

December 2025

Global Macro Insights

Asset allocation fit for a fragmenting world

Salman Ahmed

Global Head of Macro & SAA

Matthew Quaife

Global Head of Multi Asset

Stefan Rusev

Senior SAA Strategist

Marketing communication.
For investment professionals only.





Salman Ahmed

Global Head of Macro and Strategic Asset Allocation



Matthew Quaife

Global Head of Multi Asset



Stefan Rusev

Senior SAA Strategist



Jihad Younan

Director, Client Solutions

Contents

Executive summary	3
Introduction	4
The end of easy 60/40	5
Designing an asset allocation fit for a fragmenting world	6
1. Put active management to work	7
2. Spread risk across regions and sectors	8
3. Add income as a diversifier	8
4. Broaden the opportunity set beyond public markets	9
5. Build defence fit for the new regime	10
6. Manage currency as a core risk lever	10
Spotlight on wealth preservation and the role of gold	11
Future-proofing asset allocation for a fragmenting world	12



Executive summary

Globalisation's tailwinds have given way to strategic fragmentation. Industrial policy, energy security and tech sovereignty have moved to the fore, increasing macroeconomic volatility and blurring fiscal-monetary boundaries. Bond volatility is also higher, equity-bond correlations have turned positive, and the efficient frontier has flattened.

Our analysis indicates that the traditional 60/40 portfolio will be less able to cope with this new regime - over the next 10 years, it could deliver lower risk-adjusted returns than investors have become accustomed to. We have therefore identified **six actions that investors can take to adapt their portfolios for today's fragmenting world:**

- 1. Put active management to work:** Narrow market leadership and wider dispersion raise the payoff to skill. Expand manager breadth across styles and approaches to convert heterogeneity into alpha and manage concentration risk.
- 2. Spread risk across regions and sectors:** Emphasise regional and sector balance, not index dependence. Use relative value lenses and scenario context to size exposures across policy paths, sector mixes and cash flow profiles.
- 3. Add income as a diversifier:** With higher rates and likely lower equity returns, income strategies can complement exposure to equity risk premia.
- 4. Broaden the opportunity set beyond public markets:** Use private and real assets to add differentiated cash flows and access to secular themes such as AI-linked digital infrastructure, energy transition and logistics reconfiguration.
- 5. Build defence fit for the new regime:** Replace single asset ballast with layers, such as dynamic duration, selective downside protection, and unconventional sources of risk premia like absolute return and market-neutral strategies. Consider gold to help balance tail risks associated with geopolitical tension and systemic stress.
- 6. Manage currency as a core risk lever:** The dollar's dominance may weaken, while its defensive profile is less assured. Treat currency management as an explicit dimension of portfolio risk governance. Review hedge ratios deliberately and adjust as conditions evolve.

Introduction

The era of benign globalisation has ended. The world's economic and security orders are fragmenting into competing blocs. Industrial policy has supplanted free trade orthodoxy; energy security and tech sovereignty have become national priorities. Signals are noisier, regime shifts more frequent, and the boundary between fiscal and monetary policy is blurring as central bank independence is tested. This [new order](#) - defined by persistent macro volatility, politicised capital flows and unstable inflation dynamics - demands a rethinking of portfolio construction.

The once reliable **60/40 equity-bond mix** may be ill-suited to this macro environment. Bond volatility is elevated, bonds' correlations with equities have turned positive, and the efficient frontier has flattened. In practical terms, investors must either accept higher risk for the same returns or [recalibrate expectations](#). Against this backdrop, resilience is built by balancing exposures across distinct risk drivers, rather than by adding a single uncorrelated asset, so that setbacks in one sleeve do not overwhelm the whole.

Fragmentation also creates dispersion and, with it, opportunity. Narrow index leadership and widening valuation spreads favour [active management](#), where selectivity, sector insight and regional breadth can convert heterogeneity into alpha in ways that passive exposure cannot. At the same time, [the dollar's defensive halo has dimmed](#), making currency policy a deliberate component of portfolio risk governance: [what to hedge, when, and how much](#) becomes an explicit decision rather than a convention.

Selective exposures to **real and private assets** can enhance portfolio returns and diversification. Investors able to take on illiquidity can access cashflow profiles and secular themes that public markets may not fully capture, including the buildout of digital and energy infrastructure and the rewiring of supply chains.

Portfolio defence must evolve. Bonds alone no longer suffice as a safe-haven and investors can benefit from a broader toolkit: dynamic **duration management**, explicit **downside protection**, [alternative risk premia](#) such as absolute return or market-neutral strategies, and wealth preservation assets such as **gold**. The latter, once set aside by many, has regained strategic importance as a hedge against fiscal dominance, currency debasement and geopolitical uncertainty.

The implication is straightforward: portfolios built for a stable, disinflationary world need broader sources of return and a more diversified defence. Asset allocation should shift from static and backward looking to adaptive and **forward looking** - linking macro regimes to implementation across public and private markets. The goal is not to anticipate every turn, but to remain prepared for many.



