

# 7 myths of asset allocation

**BlackRock**

Rethinking what we know about building and managing multi-asset portfolios



For decades, diversification and static portfolio mixes like the classic “60/40” have been treated as near-sacred rules of investing. Yet, the past few years have shown that many of these long-held beliefs don’t hold up under today’s shifting market dynamics. Growth or inflation shocks, synchronized asset sell-offs, fiscal and monetary policy divergence, and changing data relationships have in the past few years all challenged conventional wisdom and exposed gaps in how investors think about portfolio resilience, risk, and return.

In this piece, we unpack common myths we frequently come across about asset allocation. From the limits of diversification to the evolving role of cash, from misjudged correlations to misunderstood macro-opportunities, we reveal how modern markets demand more adaptability, analytical rigor, and tactical flexibility than ever before.

Our goal is not to dismiss traditional frameworks, but to redefine what robust asset allocation looks like and **highlight how an active, dynamic, data-driven approach can help investors navigate the new investment landscape.**



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## Myth #1

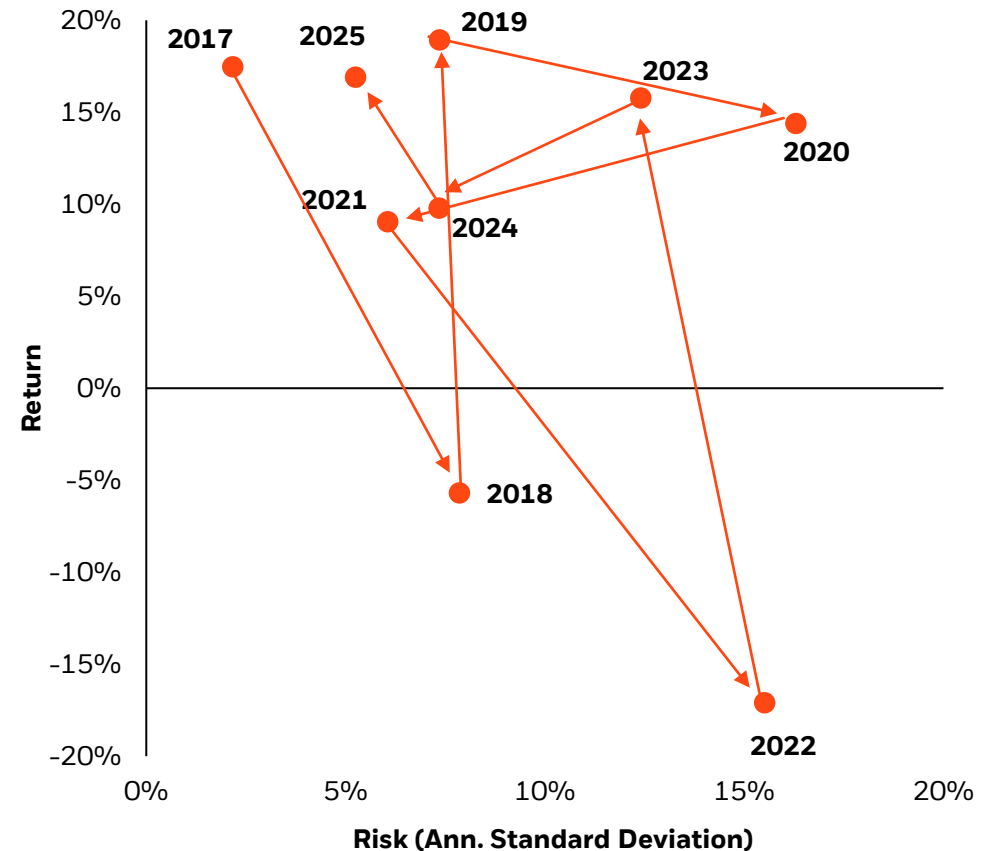
### A 60/40 portfolio always works

The traditional 60/40 portfolio is often regarded as a stable, balanced allocation – yet its realized behavior tells a very different story.

The chart on the right illustrates how its annual risk and return fluctuate widely over time, revealing that a “static” mix is anything but static. Each point represents a year’s outcome, with arrows tracing the evolution through the cycle.

