

The portfolio of the future



An essential series of guides to effective portfolio construction

July 2024

Part 2: Getting more nimble and granular with asset allocation

In the past, stocks and bonds experienced joint bull markets, but we do not expect this trend to continue. We see the post-pandemic era as being characterised by persistent supply constraints like **shrinking working-age populations**, and major structural shifts like **digital disruption linked to artificial intelligence**, **geopolitical fragmentation**, the **transition to a lower carbon economy** and the **rewiring of supply chains**. We see this leading to **stickier inflation**, **higher rates**, and **weaker growth**, making it more important than ever to get the portfolio asset mix right.

“Gone are the days of fixed, set-and-forget strategic portfolio allocations built only with broad equity and bond building blocks.”

Focus on consistency of portfolio outcomes

Since 2020, equity and fixed income correlations have been pushed further into positive territory (see figure 1). Many portfolio construction processes and risk models rely on low or negative equity/bond correlations to help establish strategic asset allocations and determine the portfolio diversification properties. To add to the complexity, we have also seen market volatility translate into more dispersion in public markets performance¹. Against this backdrop, portfolio resilience has come into question time and again, challenging the more traditional fixed and broad market-cap strategic allocations approach, which focused on public markets only.

In this new era, shaped by powerful structural trends, we believe investors using the ‘set-and-forget’ allocation approach may have to tolerate more risk to achieve a similar return. Not being able to swiftly adapt to the changes in the investment environment, or not distinguishing between the best and worst performing areas of the market, could lead to significant inconsistencies in portfolio outcomes (see figure 2). We believe the portfolio of the future demands a laser focus on portfolio outcomes, delivered through more frequent risk and allocations reviews, considering many market scenarios, through a more granular asset class mix, including private markets. In our view, this will allow investors to be more dynamic to capture new opportunities but also gain more control when outcomes are unfavourable.

Figure 1: equity/bond correlations

Illustration using 12-month rolling index correlations

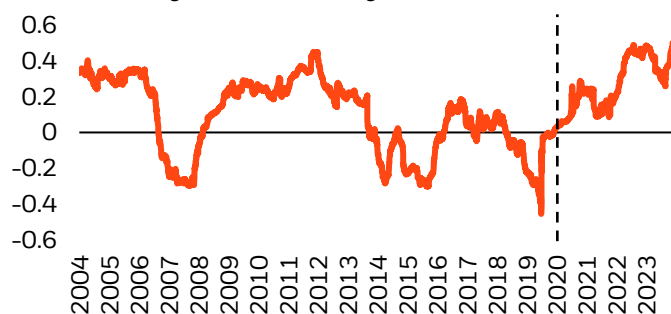
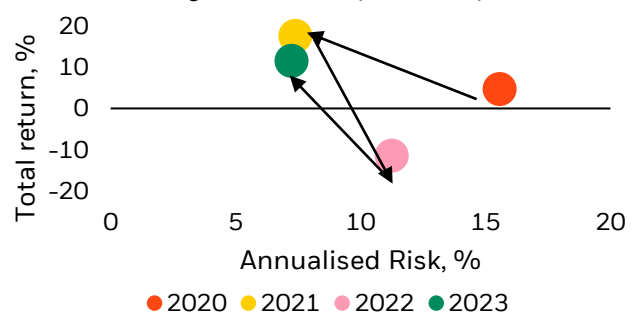


Figure 2: ‘set-and-forget’ allocations

Illustration using a fixed 60:40 portfolio’s performance



Total return, %	06/14 - 05/15	06/15 - 05/16	06/16 - 05/17	06/17 - 05/18	06/18 - 05/19	06/19 - 05/20	06/20 - 05/21	06/21 - 05/22	06/22 - 05/23	06/23 - 05/24
60:40 Portfolio	-3.34	-1.14	11.32	8.47	-0.84	5.66	28.2	-11.49	-0.78	15.58

(Left) Source: BlackRock, MPI. Period: 31 December 2003 – 14 June 2024. Data Frequency: Monthly. Note: 12 m rolling correlations between Bloomberg Global Aggregate Index and MSCI ACWI Index. Currency: USD. **(Right)** The figures shown relate to past performance. Past performance is not a reliable indicator of future performance. Index returns do not account for fees. It is not possible to invest directly in an index. Source: BlackRock, MPI. Period: 31 December 2019 – 29 December 2023. Data Frequency: Daily. Currency: EUR. This information demonstrates, in part, the firm’s Risk/Return analysis. This material is provided for informational purposes only and is not intended to be investment advice or a recommendation to take any particular investment action. Note: Portfolio 60:40 starting exposures include 60% MSCI ACWI Index; 40% Bloomberg Global Aggregate Index Hdg EUR. ¹ For more on this please refer to Appendix.

