Improving on the 60/40 adding diversifiers without divesting from equities

Published May 12, 2025

Pierre Debru

Head of Research, WisdomTree Europe.

Elvira Kuramshina

Associate Director, Quantitative Research

Key Takeaways

- By allocating 90% to equities and 60% to bond futures, WisdomTree Efficient Core strategies make it possible to recreate a 60/40 exposure without using the whole capital, freeing up space for diversifiers like commodities and gold without reducing core equity exposure
- Using WisdomTree Efficient Core strategies has historically led to return improvement compared to traditional 60/40 portfolios, while maintaining comparable Sharpe ratios
- Forward-looking models indicate that portfolios incorporating WisdomTree Efficient Core strategies can achieve higher returns and/or lower volatility, enhancing the efficient frontier and offering better risk-adjusted outcomes
- Efficient Core serves two roles—as an equity replacement tool and a capital efficiency tool—allowing investors to tailor portfolios that align with specific risk and return objectives

- Related Products WisdomTree Global Efficient Core UCITS ETF - USD Acc, WisdomTree US Efficient Core UCITS ETF - USD Acc Find out more

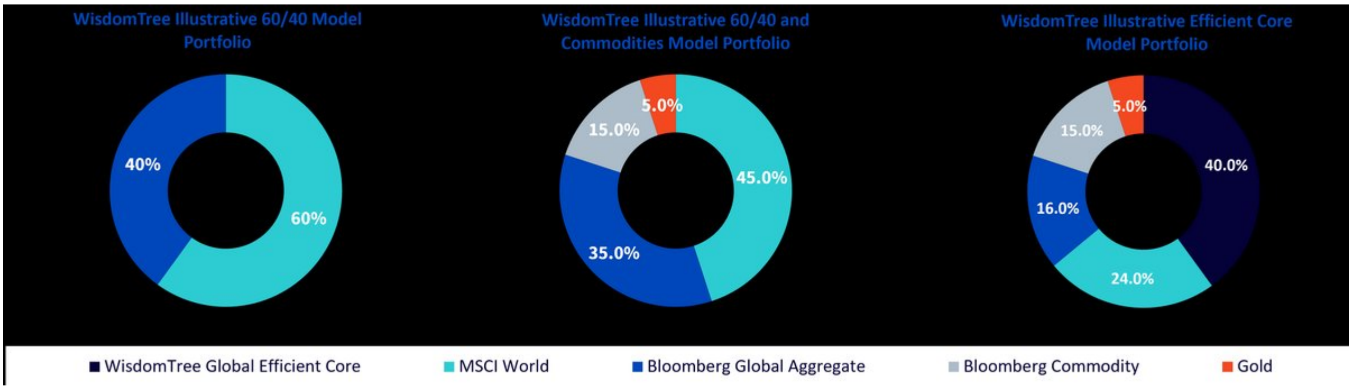
The 60/40 portfolio—60% equities, 40% fixed income—has long been a staple of balanced investing. While it tends to improve the risk-return profile due to diversification between the two assets, it also limits growth potential as the overall risk taken is reduced. Furthermore, in today's markets, it limits the ability to incorporate diversifying assets like commodities or alternatives without displacing equities or bonds. The consequence? Investors may miss out on valuable risk management tools or potential return enhancers.

Fortunately, WisdomTree has developed a unique range of Efficient Core exchanged-traded funds (ETFs) that offer a more elegant solution. By allocating 90% to stocks for growth and 60% to bond futures for balance (in other words, a 60/40 leveraged by 150%), an Efficient Core strategy provides traditional market exposure while freeing up space in portfolios. This capital efficiency unlocks the ability to add diversifiers, without sacrificing core equity exposure.

Rethinking the 60/40

The original appeal of the 60/40 portfolio lies in its simplicity: equities for growth, bonds for balance. Yet, this construction doesn't leave any room for diversifiers. Consider an investor who wants to incorporate broad commodities and gold for added diversification. Doing so under a traditional 60/40 model forces a reallocation: replacing 15% of equities with commodities and 5% of fixed income with gold. While this improves portfolio efficiency by reducing volatility and drawdowns, it also lowers the overall risk budget—resulting in little to no improvement in returns.