The pattern highlights how shifts in inflation, policy regimes, and asset correlations reshape both risk and return. In some years, like 2019 or 2023, the portfolio delivered strong returns with moderate volatility; in others, such as 2022, rising correlations between stocks and bonds undermined diversification and drove simultaneous losses.

Calendar year results of a 60/40 portfolio



Source: Bloomberg, BlackRock as of 31 December 2025. Reflects annual returns and risk for a hypothetical balanced portfolio consisting of 60% MSCI All Country World Index and 40% Bloomberg Global Aggregate TR Index (unhedged) with monthly rebalancing. The figures shown relate to past performance. 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.

## Myth #2

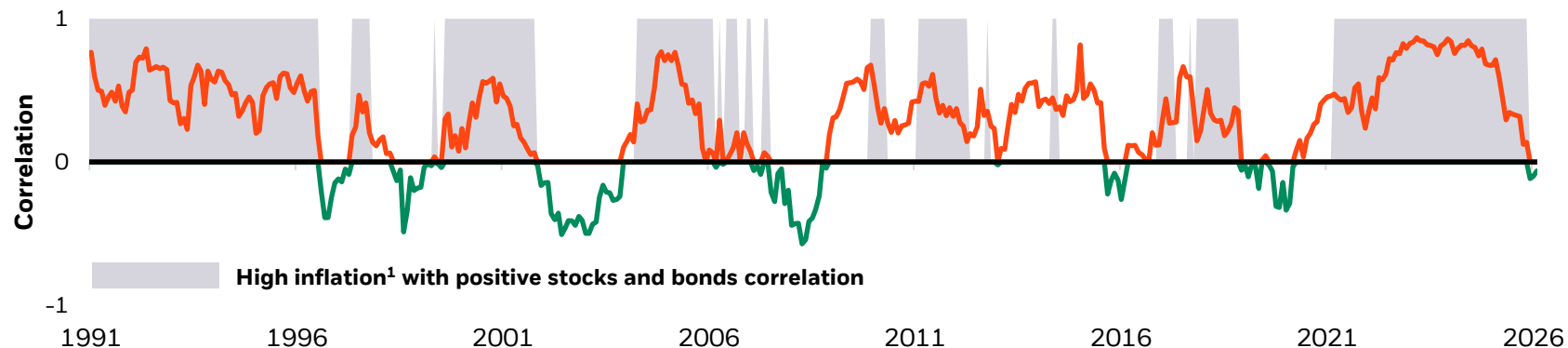
### Stocks and bonds consistently offset each other

Many investors assume that equities and bonds reliably move in opposite directions, providing steady diversification. In practice, this relationship evolves across economic regimes, reflecting shifts in growth dynamics, policy stances, and inflation trends.

Within these broader cycles - with inflation regimes playing a particularly important role - stock-bond correlations tend to rise during periods of above-target or volatile inflation and fall during more disinflationary phases. When inflation is elevated, both asset classes often respond negatively to tighter monetary policy and higher real yields, moving together and eroding diversification. Conversely, in low-inflation environments, bonds have typically cushioned equity drawdowns, restoring their diversifying power.

The takeaway: diversification between stocks and bonds is not constant but regime-dependent. Understanding these dynamics and looking beyond stocks and bonds is critical to building portfolios that remain resilient across cycles.

#### Rolling YoY correlation between MSCI ACWI Index and the Global Aggregate Index



Source: BlackRock with data from Bloomberg as of 28 February 2026

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<sup>1</sup> High inflation defined as US CPI above 2%

