# Investing in a New World: Capturing Opportunity and Weathering Uncertainty

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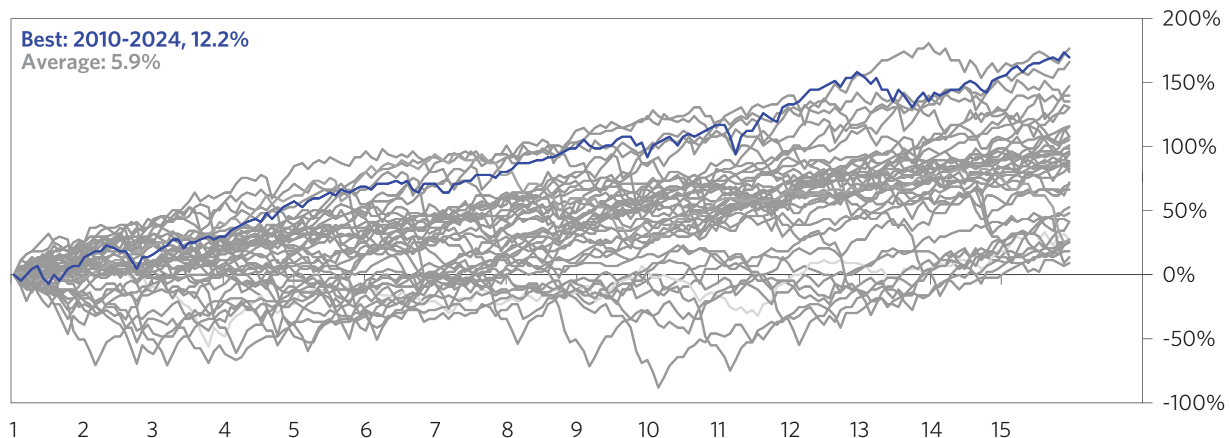
BRIDGEWATER

US equity investors have experienced an extraordinary run. Now the world is changing, with new variables at play, from the AI boom to Trump—presenting distinct opportunities and challenges. How can investors position to continue capturing great returns, given the wide range of ways the world could play out? This paper explores these questions and introduces Bridgewater's All Weather® approach designed for investors seeking to reliably compound their wealth.

# I. Perspective on the Extraordinary Investment Environment We've Been In, and What Might Lie Ahead

**Out of any 15-year period to be invested in equities dating back to 1970, the one we've just lived through was the best.** Stocks (especially US stocks) have been on a relentless tear, with any dips quickly fading into memory. Returns have been more than double the average. This run-up has enriched investors greatly. How can investors lock in gains and continue to capture great returns as the world evolves?

**US Equity Performance over Every 15-Year Period Since 1970**
**(Cumulative, Returns Above Cash, ln, Sampled Annually)**




Almost every investor is positioned the same way, and there is a paradox at work in that positioning.

The run-up in equities has left investors more concentrated than almost ever before—the only time it's come close was after the ride up to the top of the dot-com bubble in the early 2000s. This means that **whether explicitly or implicitly, investors are betting that strong stock performance will continue, and that the US will keep on winning** out over other countries.

Based on Bridgewater analysis. Data is through December 2024. Data shown is US equities cumulative hedged excess returns, sampled every 15 years (e.g., January 1970–December 1984, January 1971–December 1985, etc.). The recipient should not solely rely upon the materials enclosed to make an investment decision. Past performance is not indicative of future results. Please review the "Important Disclosures and Other Information" located at the end of this presentation.

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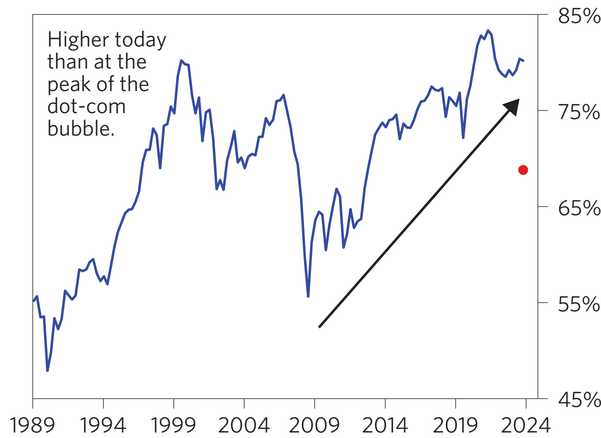
**Investors' Ever-Increasing Concentration in Stocks Is Tying Their Fate to the S&P**

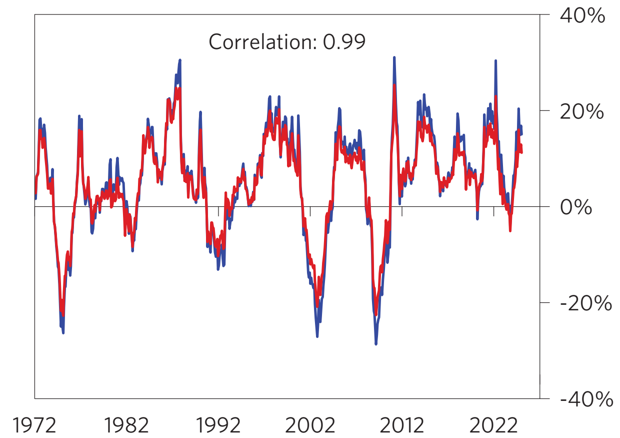
*Households today hold around 80% of their assets in equities...*