The end of easy 60/40

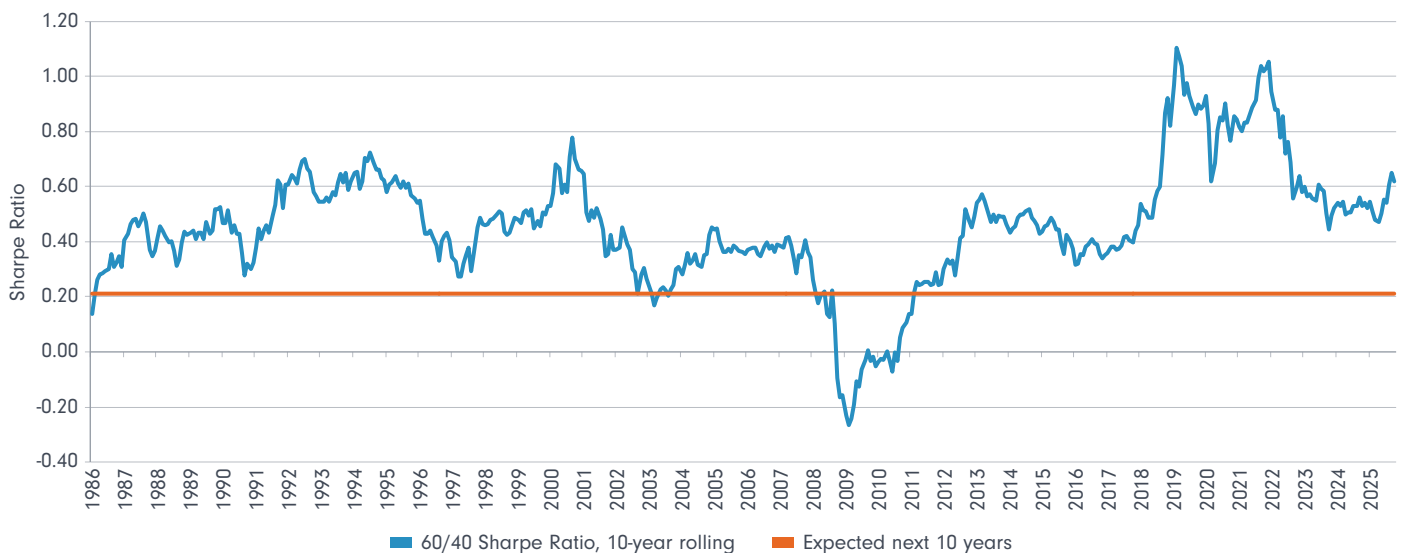
For decades, the 60/40 portfolio embodied simplicity: equities for growth, bonds for ballast. However, this elegant symmetry has fractured. Inflation volatility, supply-chain localisation, and higher fiscal intervention have redrawn the risk-return landscape.

The last few years have made this rupture visible. Since 2020, global 60/40 portfolios have suffered some of their worst drawdowns in decades, exposing their dependence on the deflationary tailwinds of globalisation and central bank credibility. The debate over **Federal Reserve independence** - once unthinkable - highlights how the boundary between monetary and fiscal policy is eroding, injecting greater uncertainty into the bond-equity relationship.

As correlations rise, investors face a world where **risk is more circular than linear**. Equities and bonds now move together in downturns, while volatility spikes propagate across asset classes.

On our forward estimates, a global 60/40 portfolio should return roughly **5.2% per year in USD** over the coming decade. This pales in comparison to the 8.2% annual return it has realised over the past 10 years. The strategy's Sharpe Ratio is also expected to fall to **0.21**, less than half its historical average (Figure 1). The easy diversification gains of the past 15 years are gone; in their place stands a more complex, multi-dimensional world that demands active adaptation.

Figure 1: We expect a material fall in 60/40's Sharpe Ratio versus history



For illustrative purposes only.

Source: Bloomberg, Fidelity International, 31 October 2025. 10-year rolling returns (using monthly total returns) for the period 1976-2025, based on a portfolio consisting of 60% MSCI World and 40% Global Aggregate bonds. US Aggregate bonds prior to 1990, Global Aggregate afterwards.



Designing an asset allocation fit for a fragmenting world

To equip investors with the tools to meet their objectives in the current market environment, we focus on two main objectives:

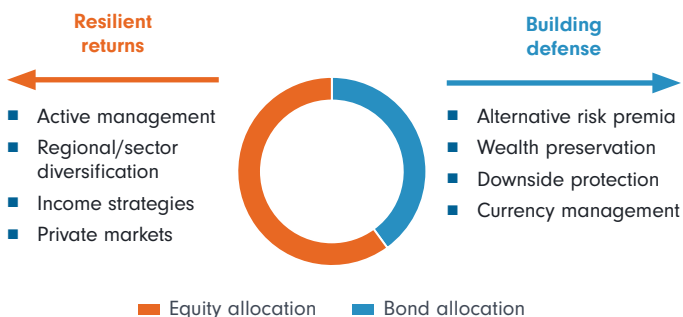
1. **Generate resilient, attractive returns** when leadership is narrow and dispersion is high.
2. **Build defence that works** in a regime where bond-equity return correlations can turn positive.

Our research indicates that there are six key actions that investors should take to ensure that their asset allocation can cope with today's challenges. Each of these are discussed in more detail later in this paper:

1. [Put active management to work](#)
2. [Spread risk across regions and sectors](#)
3. [Add income as a diversifier](#)
4. [Broaden the opportunity set beyond public markets](#)
5. [Build defence fit for the new regime](#)
6. [Manage currency as a core risk lever](#)

These six actions follow a single design logic for today's regime. With equity-bond correlations prone to turning positive and market leadership narrow, portfolios need multiple return drivers and layered defence, rather than a reliance on duration alone. Active management is used to convert dispersion into alpha, regional and sector balance mitigates index concentration, income adds durable carry, and private markets supply differentiated cash flows and access to secular themes. Meanwhile, defence shifts to dynamic duration, downside protection and [alternative risk premia](#), and currency is treated as an explicit risk lever as the dollar's defensive profile evolves.