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## Myth #3

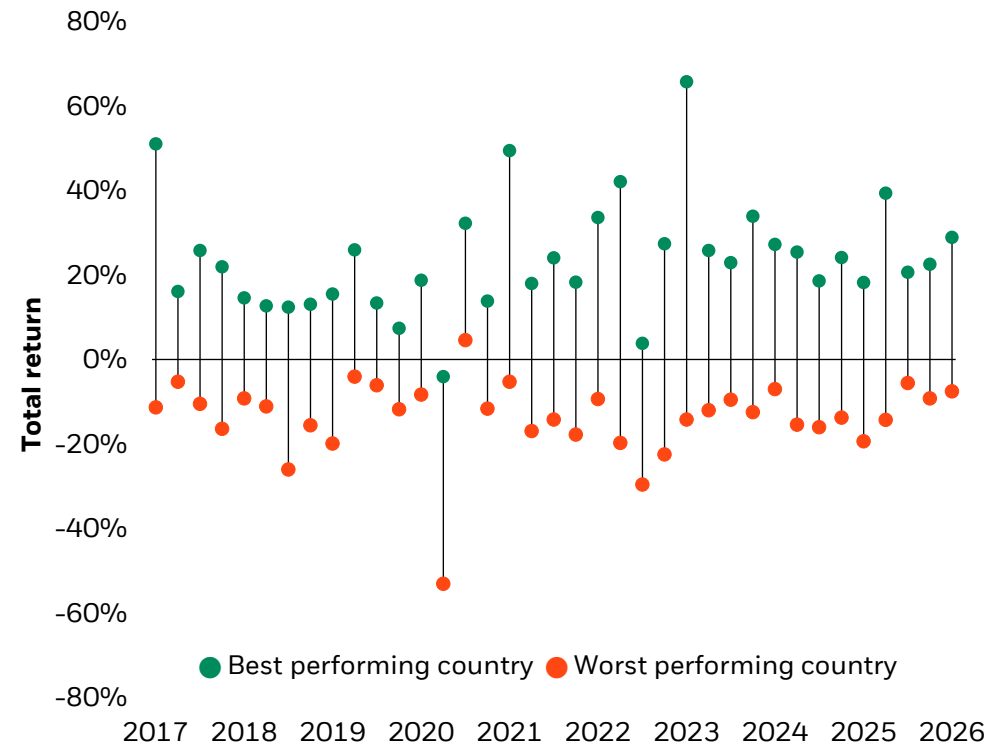
### Tactical investing is only about 'big calls'

Tactical asset allocation is sometimes mistakenly reduced to market beta timing – misrepresenting it as being primarily about bold, binary calls. In practice, effective tactical investing is about capturing relative opportunities across markets, sectors, or regions, particularly when return dispersion widens.

The chart on the right shows that the performance gap between the best- and worst-performing equity markets averages around 20–40 percentage points per quarter, highlighting a persistent and exploitable source of alpha.

Rather than focusing solely on predicting the next major market shift, successful tactical strategies emphasize identifying and capturing return dispersion – using dynamic positioning to capitalize on evolving market conditions and recurring dislocations. Or, from a resource-allocation point of view: why spend all your time on a single, binary long-or-short (and right-or-wrong) call when the world offers a far richer and more granular opportunity set?

Quarterly returns dispersion of MSCI ACWI index



Source: Bloomberg, BlackRock as of 31 January 2026. Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged, and one cannot invest directly in an index. Top and bottom countries representative of the best and worst performing country index within the MSCI All Country World Index (ACWI) for the respective quarter. Countries include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the UK, the US, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, South Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. The figures shown relate to past performance. 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.

