

From 60/40 to  
50/30/20

The case for adding private  
markets to your portfolio

Moonfare<sup>®</sup>



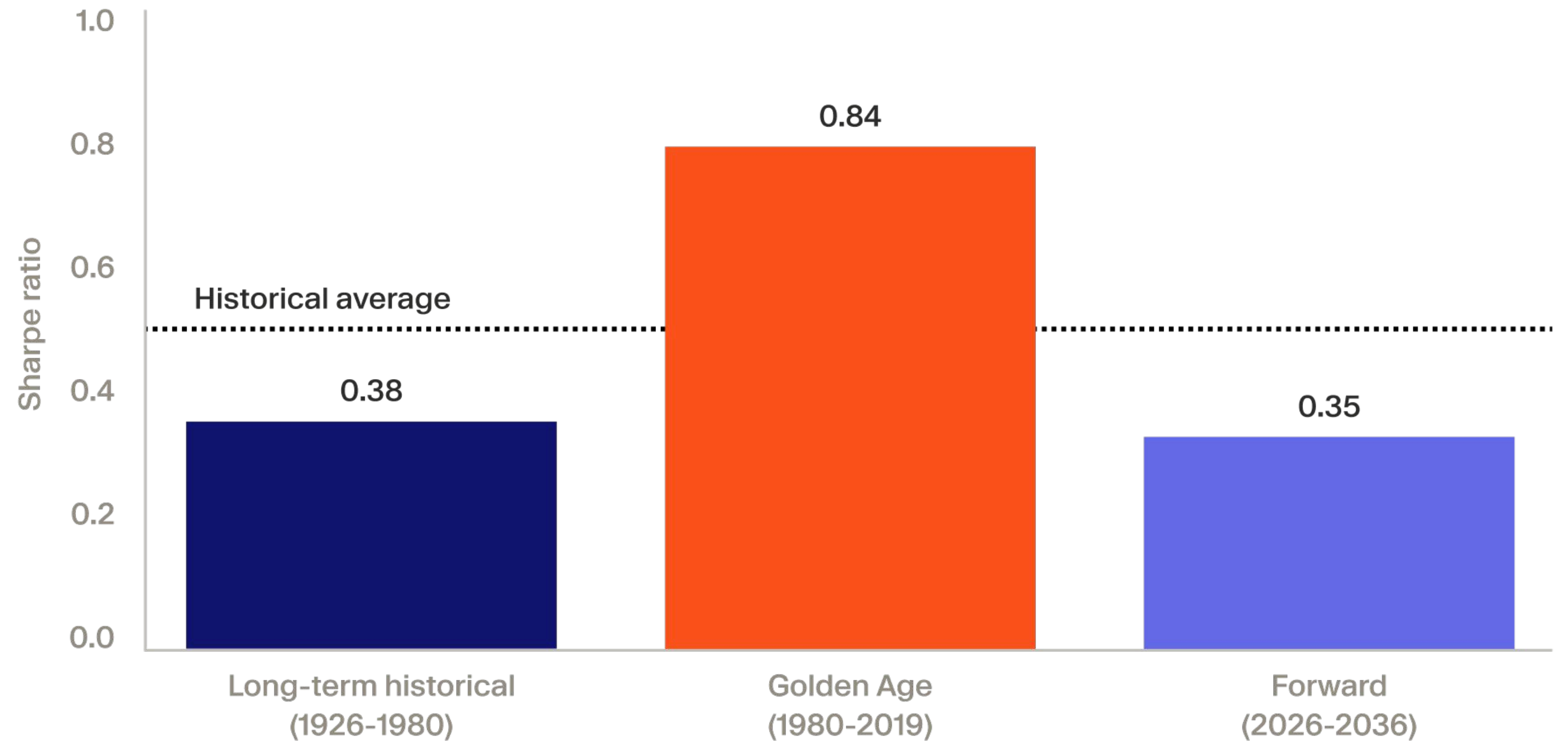
# The 60/40 golden age is likely over

For decades the 60/40 portfolio model delivered for investors. The investment mix became the industry standard because it exploited a four-decade disinflationary period where bonds hedged equity risk while generating equity-like returns.

The golden age, starting in 1980, produced a Sharpe ratio (which measures risk-adjusted return) of 0.84, nearly double the historic average.

That regime ended in 2021. Projections now put the 60/40 model's forward-looking Sharpe ratio at just 0.35.

## Risk-adjusted 60/40 returns peaked during disinflationary era



**Source**

CFA Institute/Monash University, AllianceBernstein and J.P. Morgan Asset Management 2025.

