 2024 will lead to lower correlation between stocks and bonds, increasing the diversification benefits and lowering downside risk. Moreover, our analysis of second-year returns following a year when both asset classes yielded a negative return, like in 2022, indicates a likelihood of positive returns for this combination in 2024.

Bottom Line:

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The 2022-23 proxy season saw climate change continue to be the focus of most environmental, social and governance (ESG) proposals, with executive compensation and workforce practices also drawing scrutiny.

Nikita Jain
Engagement Strategist
Calvert Research and Management

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Where's the Trickle Down? Gender Diversity in Corporate Pipeline Lags the Boardroom

March 15, 2024

As March is Women's History Month, it's timely that we review women's headway moving up the corporate ranks and the progress of gender diversity initiatives worldwide.

Yijia Chen, CFA
Portfolio Manager
Calvert Research and Management

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