

Tactical asset allocation – a recipe for disappointment

Betting on a winning asset class and timing it to maximise returns is very difficult to do. The figure below shows the performance of various asset classes over the past 10 years. You can see that persistence among asset classes is just as fleeting as outperformance

from active funds. For example, if you invested in emerging market equities in early 2011 following a period of strong returns, you would have been disappointed to see the asset class fall to the bottom of the rankings that year.

Key bond and equity index returns (%), ranked by performance

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
62.5	23.6	20.3	17.4	28.3	19.6	8.8	35.4	21.1	0.8
30.1	21.3	16.7	15.5	24.0	18.8	5.5	34.1	17.2	0.5
21.8	19.1	6.5	12.8	21.0	14.6	5.3	29.6	16.9	0.1
21.2	16.7	5.8	12.3	20.8	12.5	4.0	25.5	13.8	-0.4
14.8	14.5	1.2	12.0	13.6	11.3	1.4	25.4	13.1	-2.2
14.7	8.9	-3.5	11.2	1.6	7.9	1.0	21.2	11.3	-3.4
13.6	8.7	-6.6	10.7	0.6	7.9	0.7	16.8	4.9	-7.6
6.3	7.5	-12.6	5.9	0.0	2.8	0.5	12.3	2.5	-8.0
5.3	6.6	-15.0	2.9	-4.2	1.2	-1.1	10.7	2.0	-9.1
-1.2	4.8	-18.4	0.6	-5.3	-1.4	-10.3	3.7	1.9	-9.5

↑ Top-performing asset class
 ↓ Bottom-performing asset class

Source: Vanguard calculations, using data from Barclays Capital and Thomson Reuters Datastream. UK equity is defined as the FTSE All Share Index, Europe ex-UK equity as the FTSE All World Europe ex-UK Index, developed Asia equity as the FTSE All World Developed Asia Pacific Index, North America equity as the FTSE World North America Index, emerging market equity as the FTSE Emerging Index, global equity as the FTSE All World Index, UK government bonds as Bloomberg Barclays Sterling Aggregate Gilt Index, UK index-linked gilts as Bloomberg Barclays UK Govt Inflation-Linked UK Index, hedged global bonds as Bloomberg Barclays Global Aggregate Index (hedged in GBP), UK investment grade corporate bonds as Bloomberg Barclays Sterling Aggregate Non-Gilts - Corporate Index. Returns are denominated in GBP and include reinvested dividends and interest.

Global equities	UK government bonds (gilts)
North America equities (US/Canada)	UK index-linked gilts
Emerging market equities	UK investment grade corporate bonds
Developed Asia equities	Hedged global bonds
Europe ex-UK equities	
UK equities	

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