## Myth #4

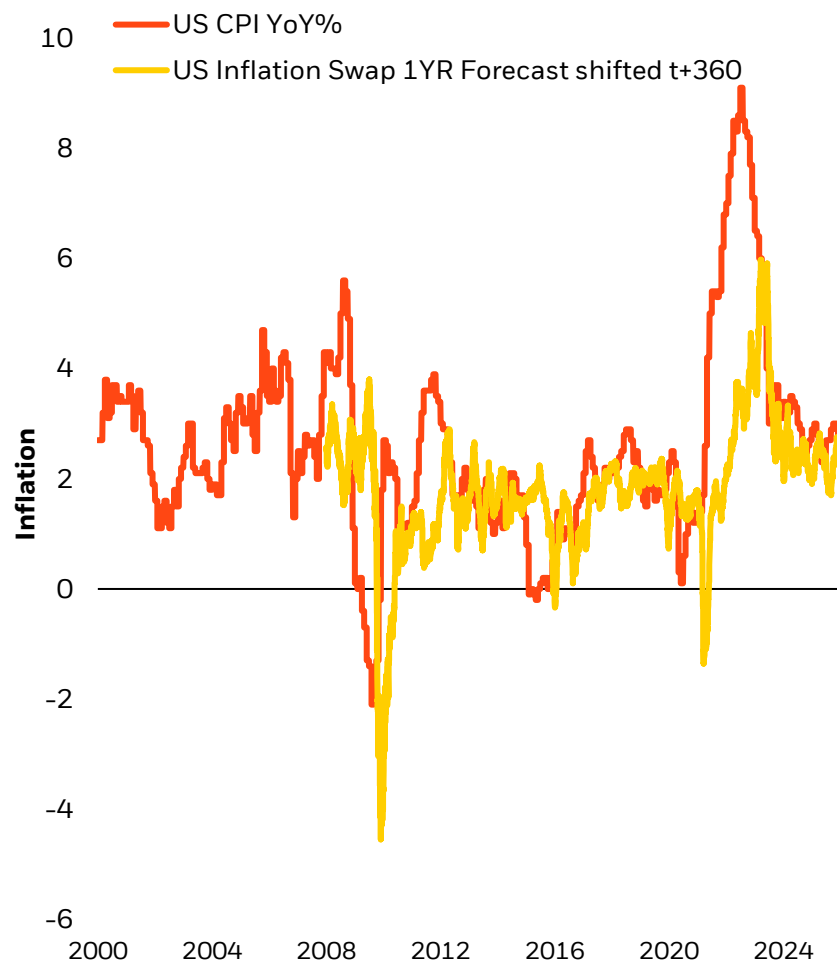
### Efficient markets leave no alpha

A common belief in efficient markets theory is that all available information is instantly priced in, leaving little room for active managers to uncover mispricing. Yet real-world data tells a different story. We look at inflation as one example. The chart on the right compares market-implied U.S. inflation expectations, derived from 1-year inflation swaps, with subsequent realized U.S. CPI inflation, with expectations shifted forward by 360 days to enable a like-for-like comparison.

The divergence between expected and realized inflation highlights how markets repeatedly misjudge the inflation path — at times extrapolating temporary shocks, and at others underestimating persistence in underlying price dynamics. Even in deep, liquid, and information-rich markets such as U.S. inflation derivatives, forward pricing often reflects prevailing narratives and risk sentiment rather than an unbiased forecast of future outcomes.

For active investors, such dislocations represent genuine alpha opportunities. Far from disappearing, market inefficiencies continue to evolve, rewarding those with the analytical depth and discipline to identify and exploit them.

#### US realized vs. forecasted inflation



Source: BlackRock, Bloomberg. Forward Inflation Expectations are derived from US 1YR Inflation Swaps which are shifted by t+360 days. As of 10 March 2026.

