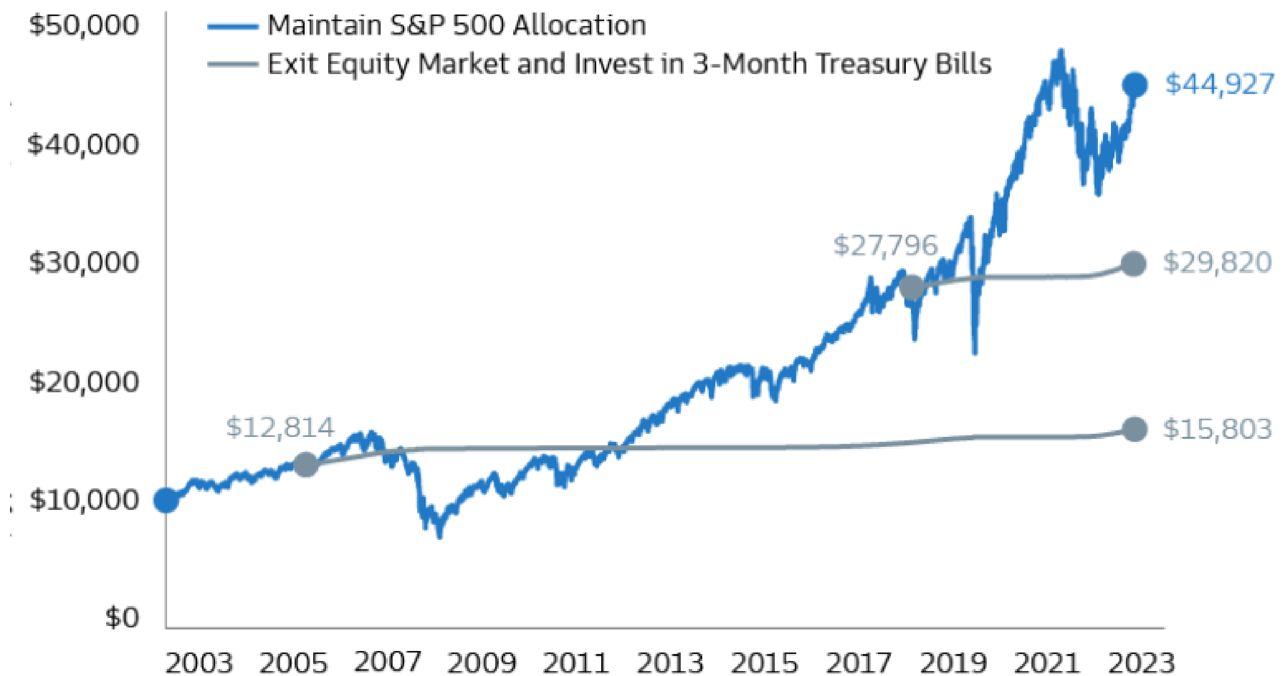
Your Investment Portfolio-

Staying disciplined versus abandoning strategic allocation?

The chart below shows the total return of the S&P 500 index (in blue), versus what would have happened if that same investor had exited to a near-cash position at the end of the last two rate hiking cycles. Abandoning strategic allocations can be tempting towards the end of a monetary tightening cycle, when cash and short-duration bond yields are generally at their most attractive levels. Indeed, this sort of move may pay off in the near-term, but it has not proven effective in the longer-term. We believe clients should exercise discipline in maintaining target equity weights (in line with their risk profile) to achieve long-term return targets.

The investor in this example starts with $10,000 – after the 20-year period they are left with just under $45,000 having stayed in the equity market and sat through the associated volatility and economic downturns. Similar to what we will likely see this summer, in the middle of 2006 the Fed finished their hiking cycle and paused rates - with regard to the investor who exited the equity market at this time in favour of 3-month US Treasury Bills, their investment only grew slightly over the long run and finished the period at just $15,803. Likewise, the investor who exited the market in early 2019, after the Fed's final hike of that cycle, only grew their investment to $29,820.

Cash and bonds can play an important role within a portfolio. They help to smooth out the investment journey for clients when volatility inevitably crops up from time to time, and they also serve to meet shorter-term liquidity needs. However, and as we have stated in our Half-Year Investment document: *"While bonds reflect a safer and better risk-reward trade at present, we believe the overall return of stocks will be greater than fixed-income assets over the coming decade."*



Source: Bloomberg, Goldman Sachs Asset Management