Figure 2: A toolkit for portfolio design in the current macro environment

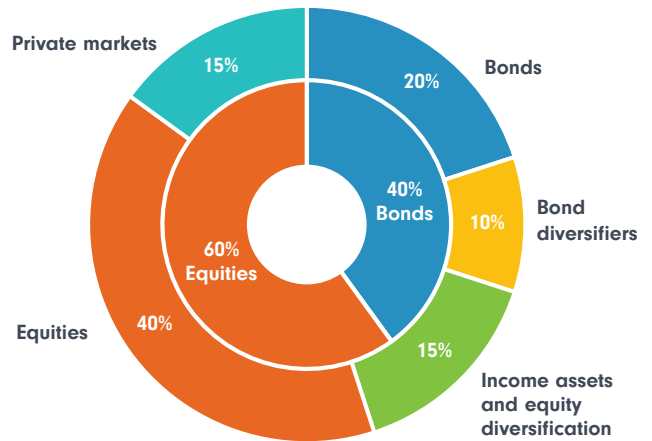


For illustrative purposes only.

Source: Fidelity International, December 2025.

By combining these actions, we can create a stylised example asset allocation fit for a fragmenting world. This new portfolio incorporates 15% in private markets and 25% in both additional risk premia and diversifying strategies (Figure 3). The result is a reduced reliance on bonds as portfolio ballast and a broader opportunity set for return generation across growth assets.

Figure 3: Modern diversification can help address tomorrow's challenges



	60/40	Asset allocation for a fragmenting world
Expected 10-year return	5.2%	7.4%
Volatility	10.2%	10.0%
Sharpe ratio	0.21	0.44

For illustrative purposes only.

Source: Fidelity International, 31 October 2025. 60/40 portfolio assumed to be managed using index-tracker funds. Diversified asset allocation including Fidelity active management assumptions, gross of fees.



1. Put active management to work

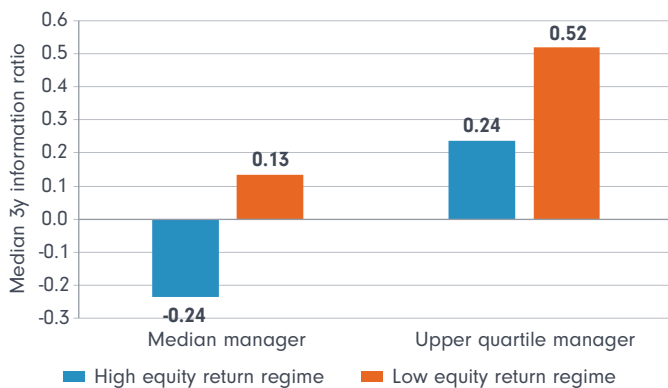
The past few years have been characterised by stellar equity market returns, mainly fuelled by a tech-driven rally. The promise of AI productivity gains is substantial and equity valuations can be justified, even at current levels, if corporate earnings growth (and in tech in particular) remains strong.

However, the equity market has become extremely concentrated. The 10 largest stocks in the S&P 500 Index now account for close to 40% of its capitalisation and earnings, and 50% of its volatility. Even a small downgrade to AI-related earnings expectations could have a disproportionate effect on the market's overall returns.

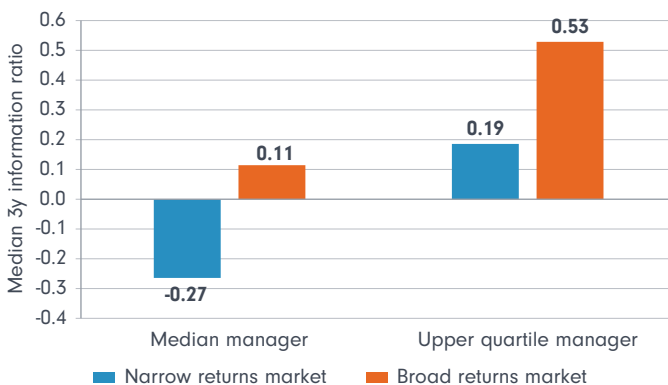
This exposes investors to a significant stock-specific and thematic risk. Identifying and taking advantage of opportunities within and across regions is increasingly important.

Figure 4: New regime favours active management

Low equity return regimes associate with higher information ratio



Broadening equity markets associated with higher information ratio



For illustrative purposes only.

Source: Bloomberg, Morningstar, Fidelity International, 31 March 2025. Based on US equity gross of fees data for the 1990-2025 period. Using three-year rolling holding period for information ratio calculation. High/Low equity return regimes defined as three-year return being over/under full sample median level. Narrow/Broad returns market defined as three-year return on S&P 500 equal-weighted index being under/over S&P 500 cap-weighted index return over the same period.