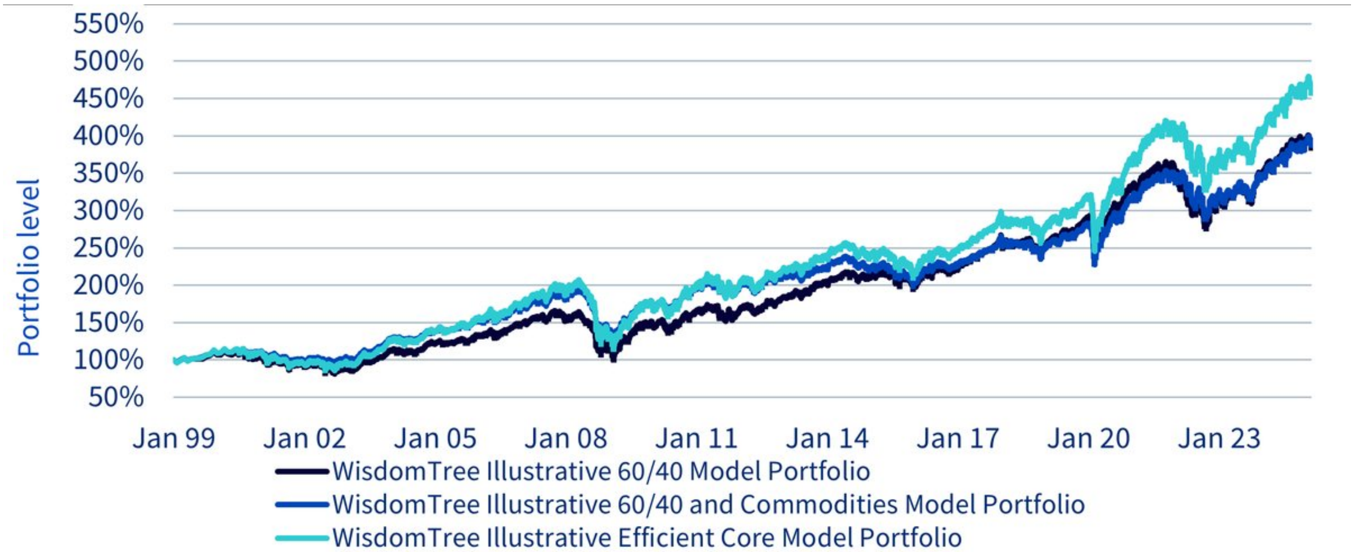
Figure 1: Variations on the 60/40 including diversifiers



Source: WisdomTree. Illustrative Only.

Efficient Core changes this equation. By utilising the WisdomTree Global Efficient Core (that is, a 60/40 leveraged portfolio providing 90% exposure to global equities and 60% exposure to government bond futures contracts across multiple currencies), the strategy replicates a 60/40 portfolio using only part of the capital. The portfolio invests 40% in the Efficient Core portfolio, leading to exposures of 36% and 24% in equity and fixed income respectively. This means that by investing 24% in equities and 16% in fixed income, the investor can construct a 60/40 portfolio. However, they would have done so utilising only 80% of their capital (40+24+16), leaving 20% to invest in assets such as commodities and gold.