Get more dynamic and granular

We think the world is going through a massive shift that is potentially changing the rules of the game for investors. It's caused by three mega forces happening at the same time: artificial intelligence (AI), the rewiring of global supply chains, and the transition to a low-carbon economy. We see the investment environment as one with more unpredictable outcomes, with portfolios having to meet a higher performance bar in the face of higher inflation and rates. This means we need a more agile and selective approach to spot investments that work.

A 'hands-on-the-wheel' approach founded in a more granular mix of assets could allow investors to exploit their skill in timing markets and their ability to consistently pick exposures to the right sectors, regions and styles. We believe this approach will ensure more control over portfolio risk and long-term outcomes, in an increasingly uncertain environment.

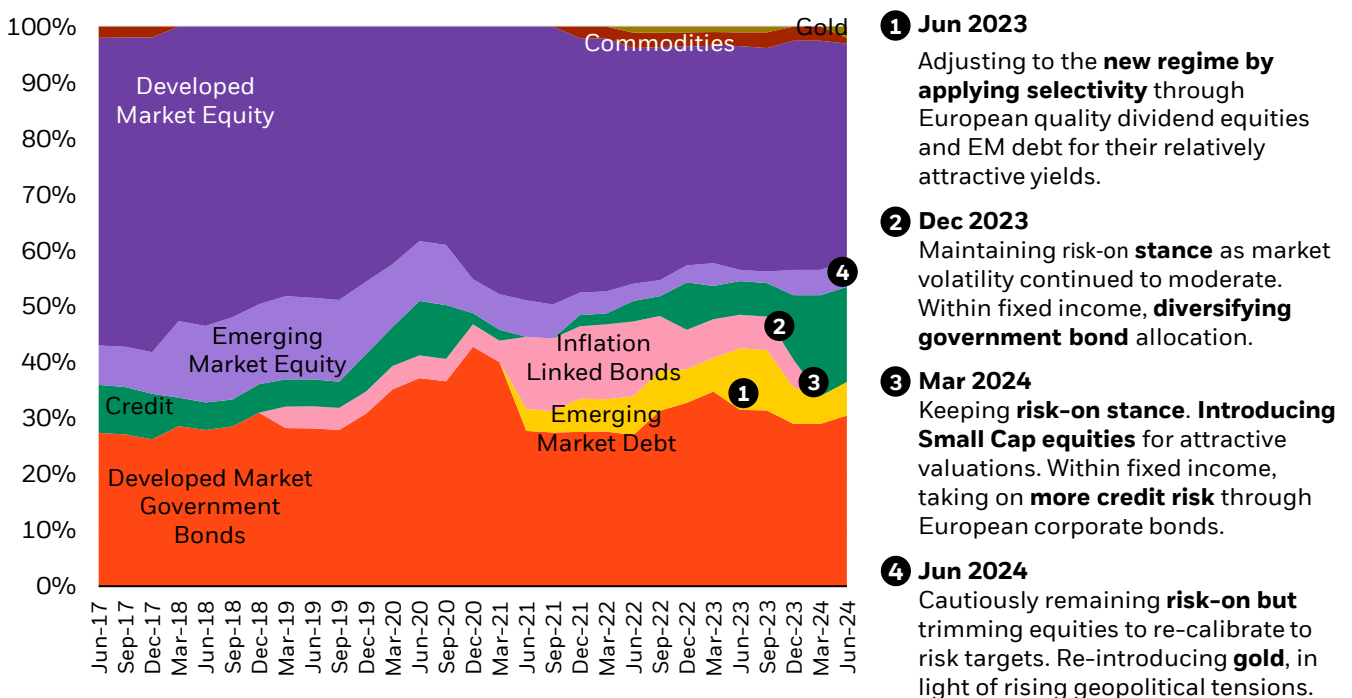
The dynamic asset allocation example below illustrates how investors can pivot in reaction to moments in markets which might affect the long-term targets of the portfolio. The investment approach aims to enhance portfolio resilience while capturing investment opportunities. We focus on a European strategic allocation model, which – instead of being anchored towards a fixed split between equities and fixed income – is targeting a specific level of portfolio risk, to allow for more consistency in performance but also more dynamism in asset allocation adjustments. The model undergoes both ad-hoc and quarterly reassessments and leverages a wide range of very granular building blocks across public equities, fixed income and commodities, including countries, sectors, factors and themes, delivering overall annual portfolio volatility at around 9%. Using this example, we illustrate that:

- risk-targeted, quarterly asset allocation reviews allow for more adaptable adjustment of the mix of equity and fixed income allocations, delivering consistent experience for clients at the desired risk budget in a complex macro environment marked by sticky inflation and higher rates – see points 1 and 2 in figure 3, where increasing selectivity in both equity and fixed income allows for a wider investment opportunity set in the model on a quarterly basis.
- working with a more granular range of building blocks allows the model to materially change at times when the new investment environment presents risk challenges – see points 3 and 4 in figure 3, where the model remains risk-on but very deliberate in where risk bets are made, and how they are diversified.