**Equities as % of US Household Financial Assets**




*...which is almost identical to holding just equities.*

**2-Yr Annualized Returns of US Equities vs 80/20 Equities/US Bonds**




**Yet, the run-up in US equities makes it harder for them to continue outperforming going forward.**

It's like what happens when everyone expects one sports team to win a game. As anyone who has tried their hand at betting on sports knows, when one team is favored a lot, you don't profit much just by betting on them to win—you need to bet on them to win by more than expected.

Similarly, US equities' great performance has pushed valuations higher, effectively baking lofty expectations into the price—which raises the hurdle to continue generating the outsize returns investors have experienced in the recent past and are implicitly positioned for.

The table below shows how what is "baked in" to US stock prices has evolved over the last decade.

| | | | |
|---|---|---|---|
| | **Last Decade** | | |
| 1 | A decade ago, equities were expected to generate moderate earnings growth | Required EPS Growth for 10% Return... | 6% |
| 2 | As it turned out, they beat expectations handily | Actual EPS Growth... | 8% |
| 3 | Higher returns reflect both better earnings to date *and* extrapolate them into the future | Total Returns... | 13% |
| | **Next Decade** | | |
| 4 | Given the pricing, US companies have to earn a lot more to keep up with past returns | Required EPS Growth for 10% Return... | 10% |
| 5 | The same pace of earnings growth as last decade would produce less than half the returns, since expectations are so much higher | Return If Companies Match the US's 8% EPS Growth of the Last Decade... | 5% |
| 6 | That's very little compensation for taking on equity risk versus a bond yield that's been bouncing around in the 4-5% range | 10-Year Treasury Yield, for Comparison... | 4-5% |

Data in right chart through December 2024. Data in left chart through June 2024. Based on Bridgewater analysis. In the top left chart, cash holdings and real estate are excluded. EPS refers to earnings per share. Figures provided in the table are estimates only, and there can be no assurance that any such results will be achieved, and actual results may vary substantially. The recipient should not solely rely upon the materials enclosed to make an investment decision. Past performance is not indicative of future results. Please review the "Important Disclosures and Other Information" located at the end of this presentation.

To continue earning high returns, US companies have to not just deliver on already high expectations—but to beat them. That's a tall order. It's also exactly what portfolios are (implicitly) betting on.

Is it likely that US companies will live up to such high expectations?

**There are plenty of reasons to question whether the recent extraordinary returns can be sustained.** Achieving them took a rare confluence of low starting valuations, a long runway for strong growth without creating inflation or triggering a tightening by the Federal Reserve, and a backdrop of increasing globalization and pro-business policies such as corporate tax cuts. Looking ahead, the picture is more mixed. The table below synthesizes the key drivers and the shifts that we are monitoring.

| | | 2010s | Today |
|---|---|---|---|
| **Starting Valuations** | | Cheap | Expensive |
| **Cyclical Drivers** | Growth | Steady | Pretty Strong but Moderating |
| | Inflation | Low | Above Target |
| | Fed Policy | Easy | Tight |
| **Secular Drivers** | Geopolitical Risks | Moderate | Elevated |
| | Globalization | High | Retrenchment and Reshoring |
| | Business Backdrop | Supportive | Supportive (likely) |
| | Technology | Internet | AI |
| | Energy Backdrop | Shale | Transition (Climate Risk) |

Speaking with investors, we feel both their optimism and excitement, alongside anxiety and fear.

| On the one hand... | ...on the other hand |
|---|---|
| AI shows unique transformative promise... | **...is that promise overhyped and overinflated in prices?** |
| Trump's bold agenda aims to reinvigorate the economy... | **...will it upset the apple cart in the process?** |
| The private sector is strong, with room to spend... | **...government borrowing has surged; how sustainable is it?** |

We can analyze, we can estimate, but the truth is no one has the answers. What is safe to say is that there's plenty of uncertainty about where we are going. The good news is that there's power in recognizing that uncertainty.

"Tightening" refers to the rising of interest rates. Based on Bridgewater analysis. The recipient should not solely rely upon the materials enclosed to make an investment decision. Past performance is not indicative of future results. Please review the "Important Disclosures and Other Information" located at the end of this presentation.

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# II. Crafting a Resilient Portfolio (Without Playing Defense)

**One of the most timeless insights of investing is that you don't need to bet on knowing how it will all turn out.** Investing wisely is about preparing for a range of outcomes:

- You don't need to give up on equities and endure the FOMO of getting out at the wrong time.
- You don't need to retreat to cash.
- You don't need to go into a defensive crouch.