**Note**

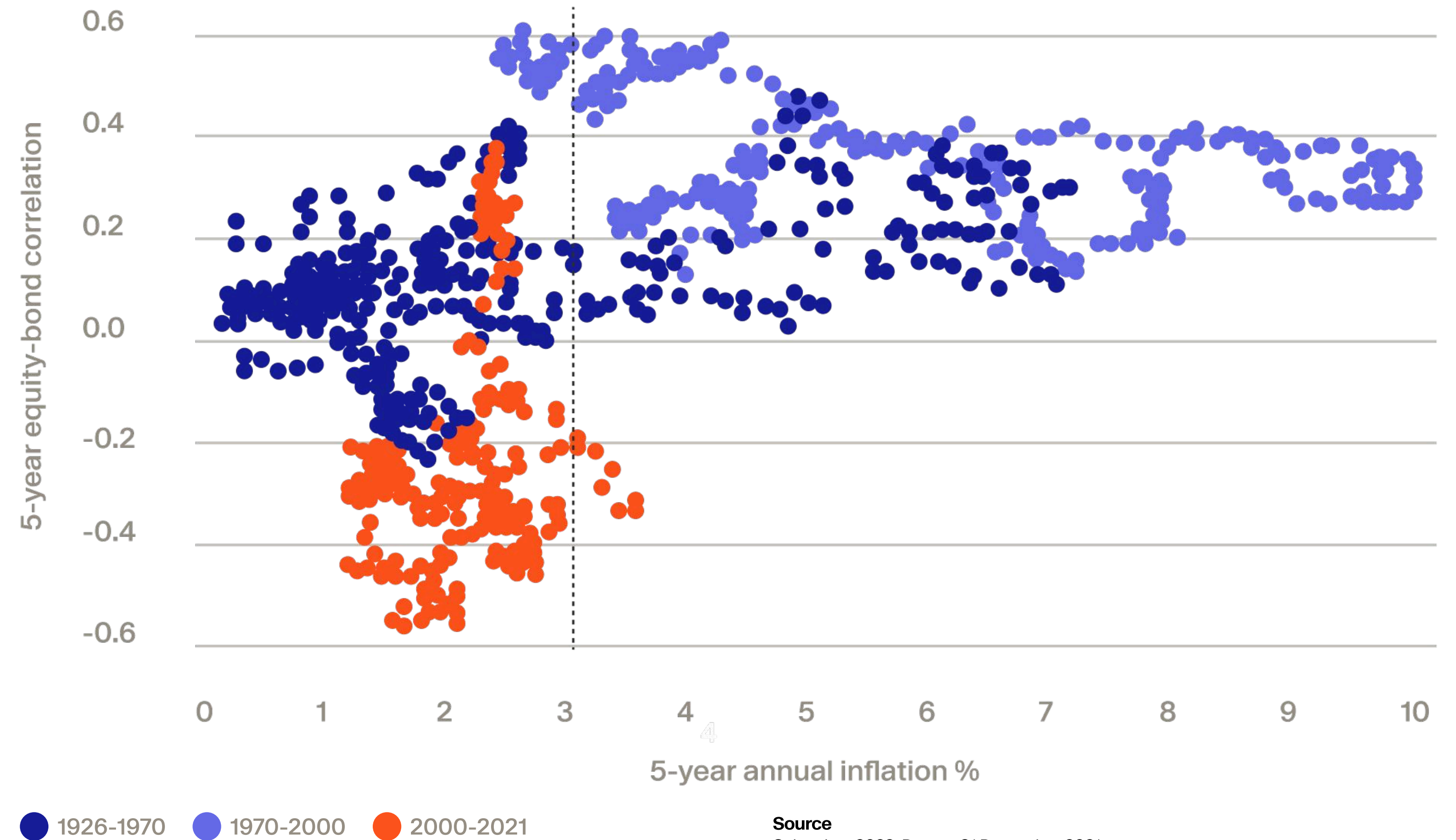
The Sharpe ratio measures how much return you're getting per unit of volatility. The higher Sharpe ratio means you're being better compensated for the risk you're taking. Past performance does not guarantee future returns.

# Bond hedging failed when inflation returned

The negative correlation between public equities and bonds that protected 60/40 portfolios required specific macro preconditions: anchored inflation expectations and activist monetary policy easing.

As the chart shows, when inflation exceeds 3%, correlations historically invert to positive territory, eliminating the hedging effect that defined the past generation's portfolio success.

## Equity-bond correlation inverts above 3% inflation threshold



**Source**

Schroders 2022. Data to 31 December 2021.