Figure 2: Performance of different variations on the 60/40 including diversifiers



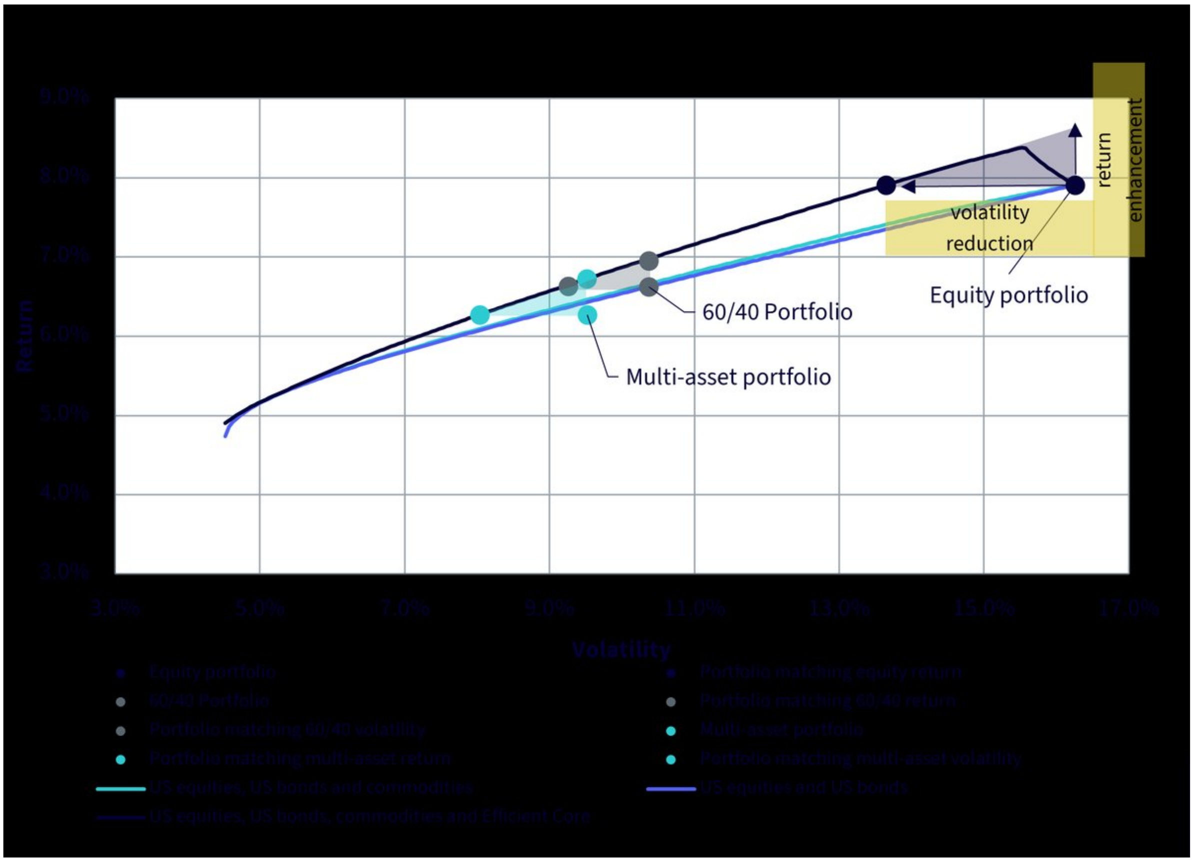
Source: WisdomTree, Bloomberg. From 29 January 1999 to 12 March 2025. In USD. Portfolios are rebalanced quarterly. **You cannot invest in an index. Historical performance is not an indication of future performance, and any investments may go down in value.**

This approach doesn't just preserve equity exposure—it enhances the risk-return profile. Over the period from January 1999 to March 2025, a model portfolio using Efficient Core outperformed both the classic 60/40 and a version with commodities/gold by 0.7% annually. While volatility was slightly higher, the Sharpe ratio improved, and capital efficiency enabled the inclusion of assets with low correlation to equities and bonds.

Forward-looking frontier: a smarter portfolio set

To test Efficient Core's relevance in the future, we use J.P. Morgan's 2025 Long-Term Capital Market Assumptions (LTCMA), the report is available here, to construct efficient frontiers for portfolios built from US equities, US bonds, broad commodities, and gold—with and without Efficient Core.

