Allianz Global Investors

Multi asset explainer

How to deliver diversification

April 2025

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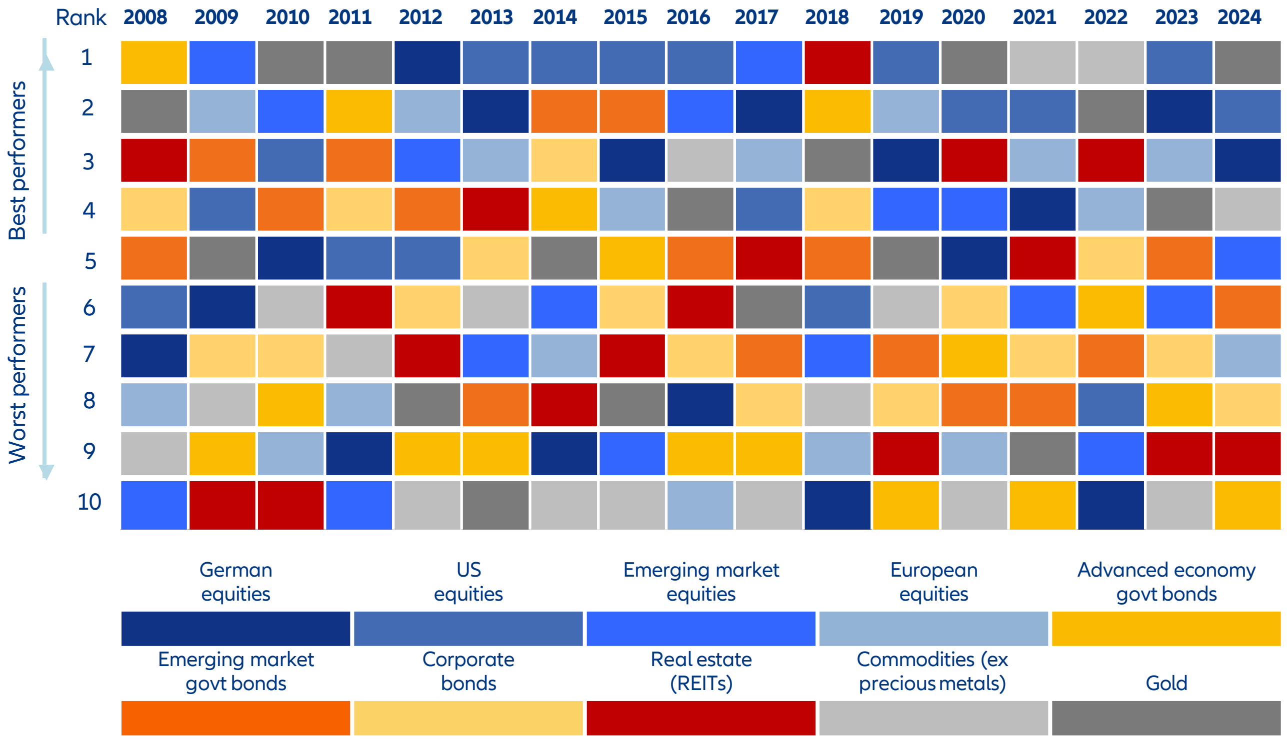
The power of multi asset

Designed to maximise potential gains and minimise risks

- When it comes to investing, a diversified portfolio can be a wise approach.
- Multi asset investments may offer a simple solution to diversification. Rather than investing in just equities or fixed income, they capture a range of asset classes, ranging from global equities to high yield bonds.
- A multi asset portfolio may also include alternative investments such as commodities, real estate investment trusts, private equity and catastrophe bonds. Typically, holdings range across countries and regions, delivering geographic diversification.
- Given that asset performance generally varies from year to year (see chart), the ability to shift in and out of asset classes as markets change is key.