## Myth #5

### Cash doesn't really impact returns

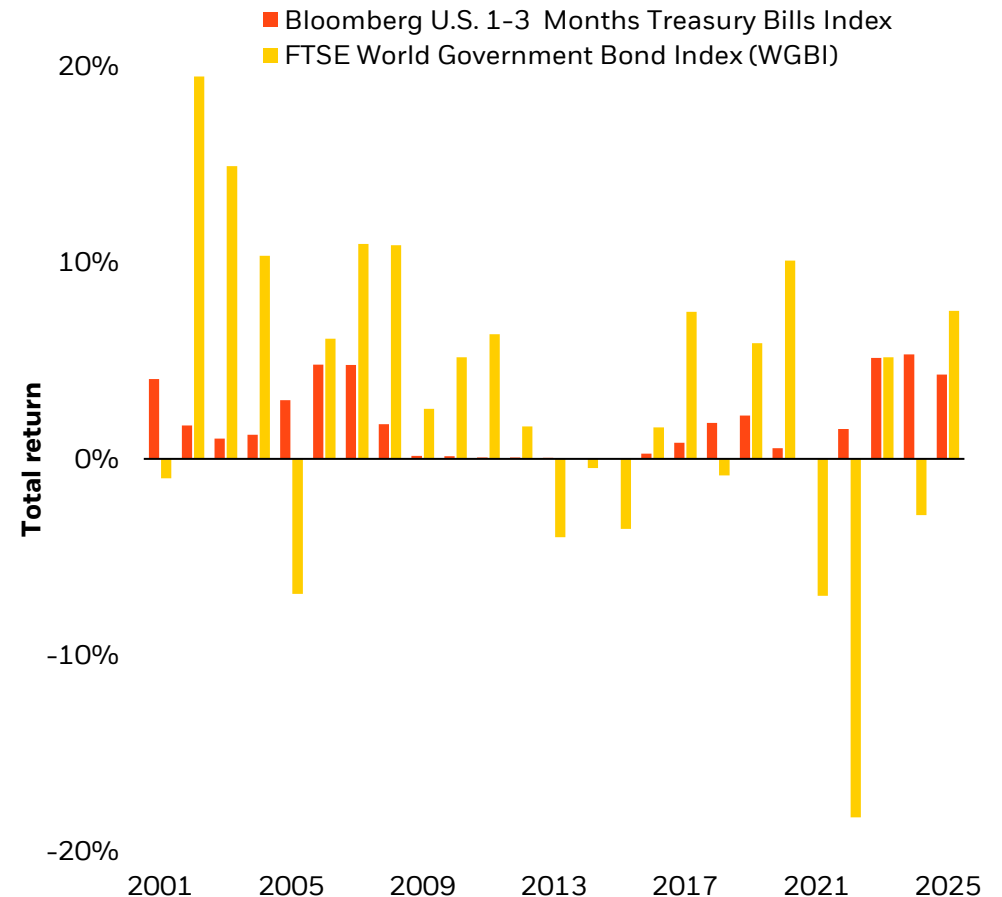
For much of the post-GFC decade, cash was considered a drag on performance — a placeholder earning near-zero returns while other assets did the heavy lifting. Yet the sharp shift in the rate environment has changed that narrative.

As the chart on the right illustrates, the total return on cash has periodically exceeded that of global government bonds, particularly during periods of market stress or rising yields.

When policy rates were anchored at the lower bound, holding cash meant accepting opportunity cost. Today, however, elevated short-term yields and the reduction of term-premium compensation have made cash a meaningful contributor to risk-adjusted returns. The decision of how to manage cash can now materially influence portfolio outcomes.

In short, cash is no longer a passive residual. In a world of higher volatility and shifting yield curves, cash management has become an active lever of portfolio construction rather than a mere parking spot.

#### Total return comparison: cash vs. global government bonds



Source: BlackRock, Bloomberg. As of 31 December 2025. Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

## Myth #6

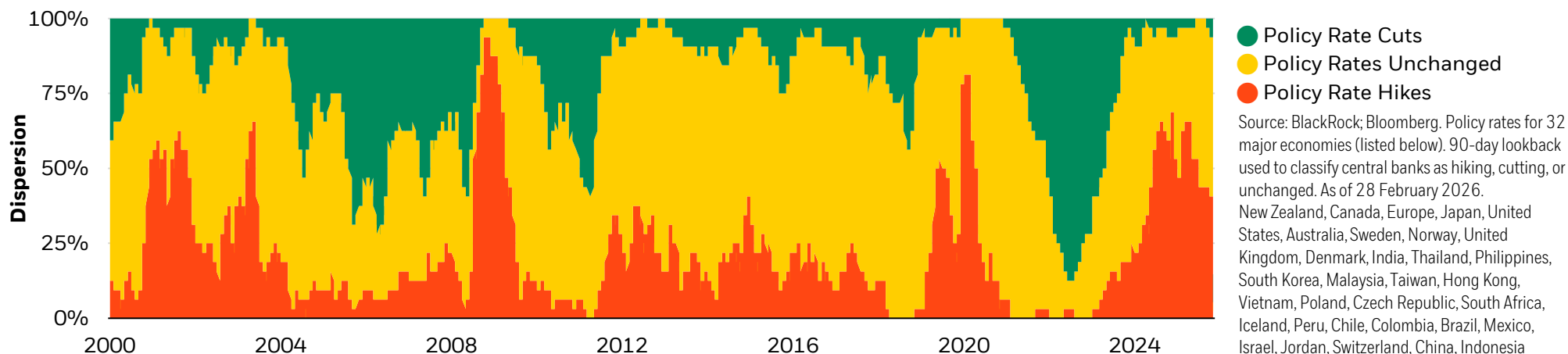
### Central bank cycles are well aligned globally

It's a common misconception that central banks around the world act in unison, moving policy rates in lockstep. In reality, monetary cycles often diverge substantially. The chart below shows the dispersion between the policy rates — a measure of how far apart central bank policies are at any point in time.