Instead, no matter how much you may have benefited from the recent extraordinary equity run, moving into diversifying holdings can cushion you if and when stocks experience a drawdown.

**Even incremental shifts can be quite impactful.** Because most portfolios are starting from a concentrated equity position, even relatively small moves can have an outsized impact on making your portfolio more resilient.

What does this look like in practice? First and foremost, **hold assets to address the different reasons that equities can experience a drawdown—and what can protect you in each**. There are a few distinct archetypes:

**Falling Growth**

The Fed eases powerfully in response to weakening conditions and soft inflation, **supporting bonds and gold**. Both assets also benefit from people flocking to safety.

**Inflation**

Amid fears of prolonged high inflation that the Fed struggles to control, bonds are hurt as inflation would erode their value. On the other hand, **commodity prices rise**, and **gold tends to benefit** as an alternate currency that can't be devalued.

**Liquidity Pullback**

The Fed moves very forcefully to quell inflation, making "cash king" and draining liquidity from the economy and financial system. **This hurts assets of all kinds, and so is particularly hard to protect against**, though commodities may help some if they are part of the inflation the Fed is responding to. What helps most is exposure **to other countries that are experiencing different circumstances**.

Here's what this has looked like in practice, scanning across the 10 instances since 1970 when global equities fell more than 15%.

| Major Equity Drawdowns | | What Provided Diversification? | | | |
|---|---|---|---|---|---|
| **When and What Happened** | **Nature of Shock** | **Nominal Bonds** | **Inflation-Linked Bonds** | **Gold** | **Commodity Basket** |
| 1973–74: Oil Embargo | Inflation | X | - | ✓ | ✓ |
| 1980–82: Massive Volcker Tightening | Liquidity Pullback | X | - | X | X |
| 1987: "Black Monday" Technical Crash | Inflation | ✓ | - | ✓ | ✓ |
| 1990: Gulf War; Japan Bubble Collapse | Inflation | X | - | X | ✓ |
| 1998: Asian Financial Crisis | Falling Growth | ✓ | - | X | X |
| 2000–02: Dot-Com Bubble Crash | Falling Growth | ✓ | ✓ | ✓ | ✓ |
| 2007–09: Global Financial Crisis | Falling Growth | ✓ | X | ✓ | X |
| 2011: Eurozone Crisis | Falling Growth | ✓ | ✓ | ✓ | X |
| 2020: COVID | Falling Growth | ✓ | ✓ | ✓ | X |
| 2022: Rapid Fed Tightening | Liquidity Pullback | X | X | X | ✓ |

Based on Bridgewater analysis. The recipient should not solely rely upon the materials enclosed to make an investment decision. Falling growth refers to growth conditions transpiring lower than is discounted. Past performance is not indicative of future results. Please review the "Important Disclosures and Other Information" located at the end of this presentation.

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Armed with this understanding, you can build a resilient portfolio that includes not just equities, but also assets that can do well at times when equities do poorly—in a way that is not simply resigning yourself to a 60/40 or 70/30 mix.

- **Bonds** have more room to cushion against a stock market decline as the Fed can lower rates if growth slows; they also provide yield if conditions hold up.
- **Inflation-linked bonds** add built-in inflation protection to bonds by literally paying out the inflation rate. That gives them great option value in case inflation creeps back up.
- **Commodities** add inflation protection. Gold has particular appeal in the context of geopolitical risk and an ever-growing pile of Treasury debt.

Since a broad liquidity pullback tends to hurt all assets in the affected country, one of the key ways to avoid such losses is simply to spread your exposure more across countries, which capture different opportunities and get hit by different risks. For example, in 2022, when all kinds of US assets suffered from Fed tightening, Japanese policymakers were on an all-out offensive to support the economy and assets, and Japanese equities performed well.

**To recap:** investors can position to prosper across a wide range of possible futures by putting some of their investments into assets that can do well in different economic environments, and across different countries facing different pressures.

That is the foundation of what we do at Bridgewater in our "All Weather" strategy.

# III. All Weather Is Bridgewater's Answer to the Question of How to Reliably Invest for an Uncertain Future

**Bridgewater invented the All Weather approach back in the '90s, originally for Ray as he was thinking about what investment portfolio to hold to preserve and compound wealth for future generations.**

Ray and the Bridgewater team sought to build an approach that could thrive across different types of economic "weather," even when equities suffered. They designed it to be as balanced as possible to how growth and inflation transpire—drawing on deep fundamental understanding of how macro conditions affect different assets, as well as expertise in engineering portfolios to minimize risk without sacrificing return.

For over two decades, the strategy has grown to invest in nearly every major liquid market in the world, including many that didn't exist back in the '90s. Since then, a wide range of pension funds, endowments, and foundations have utilized it to deliver strong and resilient returns and compound wealth for future generations.

60/40 and 70/30 refer to mixes of stocks and bonds, respectively. Based on Bridgewater analysis. The recipient should not solely rely upon the materials enclosed to make an investment decision. Past performance is not indicative of future results. Please review the "Important Disclosures and Other Information" located at the end of this presentation.

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