**Note**

Equity are US large-cap equities, bonds are 10-year US Treasuries, inflation is US CPI. Past performance does not guarantee future returns.

# Lost decades for 60/40 are the historical norm

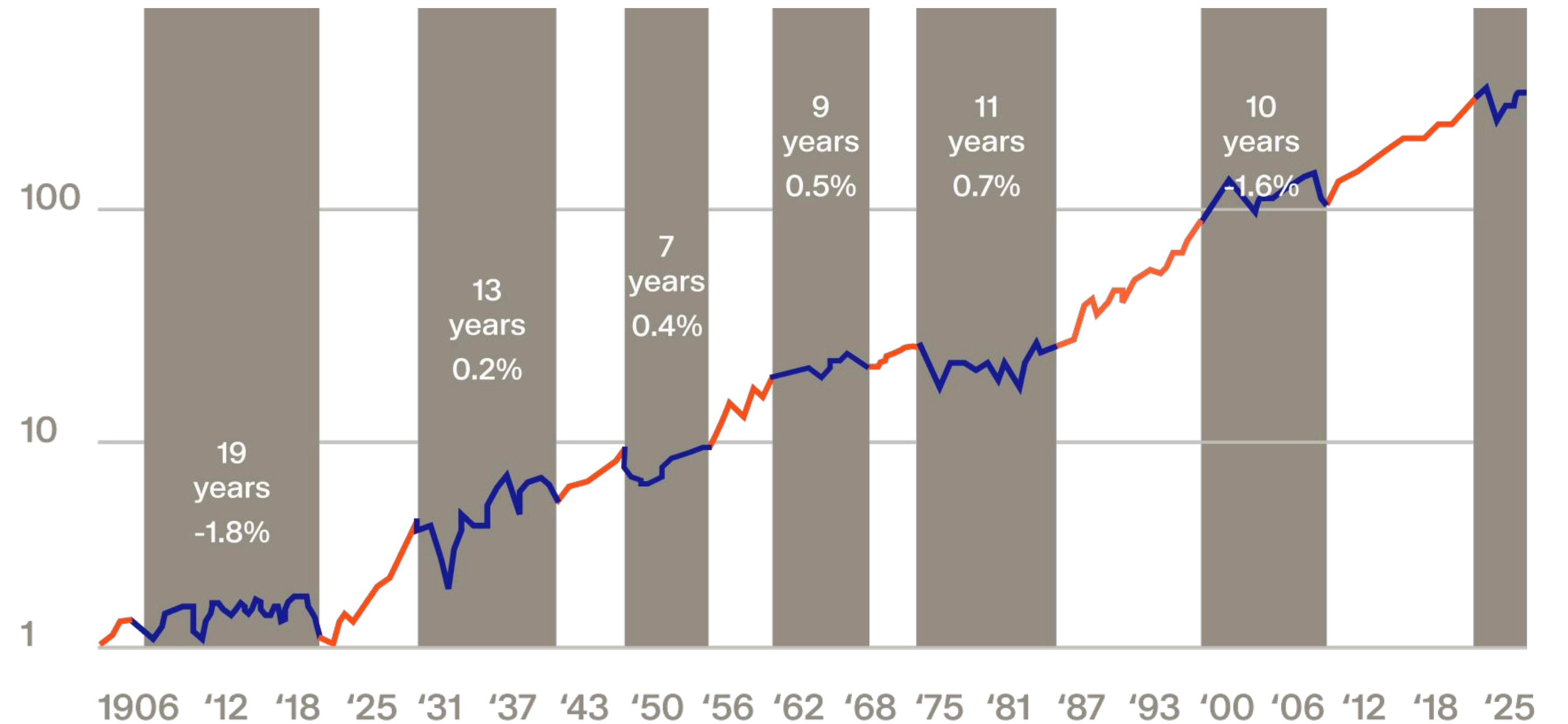
The fastest monetary tightening in three decades has restored government bond yields to reasonable territory.

But this masks two critical vulnerabilities: credit markets price in virtually no risk premium, while US equities remain stretched by any historical measure.

A simple mean reversion could see 60/40 face a lost decade.

## High starting valuations precede decade-long return droughts

Growth of a Dollar in Real Terms of a 60/40 Portfolio (in log scale)



**Source**  
GMO 2025

**Note**  
Data from Bloomberg, Global Financial Data (early history), Factset (S&P500 returns and CPI), J.P. Morgan (J.P. Morgan GBI United States Traded), Shiller data, Federal Reserve Bank of Philadelphia (U.S. Treasury Yields and Long-term Inflation Expectations). As of September 2025. Past performance does not guarantee future returns.

