FS INVESTMENTS®

The 60/40 portfolio: Not adding up like it used to

Looking ahead, we believe a traditional 60/40 stock and bond portfolio is unlikely to deliver the same level of returns investors have enjoyed over the past few decades.

Outsized return expectations

Over the last 35 years, equity markets generated annual returns of 10.8% and bonds returned 6.4% per year.[1] Given this experience, it should come as little surprise that an FS Investments study found that investors expect an average market return of 7.0% over the next five years.[2]

7.0%
average market return expected by investors over the next five years[2]

What got us here won't get us there

A closer look at the environment driving fixed income and equity returns can help us better understand what it would take to generate a total return of 7% or more going forward:

LOW INTEREST RATES: Interest rates have gradually declined since the 1980s, but the pace accelerated after the financial crisis. In a low yield environment in which **a balanced fixed income portfolio generates annual returns of 2%–3%,**[3] the equity portion would need to generate returns of approximately 10% in order to achieve a 7% total portfolio return.

HIGH STOCK VALUATIONS: Periods of high equity valuations have historically been followed by relatively low future returns, with the inverse true for periods of low equity valuations. Assuming equity market returns over the next 10 years are similar to the **historical average of around 5% per year when starting with valuations at current levels,**[4] a fixed income portfolio would need to generate returns of 9%–10% per year to achieve a 7% total portfolio return.

Return of fixed income portfolio (the 40%)			Return of equity portfolio (the 60%)
1.0%			11.0%
2.0%	Hypothetical fixed income return	Required equity return	10.3%
3.0%			9.7%
4.0%			9.0%
5.0%			8.3%
6.0%			7.7%
7.0%			7.0%
8.0%			6.3%
9.0%	Required fixed income return	Hypothetical equity return	5.7%
10.0%			5.0%
11.0%			4.3%

Hypothetical 60/40 portfolio performance required to generate a
7.0%
annual total return

We believe investors' return expectations need to be well grounded in the reality of today's market environment. Incorporating strategies that produce differentiated sources of income or growth with traditional stocks and bonds may enhance a portfolio's return potential while also diversifying its risk profile.

To learn more, visit
fsinvestments.com

1 Bloomberg and Macrobond. Stocks are based on price returns only of the S&P 500 Index, which tracks the 500 most widely held stocks on the New York Stock Exchange or NASDAQ; bonds are represented by the Bloomberg Barclays U.S. Aggregate Total Return Bond Index, which is a broad composite that tracks the investment grade domestic bond market; 1985–2019.

2 FS Investments survey administered through Google Surveys to a random sampling of 515 investors between March 25, 2019 and March 27, 2019. Respondents indicated they had $100,000 or more of invested assets.

3 Bloomberg Barclays U.S. Aggregate Total Return Index average yield-to-worst from December 31, 2018 to December 31, 2019.

4 Macrobond and FS Investments. S&P 500 Index from January 1, 1950 to December 31, 2019.

Past performance is not a guarantee of future results. The performance of an index is not an exact representation of any particular investment, as one cannot invest directly in an index.

This information is educational in nature and does not constitute a financial promotion, investment advice or an inducement or incitement to participate in any product, offering or investment. FS Investments is not adopting, making a recommendation for or endorsing any investment strategy or particular security.

All investing is subject to risk, including the possible loss of the money you invest.

FS Investment Solutions, LLC is an affiliate of the investment advisers to FS Investments' funds and serves or has served as the dealer manager for certain of the public offerings of shares by FS Investments' funds.

FS Investment Solutions, LLC 201 Rouse Boulevard, Philadelphia, PA 19112 www.fsinvestmentsolutions.com 877-628-8575 Member FINRA/SIPC FL-6040-INV
 FE20