Figure 3: Forward-looking efficient frontiers (a) and the WisdomTree Illustrative Model Portfolios (b)



Source: WisdomTree, Bloomberg, J.P. Morgan. Forward-looking efficient frontiers are constructed based on the US dollar assumptions for arithmetic returns, volatility and correlations provided in the “2025 Long-Term Capital Market Assumptions” from J.P. Morgan available here. Efficient Core return, volatility and correlations are computed assuming 90% allocation to US Large Cap Equities, 60% allocation to US Aggregate Bonds funded by 50% Cash borrowing. **You cannot invest in an index. Historical performance is not an indication of future performance, and any investments may go down in value.**

The findings are clear: portfolios that include Efficient Core significantly expand the efficient frontier in forward-looking scenarios. Looking at three specific portfolios, the results are striking:

- All-Equity Portfolio
  - Replacing a traditional 100% equity allocation with 85% Efficient Core, 3% bonds, and 12% gold reduces volatility by 2.6% for the same expected return.
- 60/40 Portfolio
  - A mix of 51% Efficient Core, 41% bonds, and 8% gold delivers the same 6.63% return, but with 1.17% less volatility.
  - A mix of 60.5% Efficient Core, 32% bonds, and 7.5% gold delivers the same volatility but outperforms by 0.35% per year.
- Diversified Multi-Asset Portfolio (45% equities, 35% bonds, 15% commodities and 5% gold1)

  - A mix of 41.9% Efficient Core, 53.5% bonds, and 4.6% gold delivers the same 6.27% return, but with 1.49% less volatility.
  - Reallocating to 53.8% Efficient Core, 39.2% bonds, and 7% gold improves expected return by 0.46% for the same risk level.
- Replacing a traditional 100% equity allocation with 85% Efficient Core, 3% bonds, and 12% gold reduces volatility by 2.6% for the same expected return.
- A mix of 51% Efficient Core, 41% bonds, and 8% gold delivers the same 6.63% return, but with 1.17% less volatility.
- A mix of 60.5% Efficient Core, 32% bonds, and 7.5% gold delivers the same volatility but outperforms by 0.35% per year.
- A mix of 41.9% Efficient Core, 53.5% bonds, and 4.6% gold delivers the same 6.27% return, but with 1.49% less volatility.
- Reallocating to 53.8% Efficient Core, 39.2% bonds, and 7% gold improves expected return by 0.46% for the same risk level.

These enhancements stem not just from leverage, but from improved portfolio construction and the flexibility to include low-correlation assets.

Figure 4: WisdomTree Illustrative Model Portfolios vs efficient portfolios with matching return or volatility on the forward-looking efficient frontier that includes Efficient Core

Source: WisdomTree, Bloomberg, J.P. Morgan. Forward-looking efficient frontiers are constructed based on the US dollar assumptions for arithmetic returns, volatility and correlations provided in the "2025 Long-Term Capital Market Assumptions" from J.P. Morgan available here. Efficient Core return, volatility and correlations are computed assuming 90% allocation to US Large Cap Equities, 60% allocation to US Aggregate Bonds funded by 50% Cash borrowing. **You cannot invest in an index. Historical performance is not an indication of future performance, and any investments may go down in value.**

Conclusion

Efficient Core serves two critical purposes in portfolio design:

- Equity replacement: by offering equity-like returns with improved efficiency, it becomes a powerful substitute for traditional equity allocations—particularly for investors seeking enhanced risk-adjusted returns.
- Capital efficiency: it frees up portfolio real estate for diversifiers without compromising exposure to core growth assets. This is especially valuable in a world where macroeconomic volatility and inflation uncertainty heighten the need for robust risk management.

1 In our analysis, this multi-asset portfolio is not located on the efficient frontier and historically has offered only minimal improvement of risk/return ratio in comparison to an efficient portfolio located on the frontier

that allocates to equities and bonds only. This is mostly on part of an equity-like level of volatility of commodities, but only a bond-like level of return averaged over the last 26 years.

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an oer for sale nor a solicitation of an oer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and aer seeking independent investment, tax and legal advice.

The application of regulations and tax laws can oen lead to a number of dierent interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and aer seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public oering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any ailiate, nor any of their respective oicers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.