Portfolio

Our asset-class allocation in a balanced portfolio

Traditional asset classes

Within the core part of our balanced portfolio, we cover traditional liquid assets such as equities, fixed income and commodities. The chart shows how we would currently design a balanced portfolio, including alternative asset classes.[1]

Equities

Equities made a very poor start to 2016 and it is likely that a sustained recovery will require investor confidence that oil and other commodity prices have bottomed out and that Chinese-yuan weakening can be managed in an orderly way. Developed-market equities seem likely to gain more from a recovery than emerging-market equities: the latter will face a number of headwinds, including further downward revisions to corporate earnings. Developed-market valuations have fallen to more reasonable levels but good fundamentals can only become an upward driver of prices when general market concerns decrease.

Fixed income

Fixed-income markets have been affected by recent market stresses, particularly those related to low oil prices. Worries about energy-related defaults caused U.S. high-yield spreads to widen further in early 2016, possibly to the extent that they overstate real risks and therefore offer some longer-term opportunities outside of the oil sector. Continued caution is however suggested on emerging-market bonds. Market volatility, and the resulting demand for safe-haven investments, has pushed down yields on core government bonds and we expect yields to rise only slightly over the course of 2016.

Commodities

Substantial oil stocks will likely keep oil prices low in the first half of 2016, as will increasing production by the Organization of the Petroleum Exporting Countries (OPEC), principally from Iran. But we believe that OPEC’s ability to increase production has its limits and that U.S. oil production will continue to fall during 2016 as financing capital expenditure remains difficult. Combined with a lowering of oil-stock levels, this will likely provide support for the oil price which should gently move upwards to $50 per barrel (WTI) by the fourth quarter. A stronger U.S. dollar over the longer term will of course create a further headwind for the prices of oil, gold and other commodities.

Glossary

Core government bonds

Core government bonds are debt securities issued by especially credit-worthy governments both within the Eurozone and in other developed markets.

Default

Default is the failure to meet the legal obligations of a loan, for example when a corporation or government fails to pay a bond which has reached maturity. A national or sovereign default is the failure or refusal of a government to repay its national debt.

Developed Markets (DM)

A **developed market (DM)** is a country fully developed in terms of its economy and capital markets.

Emerging markets (EM)

An emerging market (EM) is a country that has some characteristics of a developed market in terms of market efficiency, liquidity and other factors, but does not meet standards to be a developed market.

Fundamentals

Fundamentals are data giving information about the general well-being of companies, securities or currencies and serving for the subsequent valuation of these as an investment opportunity.

High Yield (HY)

High-yield bonds are issued by below-investment-grade-rated issuers and usually offer a relatively high yield.

Safe-haven investment

A **safe-haven investment** is an investment that is expected to retain or even increase its value in times of market turbulence.

Valuation

Valuation attempts to quantify the attractiveness of an asset, for example through looking at a firm’s stock price in relation to its earnings.

Volatility

Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

West Texas Intermediate (WTI)

West Texas Intermediate (WTI) is a grade of crude oil used as a benchmark in oil pricing.