Leigh Baldwin & Co.

Investment Brokerage

On October 21st, the Wall Street Journal featured an article bemoaning, "Your Investment Strategy is Broken, the End of the 60-40 Strategy", in reference to the time-honored allocation of 60-40, or 60% equites to 40% fixed income. Just about one week later, the WSJ's sister publication, Barron's, had a cover story "Time to Buy Bonds", which would leave one to believe that the 60-40 strategy is about to begin a new fresh start. So, in which direction is an investor or money manager to lean… Let's first take a trip down memory lane…

Beginning in the late seventies, or about forty years ago, interest rates began falling from record highs after the Fed had raised rates to combat inflation amidst an energy crisis. The next thirty years witnessed an unprecedented bull run in both bonds and stocks, even with occasional disruptions, like the dotcom bubble in 2001 and the credit crisis of 2008. And it was in these crisis moments where the 60-40 shined brightest. In 2008 for example, a 60-40 mix outperformed a straight stock portfolio by 23%, offering investors not only income but also an easier path back to profitability.

For the past 12 years though, as the tired bond bull was fed dose after dose of government intervention, interest rates were kept at or near zero percent. Stock prices and other risk assets were huge beneficiaries of this constant flow of easy money and then a pandemic ultimately paved the way for monetary craziness. We would suggest then that the 60-40 strategy first broke and then ended about ten years ago, and the anemic returns for bonds, (the US Aggregate bond index has returned on average less than 1% a year over the past ten years), were overshadowed by the heady gains in equities over the same time.

Last week the 10-year Treasury hit 5% for the first time in about 16 years. Fixed income is now once again, a legitimate investment choice. After what looks to be the third down year in the bond market, which by some measures is the worst stretch since the 1700's, bonds, or the 40%, look to be poised for a potential rebound as the risk reward picture becomes clearer. The attributes of having fixed income in a portfolio, income generation, lessoning of overall account risk and volatility, and potential appreciation in times of economic stress may finally be back in play.

Stocks for their part should continue to benefit from a relatively strong economy, full employment, high and sticky inflation, and innovation (think AI). Conversely, geopolitical events, high valuations, and extended credit are just a few of the dangers to the market lurking in the shadows. Our goal is to go into the corners and into the shadows to manage risk. We will also go to the bright spots of opportunity to help you achieve your financial goals. We appreciate your business and look forward to working with you in any way we can in the years ahead.

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