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Adapting the classic balanced portfolio to a New World Order

The end of easy diversification

For decades, the classic 60% stocks/40% bonds portfolio was the gold standard for investors. It thrived because stocks and bonds usually offset each other: when stocks dipped, bonds provided stability. From the 1980s to 2020, both stocks and bonds thrived under globalisation, disinflation, and falling interest rates. Yet, since 2020, the return of inflation and geopolitical fragmentation disrupted this balance.

> **Insight:** "When inflation rises, stocks and bonds stop singing to different tunes; they rhyme together."

Inflation: The portfolio's new enemy

Inflation is the silent killer of the 60/40 balance. Rising prices prompt central banks to increase interest rates, which push bond prices down. Meanwhile, higher real yields compress stock valuations, especially for growth companies whose value lies in earnings far in the future. Consequently, both stocks and bonds can decline simultaneously, as witnessed in 2022 – the worst year for the 60/40 model since the 1930s.

Echoes of the 1970s

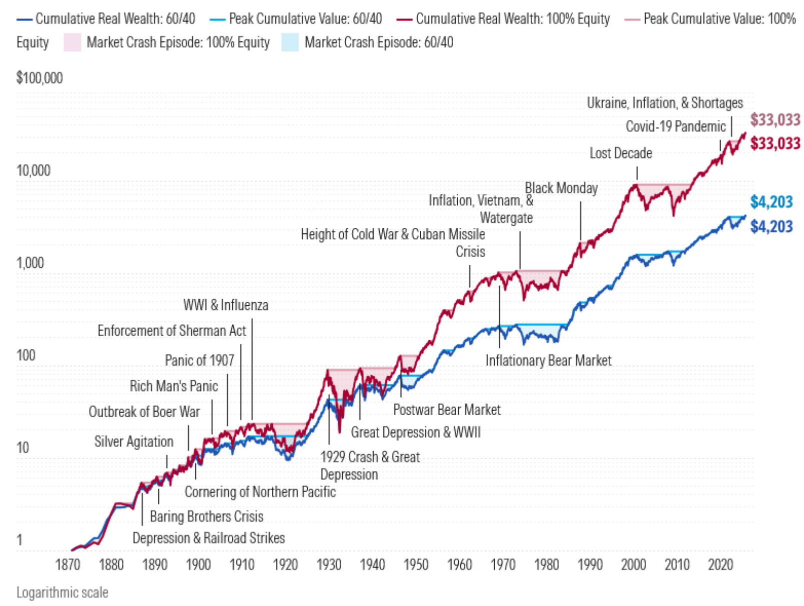
The 1970s taught us how inflation and energy shocks can devastate balanced portfolios. Back then, double-digit inflation and rising bond yields eroded returns across asset classes. Today's world – marked by supply-chain bottlenecks, energy volatility, and fiscal expansion – bears unsettling similarities, casting doubt on the effectiveness of traditional diversification.

> **Insight:** "The 2020s rhyme with the 1970s – just with more data, debt, and geopolitics."

The fragmentation factor

Globalisation once served as a powerful disinflationary force through cheap labour, efficient logistics, and open trade. But rising geopolitical tensions, trade wars, and 'friend-shoring' are reversing this trend, promoting fragmentation that leads to sticky inflation and high volatility, simultaneously hurting both bonds and equities. A traditional 60/40 portfolio, whether domestic or global, may no longer provide adequate diversification.

Market Crash Timeline: Growth of $1 and the US Stock Market's Real Peak Values



Source: Kaplan et al. (2009); Ibbotson (2023); Morningstar Direct; Goetzmann, Ibbotson, and Peng (2000); Pierce (1982); www.econ.yale.edu/~shiller/data.htm, Ibbotson Associated SBBI US Large-Cap Stock Inflation Adjusted Total Return Extended Index, S&P 500 (2025), Bureau of Labor Statistics, Non-Seasonally Adjusted Consumer Price Index (2025). Data as of Aug. 31, 2025.

Augmenting 60/40 for an inflationary, unstable, fragmented world

To adapt to this new order, we extend the 60/40 portfolio to **improve inflation-resilience and shock-absorption:**

- **Commodities and gold:** Protect purchasing power when inflation spikes.
- **Inflation-linked bonds:** Preserve real returns.
- **Infrastructure and real-assets:** Offer income linked to real-world pricing.
- **Alternative strategies:** Provide uncorrelated returns.

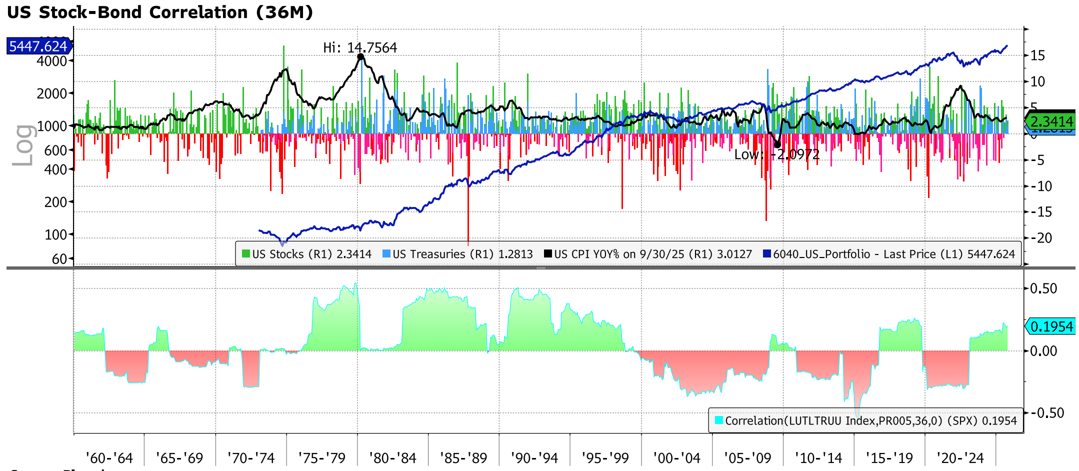
Regime-based active management: Navigates risks from inflation, interest rates, the economy, and geopolitical changes.

Doing it differently at All Weather Capital

At **All Weather Capital,** we recognise the need for flexibility and depth in our **Balanced and Fixed Income** strategy. We are:

- **Style-agnostic:** We adapt to opportunities without rigid ideology.
- **Benchmark-cognisant:** We align strategies with long-term investor goals.
- **Total-return focused:** We balance income generation with capital appreciation.
- **Diversified by design:** We source returns from multiple levers – income, duration, credit, traditional asset classes, and alternatives.
- **Downside-aware:** We employ protective measures, such as gold and options, to manage drawdowns.

US Stock-Bond Correlation (36M)



Source: Bloomberg

The bottom line

The era of falling inflation and stable geopolitics has ended. Diversification is a living strategy, responsive to changing regimes and inflation. **Prudent diversification leads to a more resilient and profitable portfolio.** Our flexible discipline enables swift navigation of market shifts while maintaining principles of long-term wealth creation.