Changes in asset performance show the value of a diversified approach

Performance of various asset classes ranked 1 to 10 each year



INVESTMENT TAKEAWAY
Multi asset is engineered to capture possible asset outperformance and mitigate downside risk

Past performance does not predict future returns. Chart source:: Datastream, Allianz GI Global Capital Markets and Thematic Research, Used Benchmarks: Germany: MSCI Germany TR, USA: MSCI USA TR, Equities Emerging Markets: MSCI EM TR, Equities Europe: MSCI Europe, Bonds Advanced Economies: JPM Global Govt. Bond Index TR, Bonds Emerging Markets: BofA Diversified EM External Debt Sov. Bond TR, Corporate Bonds: BofA ML Broad Corp. Index TR, Real Estate: BD Europace Hedonic House Price Composite Index NADJ, Commodities (ex. precious metal): S&P GSCI Non. Precious Metals TR, Gold: €/fine ounce, all indices in USD (TR = Total Return Index, NAV = Net Asset Value). Quarterly data expressed as quarter-over-quarter (q/q) changes. Data as of 2 January 2025, Housing Data as of 15 November 2024.

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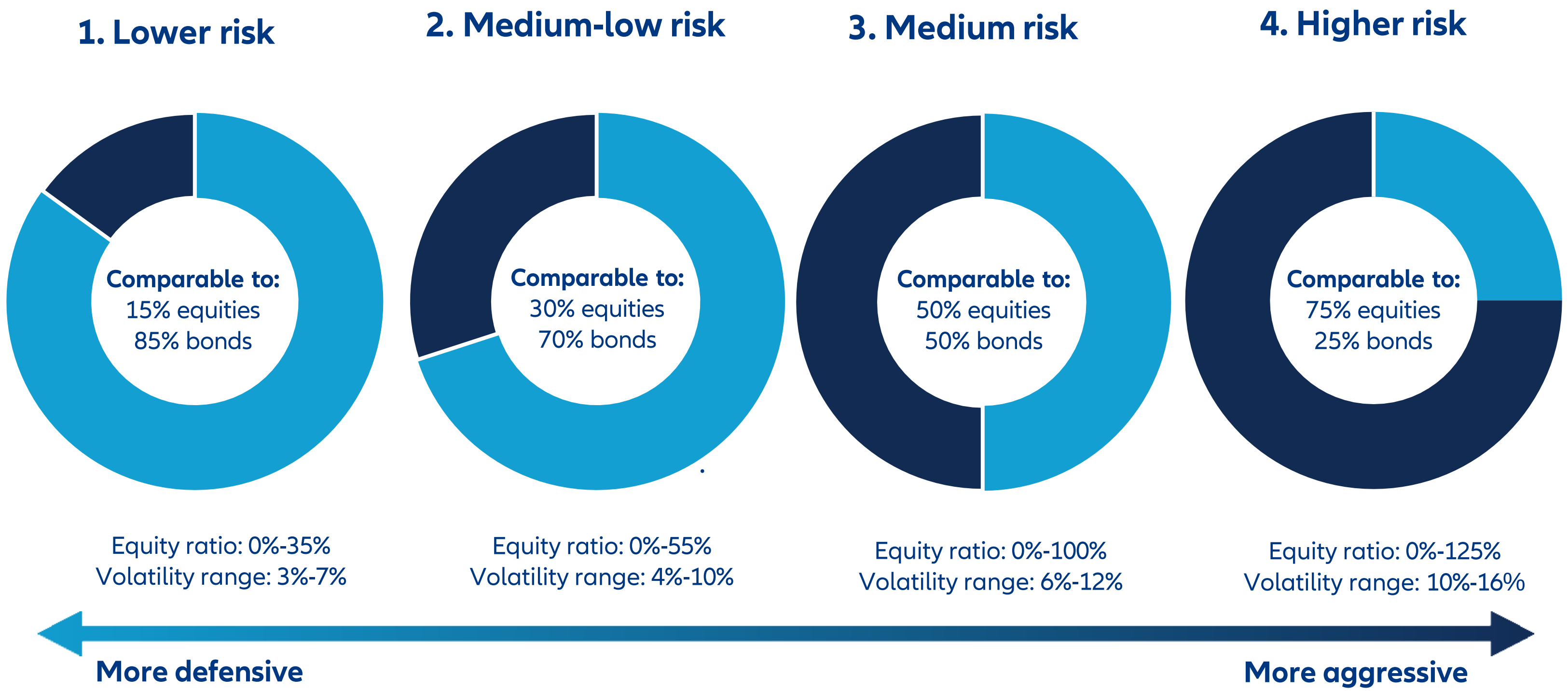
The starting point for multi asset

The appropriate choice of multi asset portfolio will depend on an investor's risk profile and return expectations

- Investors should consider how much risk they can tolerate and their return expectations.
- The investment time horizon is key: a longer-term investment period may be appropriate for investors who want to maximise potential gains.
- Multi asset gives investors the flexibility to match their risk appetite with their portfolio – from more defensive (eg, 85% in bonds) to more aggressive strategies (eg, 75% in equities) – see chart.
- Each portfolio is actively managed by a fund manager to balance the investments depending on market conditions to deliver on return and income objectives and control risk. Higher risk also tends to mean higher volatility.