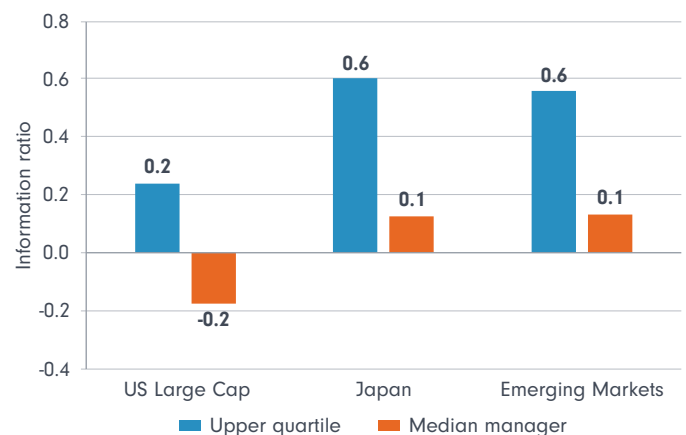
This new regime favours **skill over scale**. Narrow market leadership and elevated cross-sectional dispersion raise the potential payoff to active management. Historically, **information ratios**, a measure of manager skill per unit of risk, improve significantly in subdued equity markets and high-dispersion environments. When beta no longer guarantees returns, alpha matters more (Figure 4).

Thematic rotation, regional divergence, and shifting cost structures are creating fertile ground for differentiating performance. For allocators, this means expanding **manager breadth** - incorporating a wider range of styles, geographies, and approaches - to capture uncorrelated alpha streams within the portfolio's growth sleeve.

Delivering portfolio outcomes requires disciplined, targeted risk budgeting. Active positions raise total portfolio risk, so the risk budget should be directed to regions and sectors where conviction is highest and the ex-ante odds of alpha generation are strongest. On a regional view for example, information ratios in the US have been materially lower than those in emerging markets and Japan; that argues for higher conviction thresholds in the US and a risk budget that reflects the differing probability of success across markets (Figure 5). More broadly, active risk should be borne and managed deliberately at each level of implementation, with a broader toolkit used to diversify and protect portfolios.

Figure 5: Risk budget should target best opportunities

Last five years average information ratio



For illustrative purposes only.

Source: Morningstar, Fidelity International, five years to 31 March 2025, gross of fees. Information ratio holding period is three years.

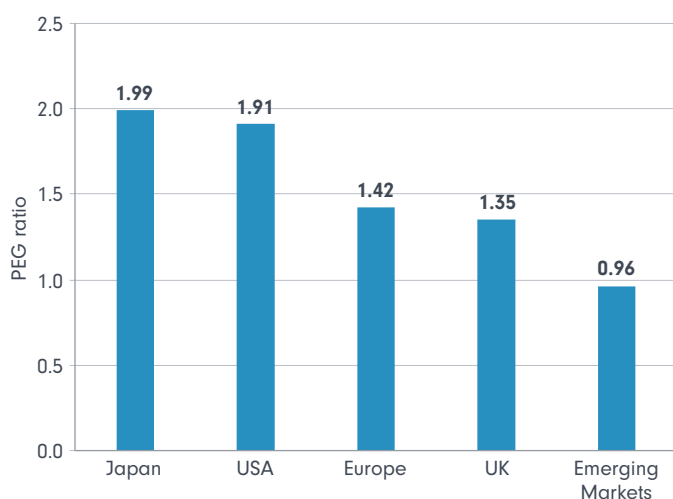
2. Spread risk across regions and sectors

Intertwined with active management, the ability to diversify across a wider set of differentiated risk premia will be key to increasing portfolio robustness. Modern diversification is less about adding assets and more about balancing the right exposures correctly.

Regional and sector balance matters more amid fragmentation that widens dispersion beneath concentrated US leadership. **Europe** is rebuilding, with recovery funds and green-industrial policy catalysing investment, while the region's equity mix (heavy in financials and industrials) offers exposure to attractive capex cycles, onshoring trends and energy-transition activity. **Japan's** governance reforms are translating into better capital discipline, buybacks and higher shareholder returns. **Emerging markets** are no longer a simple commodities proxy, but tilt more towards information technology and financials, with Taiwan, Korea and India central to the AI-hardware build-out. The objective is not to back a single region but to hold a mix of exposure to different policy paths, sectors and cash-flow profiles.

One way to measure relative value across regions is by the so called "PEG" ratio. This metric divides each country's price-to-earnings multiple by its expected earnings growth, thus taking into account that high-growth markets tend to trade at higher multiples (Figure 6).

Figure 6: PEG ratios are attractive across many regions outside US



For illustrative purposes only.

Source: Datastream, Fidelity International, 31 October 2025.

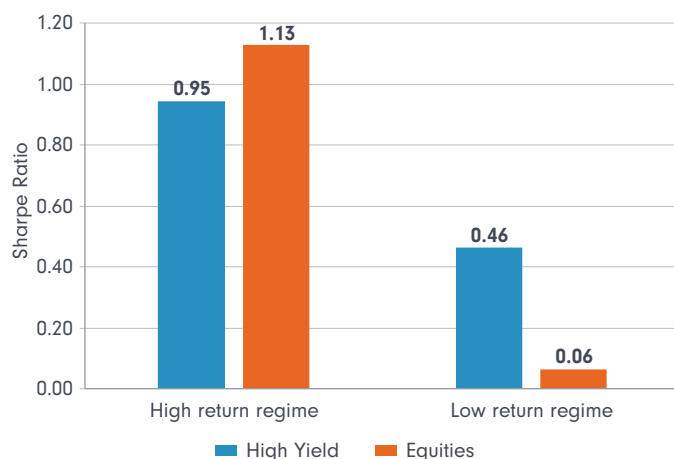


3. Add income as a diversifier

In an environment of lower equity returns and elevated interest rates, income strategies, such as those involving high yield bonds, become more attractive (Figure 7). This is especially true in context of their ability to act as diversifiers of equity risk within broader portfolios. That said, valuations remain elevated across all markets at present, including high yield, which makes it important to take a dynamic approach to asset allocation in this area.