How can this be implemented? We believe portfolio builders should be ready to make more nimble asset allocation changes, reflecting on market scenarios and their insights, using investment products that offer the flexibility to be adaptive and enhance alpha, while better managing the portfolio risk budget. This 'whole portfolio', outcome-oriented implementation approach may be crucial for ongoing success and wealth creation for clients in the future, in an environment where the performance bar is higher and the lines between index and alpha-seeking strategies are blurring. Look out Part 3 of this series for more on this topic.

Figure 3: a hands-on-the-wheel approach to navigate the investment regime

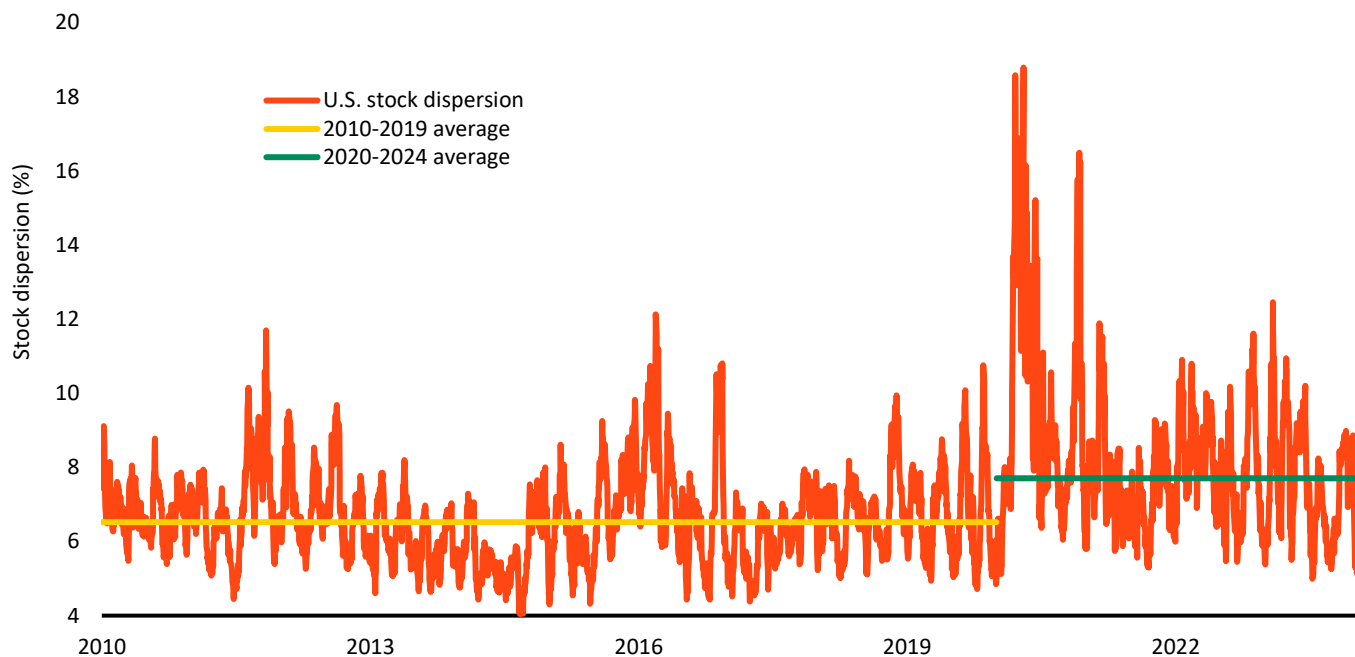
Illustration using a target moderate risk model



For illustrative purposes only. This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise - or even estimate - of future performance. Source: Blackrock, as of 30 June 2024.

Appendix

Dispersion of US stock market (S&P 500) returns, 2010-2024



Past performance is not a reliable indicator of current or future results, and index returns do not account for fees. It is not possible to invest directly in an index. Source: BlackRock Investment Institute, with data from LSEG Datastream, February 2024. Notes: The chart shows the dispersion in S&P 500 monthly stock returns on a daily basis and the median level of dispersion from July 2010 after the global financial crisis through 2019, and from 2020 through 31 January 2024.

