

MULTI ASSET

Recalibrating strategy

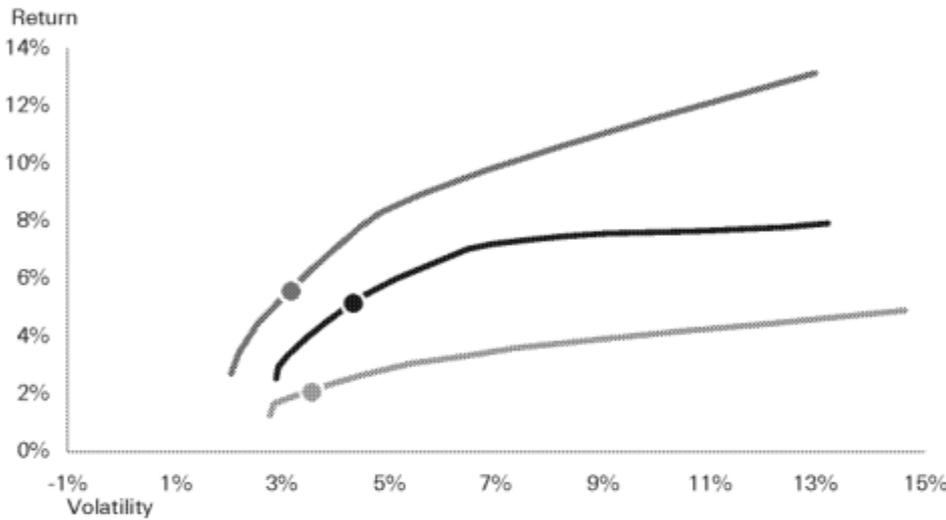


Figure 1.
Lower returns for a higher level of risk

- 1990-2009
- - - 2010-2015
- Expected return (10y)

Past performance is not indicative of future returns.

Multi-asset investors face an environment where growth remains stubbornly low and there are increasing concerns about the long-term implications of very accommodative monetary policy. But, for the foreseeable future, we should live in a situation where core sovereign-bond yields are at record lows, corporate-credit yields are moving down and equities are at record highs. In short, we have an investment cycle where some asset-class price movements are out of synch with economic growth.

Lower effective returns are also accompanied by high levels of volatility. This is most simply illustrated by the classic “efficient-

frontier” chart (Figure 1) showing the highest rate of return for a given level of risk, or vice versa. A simple hypothetical example makes the point even more strongly. In 2004 you could achieve a 4% return with a portfolio made up with 85% fixed income and only 15% of equities. Now you would have to allocate ~50% into equities to have a hope of approaching this level of return – and your expected volatility would have doubled.

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Sources: Morgan Stanley Research, Bloomberg Finance L.P. Data as of November 2015.

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