Figure 7: High yield allocations can be particularly attractive in lower-return environments

Median Sharpe Ratio in high/low equity return regimes



For illustrative purposes only.

Source: Bloomberg, Fidelity International, 31 March 2025. Regimes using five-year rolling equity return being over/under the median five-year equity return for the full sample. Using monthly returns for the period 1987-2025 on S&P 500 and ICE BofA US High Yield index.

4. Broaden the opportunity set beyond public markets

Private markets can provide access to **structural growth and differentiated cash flows** that complement listed beta and liquid alternatives. They remain a cornerstone for investors seeking long-term, illiquidity-based return premia. Beyond return enhancement, they provide **exposure to secular transformations** that public markets only partially capture: the digital infrastructure behind AI, renewable energy, grid modernisation, and resilient logistics.

Infrastructure investments offer measured exposure to themes like power availability and fibre connectivity, both critical bottlenecks in the next productivity cycle. Private credit remains a valuable diversifier, though **rising defaults** demand selectivity and strong restructuring capability. Opportunities are also being created in real estate as corporates seek to reconfigure supply chains and logistics networks for resilience over efficiency.

A **diversified private allocation** spanning equity, credit, and real assets can materially improve portfolio robustness, even at modest weightings, by introducing return drivers less correlated with public-market cycles.

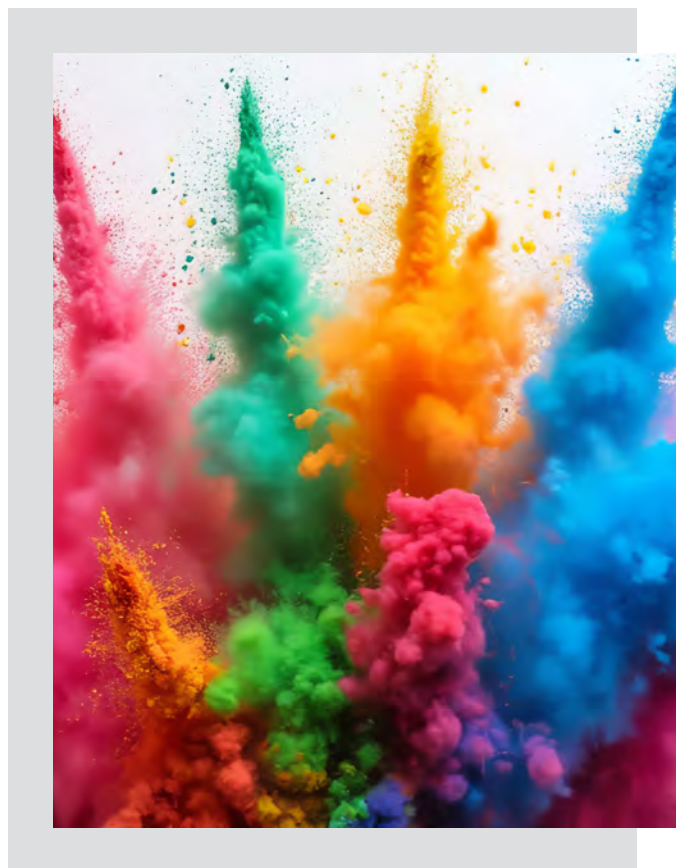
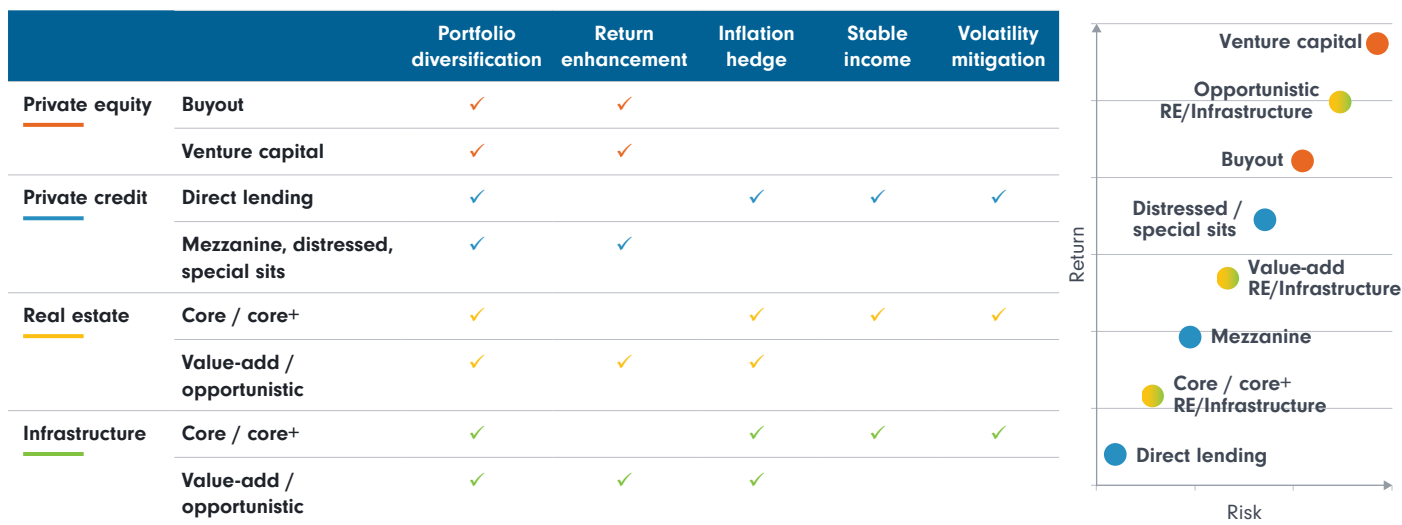