This document is marketing material: Before investing, please read the Prospectus and the PRIIPs KID available on www.ishares.com/it, which contain a summary of investors' rights.

Risk warnings

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

Regulatory Information

This material is for distribution to Professional Clients (as defined by the Financial Conduct Authority or MiFID Rules) only and should not be relied upon by any other persons.

In the UK and Non-European Economic Area (EEA) countries: this is issued by BlackRock Advisors (UK) Limited, which is authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL, Tel: +44 (0)20 7743 3000. Registered in England and Wales No. 00796793. For your protection, calls are usually recorded. Please refer to the Financial Conduct Authority website for a list of authorised activities conducted by BlackRock.

In the European Economic Area (EEA): this is issued by BlackRock (Netherlands) B.V. is authorised and regulated by the Netherlands Authority for the Financial Markets. Registered office Amstelplein 1, 1096 HA, Amsterdam, Tel: 020 – 549 5200, Tel: 31-20-549-5200. Trade Register No. 17068311 For your protection telephone calls are usually recorded.

In Italy: For information on investor rights and how to raise complaints please go to <https://www.blackrock.com/corporate/compliance/investor-right> available in Italian.

In Israel and South Africa: this is issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: + 44 (0)20 7743 3000. Registered in England and Wales No. 02020394. For your protection telephone calls are usually recorded. Please refer to the Financial Conduct Authority website for a list of authorised activities conducted by BlackRock.

For investors in Bahrain

The information contained in this document is intended strictly for sophisticated institutions.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock.

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public.

The information contained in this document, may contain statements that are not purely historical in nature but are “forward looking statements”. These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

For investors in Dubai (DIFC)

BlackRock Advisors (UK) Limited -Dubai Branch is a DIFC Foreign Recognised Company registered with the DIFC Registrar of Companies (DIFC Registered Number 546), with its office at Unit L15 - 01A, ICD Brookfield Place, Dubai International Financial Centre, PO Box 506661, Dubai, UAE, and is regulated by the DFSA to engage in the regulated activities of ‘Advising on Financial Products’ and ‘Arranging Deals in Investments’ in or from the DIFC, both of which are limited to units in a collective investment fund (DFSA Reference Number F000738).

The information contained in this document is intended strictly for Professional Clients as defined under the Dubai Financial Services Authority (“DFSA”) Conduct of Business (COB) Rules.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock.

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public.

The information contained in this document, may contain statements that are not purely historical in nature but are “forward-looking statements”. These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

For investors in Israel

BlackRock Investment Management (UK) Limited is not licensed under Israel's Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 5755-1995 (the “Advice Law”), nor does it carry insurance thereunder.

For investors in Kuwait

The information contained in this document is intended strictly for sophisticated institutions that are ‘Professional Clients’ as defined under the Kuwait Capital Markets Law and its Executive Bylaws.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock.

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public.

The information contained in this document, may contain statements that are not purely historical in nature but are “forward-looking statements”. These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

For investors in Oman

The information contained in this document is intended strictly for sophisticated institutions.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock.

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public.

The information contained in this document, may contain statements that are not purely historical in nature but are “forward-looking statements”. These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based

upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

For investors in Qatar

The information contained in this document is intended strictly for sophisticated institutions.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock.

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public.

The information contained in this document, may contain statements that are not purely historical in nature but are “forward-looking statements”. These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

For investors in Saudi Arabia

The information contained in this document is intended strictly for sophisticated institutions.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock.

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public.

The information contained in this document, may contain statements that are not purely historical in nature but are “forward looking statements”. These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

For investors in Switzerland

This document is marketing material.

This document shall be exclusively made available to, and directed at, qualified investors as defined in Article 10 (3) of the CISA of 23 June 2006, as amended, at the exclusion of qualified investors with an opting-out pursuant to Art. 5 (1) of the Swiss Federal Act on Financial Services (“FinSA”).

For information on art. 8 / 9 Financial Services Act (FinSA) and on your client segmentation under art. 4 FinSA, please see the following website: www.blackrock.com/finsa.

For investors in United Arab Emirates

The information contained in this document is intended strictly for non-natural Qualified Investors as defined in the UAE Securities and Commodities Authority’s Board Decision No. 3/R.M of 2017 concerning Promoting and Introducing Regulations.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock.

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public. The information contained in this document, may contain statements that are not purely historical in nature but are “forward-looking statements”. These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

Any research in this document has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy.

This document is for information purposes only and does not constitute an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.

© 2024 BlackRock, Inc. All Rights reserved. BLACKROCK, BLACKROCK SOLUTIONS and iSHARES are trademarks of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.