Periods of low dispersion, such as in the early 2010s, reflect broad synchronization around near-zero rates. By contrast, recent years have seen a sharp rise in dispersion as inflation dynamics, economic resilience, and policy priorities have varied widely across countries.

These divergences matter: asynchronous policy cycles create differentiation in yield curves, currencies, and local market performance, offering opportunities for active investors who can adjust exposures across regions in response to shifting monetary conditions.

#### Dispersion of global monetary policy rates



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## Myth #7

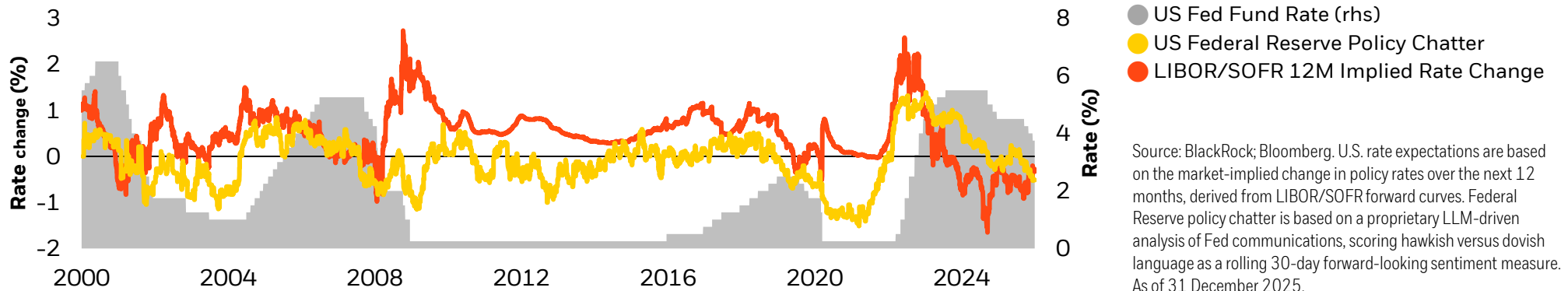
### Market prices are perfectly synchronized with sentiment

A common belief is that market pricing closely tracks market sentiment. This is sometimes not the case. One example is the divergence between market-implied rate expectations and central bank sentiment. The chart compares the market's expected change in U.S. policy rates over the next 12 months with an LLM-based measure of the Federal Reserve's forward-looking rate sentiment derived from its communications.

The comparison shows recurring gaps between market pricing and policymakers' messaging. At times, markets anticipate easing while Fed communication remains hawkish, as in the mid-2000s and ahead of the 2019 slowdown. In 2022–2023, markets repeatedly priced rate cuts even as Fed sentiment stayed firmly restrictive, underscoring its focus on inflation credibility.

These divergences matter for asset allocation. Market expectations are often driven by risk appetite and positioning, while central bank sentiment reflects mandates and reaction functions. Persistent disconnects can foreshadow policy surprises and volatility in duration-sensitive assets—showing that market prices alone are an incomplete guide to policy outcomes.

#### US market rate forecasts vs. Federal Reserve sentiment



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## Concluding thoughts

Across these 7 myths, one theme stands out: **markets evolve, and portfolios must evolve with them.** We've shown that diversification may not be constant, correlations may shift across regimes, and even traditional anchors like bonds or cash may behave differently as policy and inflation cycles change. True resilience comes not from static allocation but from adaptability, precision, and disciplined analysis.

**Active asset allocation is ultimately about engagement with change** — understanding when, why, and how market relationships evolve. Shorter- to mid-term opportunities — driven by shifts in macro regimes, policy divergence, market dispersion, and sentiment — can potentially offer incremental and diversified sources of return. Capturing these opportunities requires not just conviction, but the right knowledge, data, and tools to translate insight into action.

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