Figure 8: Private assets offer a diverse set of risk premia and use cases



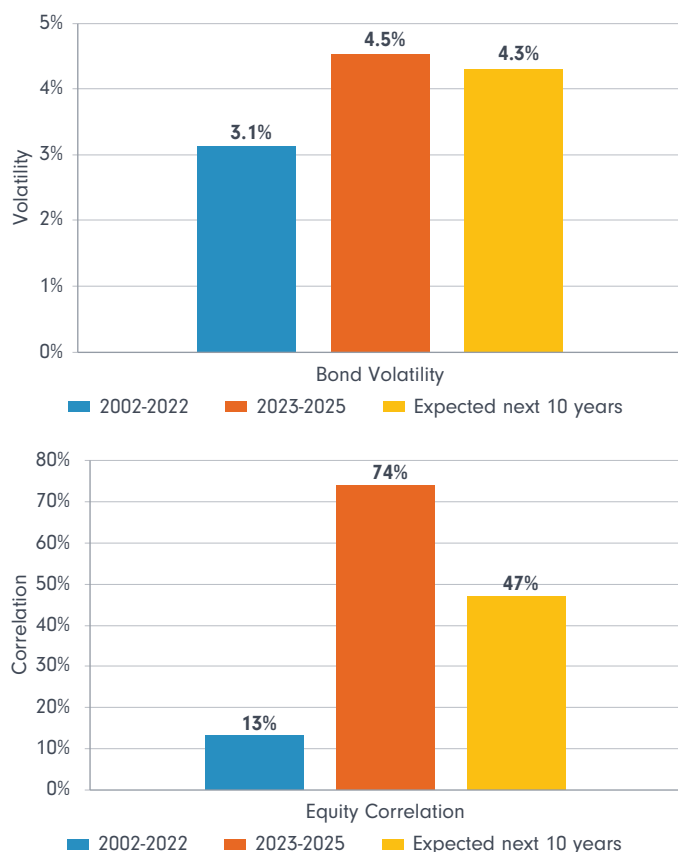
For illustrative purposes only.

Source: Fidelity International, December 2025.

5. Build defence fit for the new regime

Bonds will continue to play a role in portfolios, but not as solitary defenders. Higher inflation volatility and fiscal activism have raised bonds' volatility and correlation to equities (Figure 9). Defensiveness must therefore become more multi-layered.

Figure 9: Investors will need to expand defensive options beyond just bonds



For illustrative purposes only.

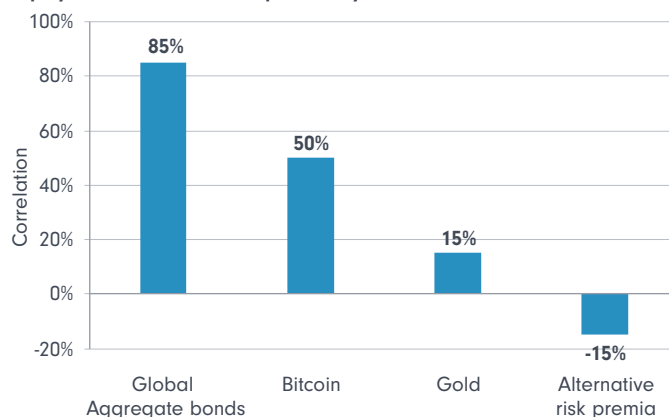
Source: Bloomberg, Fidelity International, 31 October 2025. Bonds: Bloomberg Global Aggregate index; Equities: MSCI World index.

Investors should combine **duration management with wealth preservation** strategies such as gold and selective **option-based downside protection**. **Alternative risk premia** such as absolute return and market-neutral strategies, which rely on manager skill and structural inefficiencies, can also offer valuable diversification benefits for when traditional beta fails. Looking back over the past five years, gold and alternative risk premia have also proven valuable as diversifiers of equity risk (Figure 10).

Short-duration credit, meanwhile, offers tactical flexibility. With investment-grade spreads near cycle tight the probability of strong credit excess returns is low, but shorter-maturity bonds are more likely to deliver positive real returns than their longer-duration equivalents through volatile rate environments.

Figure 10: Gold and alternative risk premia have provided equity diversification

Equity correlation over the past five years



For illustrative purposes only.

Source: Bloomberg, Fidelity International, 31 October 2025. Correlations based on monthly returns for the past five years, versus the MSCI World Index.

