
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

Given the difficult macroeconomic backdrop and continued geopolitical risks, this is a time when it is important to be realistic about earnings expectations, valuations and index targets. Further periods of volatility also look likely. During March, we trimmed back our earnings-growth and valuations expectations, resulting in lower 12-month index targets. However, we have become (in relative terms) rather less negative about emerging-market equities, in particular in the Asia region, due in part to the stabilization of many emerging-market currencies and commodity prices.

Fixed income

Only minimal returns are likely in core government bonds over the next 12 months but potential opportunities exist elsewhere in the fixed-income universe. U.S. investment grade looks likely to continue to perform well with the market apparently willing to absorb high levels of supply. Euro high yield should continue to benefit from better rating quality and less exposure to the energy sector than U.S. high yield although weaker emerging-market demand may hurt some borrowers. In emerging-market bonds, we believe country-specific concerns will remain to the fore.

Commodities

Recent oil-price gains have been encouraging, but we may need to wait for evidence of an inventory drawdown in the second half of 2016 before we see a further rise in prices. Output, particularly in the U.S., is likely to be constrained by a higher cost of capital, exerting further upward pressure on prices. We expect a WTI oil price of \$50 per barrel on a 12-month horizon. Gold prices may fall back slightly during the course of 2016, on the assumption that the Fed makes two further rate rises in the next 12 months and the U.S. dollar continues to strengthen.

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.

Geopolitical risk

Geopolitical risk is a risk that an investment's returns could suffer as a result of political changes or instability in a country.

High Yield (HY)

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

Investment grade (IG)

Investment grade (IG) refers to a credit rating from a rating agency that indicates that a bond has a relatively low risk of default.

U.S. Federal Reserve (Fed)

The **U.S. Federal Reserve**, often referred to as "**the Fed**", is the central bank of the United States.

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.

West Texas Intermediate (WTI)

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