Investors can match their risk appetite with their multi asset portfolio | Example portfolios



INVESTMENT TAKEAWAY

When choosing a multi asset portfolio, consider the time horizon for the investment and level of risk appetite

Diagram source: Allianz Global Investors, May 2024.

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Reasons to consider multi asset today

In a world at a crossroads, multi asset can help investors navigate the way forward

Shifting financial conditions call for agility from investors. Actively managed multi asset portfolios can pivot accordingly and help target pockets of potential outperformance. We see three reasons for investing in multi asset now:

1. Economies are diverging, creating opportunities

- Economic growth and interest rates differ across the US, Europe and Asia.
- The main economies are growing at different speeds, while inflationary pressures may prompt a rethink of interest rate paths – and investors may need to adjust their expectations.
- As economies follow different paths, so will asset classes, enabling multi asset investors to target the best performers.

2. Equities and bonds are starting to move in different directions again

- Multi asset offers exposure across asset classes usually anchored around an allocation to equities and bonds.
- The aim is that the asset classes perform differently: equities offer growth, but when they struggle, bonds tend to do better.
- Equities and bonds historically show negative correlation, even if this thesis has been tested in recent periods. The bottom line is that diversification and agility are key.

3. A diversified approach suits more volatile markets

- Uncertainty in economic policy and geopolitics may fan volatility and different asset performances.
- Active asset selection can help to focus on value opportunities and capitalise on any price adjustments.
- We think this environment lends itself to a selective and broad approach: equities, fixed income, commodities and private markets.

INVESTMENT TAKEAWAY

A multi asset approach can deliver diversification, offering an agile response to a diverging world

Which multi asset approach is most suitable?

Investors have a range of factors to consider when selecting a multi asset portfolio. Here are three:

1. The level of risk

- As a rule, the higher the potential risk that an investor takes, the higher the potential return. Different portfolios cater for different risk appetites.
- Fixed income is considered less risky than equities, so portfolios with a higher weighting in bonds may be best suited to more conservative investors.
- More intrepid investors or those with a longer investment horizon (who may be able to take more risk), might consider portfolios with more exposure to equities.

2. The level of focus on sustainability

- There's a variety of multi asset investment options prioritising sustainability as more portfolios promote their environmental and social objectives.
- Some portfolios place sustainability alongside financial growth as a dual focus for driving returns. For example, the fund managers may help firms they invest in adjust to a low-carbon economy.
- The result? Investors support companies' sustainability goals while benefiting from potential new sources of growth.

3. The investment approach

- A fund manager's investment approach can determine how it allocates to asset classes and selects single assets.
- Fund managers that use *fundamental analysis* assesses a firm's business and the underlying economy to determine the value of its stock or bond. Fund managers that use *quantitative analysis* evaluate a broad range of data to help value an asset.
- Some fund managers specialise in one or the other approach. Others may combine both: complementing their strengths.

INVESTMENT TAKEAWAY

Consider factors including risk, sustainability and strategy in choosing a portfolio to match diversification and return goals

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Insights on the value of diversification from our multi asset experts


Breaking the barbell: a return to more active diversification?

Time to break the barbell?
by Michael Stamos
and Sean Shepley


What if Europe is shocked into action?

What if Europe is shocked into action?
By Gregor MA Hirt


Tariffs: an explainer

Tariffs: an explainer
by Gregor MA Hirt


Gold: a glittering future?

Gold: a glittering future?
by Jingjing Chai, Hartwig Kos
and Frederik Fischer


Commodities: unearthing opportunities

Commodities: unearthing opportunities
by Jingjing Chai
and Frederik Fischer


Making European markets great again?

Making European markets great again?
by Gregor MA Hirt and Andreas de Maria Campos

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