6. Manage currency as a core risk lever

The profound changes rippling through the financial landscape are reshaping [US dollar exchange rate dynamics](#). US trade policy is challenging capital recycling and central banks are diversifying their reserves, both of which suggest that the dollar's exceptionalism will falter even if its dominance persists. Even after its decline in 2025, the dollar is still richly valued; it has also become less reliable as a defensive asset.

We believe these changes could impact the risk-return profiles of US assets for non-US dollar investors. Hedge ratios should be re-evaluated and may need to be increased to achieve the same investment outcomes. A disciplined hedging framework can lower portfolio volatility, diversify defensiveness and reduce US dollar concentration risk, while preserving flexibility across regimes.



Spotlight on wealth preservation and the role of gold

In an age of fiscal strain and geopolitical uncertainty, investors are reconsidering what constitutes true wealth preservation. **Bitcoin** has attracted attention, but its behaviour remains more akin to high-beta equity than to a store of value. Gold, by contrast, has reasserted its role as **a hedge against systemic risk**.

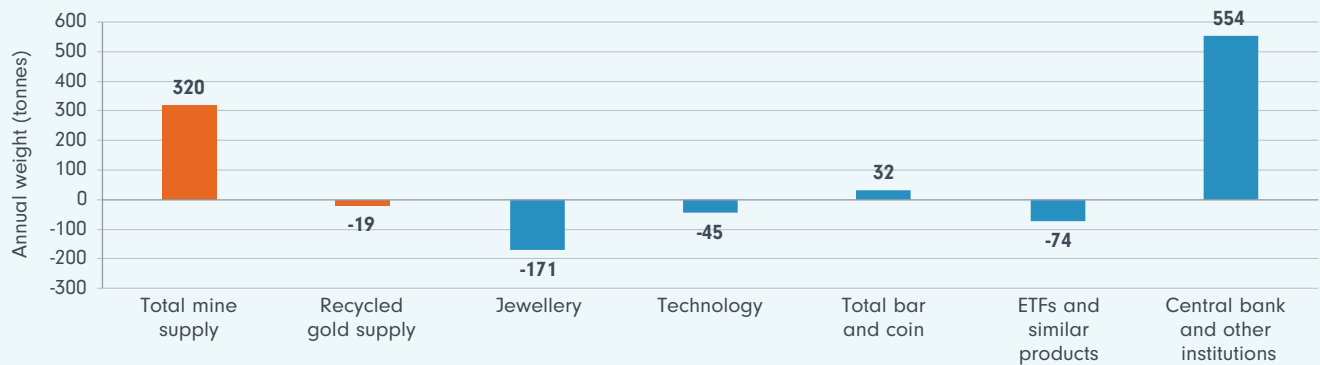
Gold lacks a proven risk premium and is not part of our long-term strategic asset allocation. However, it can still be beneficial to portfolio design over the medium term as a way of expressing thematic views such as those concerning currency debasement, geopolitical and debt sustainability risks.

Between 2005 and 2021, gold markets were primarily driven by price-sensitive investors, as central bank purchases remained relatively modest. This period reinforced the inverse relationship between real yields and gold prices, where inflation protection and carry costs were dominant factors.

However, following the 2022 freezing of Russian foreign reserves and the subsequent spike in geopolitical tensions after the 2024 US presidential election, many emerging market central banks started increasing their gold acquisitions to diversify their reserve holdings. Given that supply is largely inelastic, expanding by only around 1.5% annually, this new demand (Figure 11) has contributed to sustained upward price pressure.

Figure 11: Central banks have been a key driver behind the gold rally

Change in gold supply/demand 2022-2025 vs 2010-2021



Source: World Gold Council, Fidelity International, 30 September 2025. Figures may not sum to zero as minor datasets not shown on chart for brevity.

We expect these dynamics to persist. As a percentage of total reserve assets, emerging market central banks still hold relatively modest levels of official gold reserves compared with developed markets (13% vs 32% respectively) and World Gold Council survey data indicates many central banks plan to increase their holdings (with no respondents expecting to decrease holdings).

From a portfolio construction perspective, incorporating a modest 5% allocation to gold, financed by reducing global aggregate bond exposure (creating a 60/35/5 portfolio), produces a minimal change to overall risk. Despite gold's volatility, its low correlation with traditional assets means it contributes less than 2% to total portfolio risk, making it an attractive diversifier in an uncertain macro environment where inflation and geopolitical risks persist.

Figure 12: 5% allocation to gold has materially improved portfolio returns

		Return	Volatility	Sharpe Ratio	Gold - risk contribution	Bonds - risk contribution	Gold-equity return correlation	Bond-equity return correlation
Last 5y	60/40	9.5%	10.6%	0.61	0%	14%	14.1%	68.5%
	60/35/5	10.4%	10.6%	0.69	2%	12%		
1990-2025	60/40	7.1%	9.4%	0.45	0%	5%	9.0%	19.2%
	60/35/5	7.2%	9.4%	0.46	2%	4%		

For illustrative purposes only.

Source: Bloomberg, Fidelity International, 31 October 2025. Bonds: Bloomberg Global Aggregate index; Equities: MSCI World index.

Future-proofing asset allocation for a fragmenting world

Globalisation's tailwinds have reversed amid strategic fragmentation. Policy is more interventionist; inflation dynamics more unstable, and macroeconomic volatility is persistently elevated. In this regime, the once-reliable 60/40 asset allocation strategy loses its defensive core: bond volatility is higher and equity-bond correlations often turn positive.

Return generation and resilience must therefore be rebuilt on a broader footing. A resilient blueprint pairs diversified equity and bond sleeves with a wider array of alternative risk premia, reducing reliance on duration as the dominant diversifier. For example, income strategies are more compelling given higher rates, while narrow market leadership and rising dispersion raise the payoff to active management, with greater regional and sector breadth required to manage concentration risk.

A scenario-based, macro-weighted CMA process should be used to link market regime context to portfolio implementation, prioritising adaptability and robustness across multiple potential medium-term pathways.

Implementation should also expand beyond core beta. Private markets offer differentiated cash flows and access to secular themes such as AI-related infrastructure, the energy transition and supply-chain resilience. Infrastructure and selective private credit provide targeted exposures, while real estate can benefit from logistics reconfiguration.

Acquiring defensiveness becomes a more multi-layered pursuit involving a wider array of investments: dynamic duration in place of static ballast, allocations which can deliver explicit downside protection, absolute return and market-neutral strategies, and tactical use of short-duration credit.

Strategic currency decisions are also becoming more important as the dollar's defensive profile evolves - gold has reasserted its portfolio value amid centralbank demand and increased geopolitical risk; a modest allocation can improve diversification.



Important Information

This material is for Institutional Investors and Investment Professionals only, and should not be distributed to the general public or be relied upon by private investors.

This material is provided for information purposes only and is intended only for the person or entity to which it is sent. It must not be reproduced or circulated to any other party without prior permission of Fidelity.

This material does not constitute a distribution, an offer or solicitation to engage the investment management services of Fidelity, or an offer to buy or sell or the solicitation of any offer to buy or sell any securities in any jurisdiction or country where such distribution or offer is not authorised or would be contrary to local laws or regulations. Fidelity makes no representations that the contents are appropriate for use in all locations or that the transactions or services discussed are available or appropriate for sale or use in all jurisdictions or countries or by all investors or counterparties.

This communication is not directed at, and must not be acted on by persons inside the United States. All persons and entities accessing the information do so on their own initiative and are responsible for compliance with applicable local laws and regulations and should consult their professional advisers. This material may contain materials from third parties which are supplied by companies that are not affiliated with any Fidelity entity (Third-Party Content). Fidelity has not been involved in the preparation, adoption or editing of such third-party materials and does not explicitly or implicitly endorse or approve such content. Fidelity International is not responsible for any errors or omissions relating to specific information provided by third parties.

Fidelity International refers to the group of companies which form the global investment management organization that provides products and services in designated jurisdictions outside of North America. Fidelity, Fidelity International, the Fidelity International logo and F symbol are trademarks of FIL Limited. Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client.

Europe: Issued by FIL Pensions Management (authorised and regulated by the Financial Conduct Authority in UK), FIL (Luxembourg) S.A. (authorised and supervised by the CSSF, Commission de Surveillance du Secteur Financier), FIL Gestion (authorised and supervised by the AMF (Autorité des Marchés Financiers) N°GP03-004, 21 Avenue Kléber, 75016 Paris) and FIL Investment Switzerland AG.

UAE: The DIFC branch of FIL Distributors International Limited is regulated by the DFSA for the provision of Arranging Deals in Investments only. All communications and services are directed at Professional Clients and Market Counterparties only. Persons other than Professional Clients and Market Counterparties, such as Retail Clients, are NOT the intended recipients of our communications or services. The branch is established pursuant to the DIFC Companies Law, with registration number CL2923, as a branch of FIL Distributors International Limited, registered in Bermuda. FIL Distributors International Limited is licensed to conduct investment business by the Bermuda Monetary Authority.

In Hong Kong, this material is issued by FIL Investment Management (Hong Kong) Limited and it has not been reviewed by the Securities and Future Commission. FIL Investment Management (Singapore) Limited (Co. Reg. No: 199006300E) is the legal representative of Fidelity International in Singapore. This document / advertisement has not been reviewed by the Monetary Authority of Singapore.

In Taiwan, Independently operated by Fidelity Securities Investment Trust Co. (Taiwan) Limited 11F, No.68, Zhongxiao East Road, Section 5, Taipei 110, Taiwan, R.O.C. Customer Service Number: 0800-00-9911.

In Korea, this material is issued by FIL Asset Management (Korea) Limited. This material has not been reviewed by the Financial Supervisory Service, and is intended for the general information of institutional and professional investors only to which it is sent.

In China, Fidelity China refers to FIL Fund Management (China) Company Limited. Investment involves risks. Business separation mechanism is conducted between Fidelity China and the shareholders. The shareholders do not directly participate in investment and operation of fund property. Past performance is not a reliable indicator of future results, nor the guarantee for the performance of the portfolio managed by Fidelity China.

Issued in Japan, this material is prepared by FIL Investments (Japan) Limited (hereafter called "FIJ") based on reliable data, but FIJ is not held liable for its accuracy or completeness. Information in this material is good for the date and time of preparation, and is subject to change without prior notice depending on the market environments and other conditions. All rights concerning this material except quotations are held by FIJ, and should by no means be used or copied partially or wholly for any purpose without permission. This material aims at providing information for your reference only but does not aim to recommend or solicit funds / securities.

For information purposes only. Neither FIL Limited nor any member within the Fidelity Group is licensed to carry out fund management activities in Brunei, Indonesia, Malaysia, Thailand and Philippines.

GCT251143GLO