# US equities are priced for perfection

The CAPE ratio places today's equity market in the 97th percentile of historical expensiveness.

Such starting valuations have historically preceded decade-long annualised equity returns below 4%, fundamentally challenging the "60" portion of the traditional allocation to carry its historical weight in portfolio construction.

## Cyclically adjusted (Shiller) PE ratio for the S&P 500



**Source**

Multip1 2026. As of April 5, 2026.

**Note**

Past performance does not guarantee future returns.

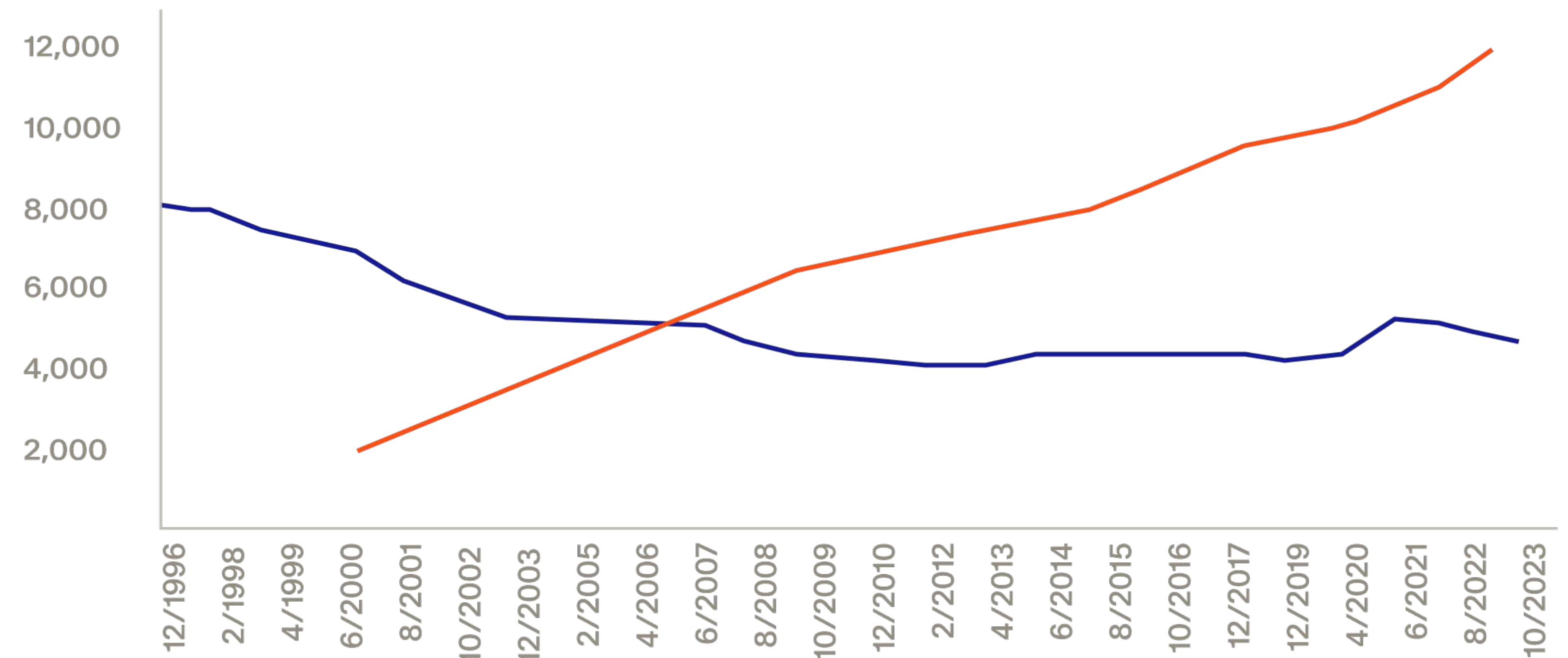
# The public opportunity set is shrinking

The number of publicly traded companies in the US has declined by nearly half (from over 8,000 to approximately 4,700) since 1996.

In contrast, private equity-backed companies have grown from roughly 2,000 to over 11,500 – a 475% increase.

This shift means 60/40 investors are increasingly concentrated in mega-cap legacy companies rather than the dynamic growth enterprises now found in private markets.

## Listed companies halved since 1996 while PE-backed firms increased five-fold



● Number of stocks ● Private equity owned companies (estimated)

**Source**  
Meketa Capital, Bloomberg 2024.

**Note**  
Stock count from NASDAQ, New York Stock Exchange (NYSE), and New York Stock Exchange American. Past performance does not guarantee future returns

# Adding alternative assets to the mix

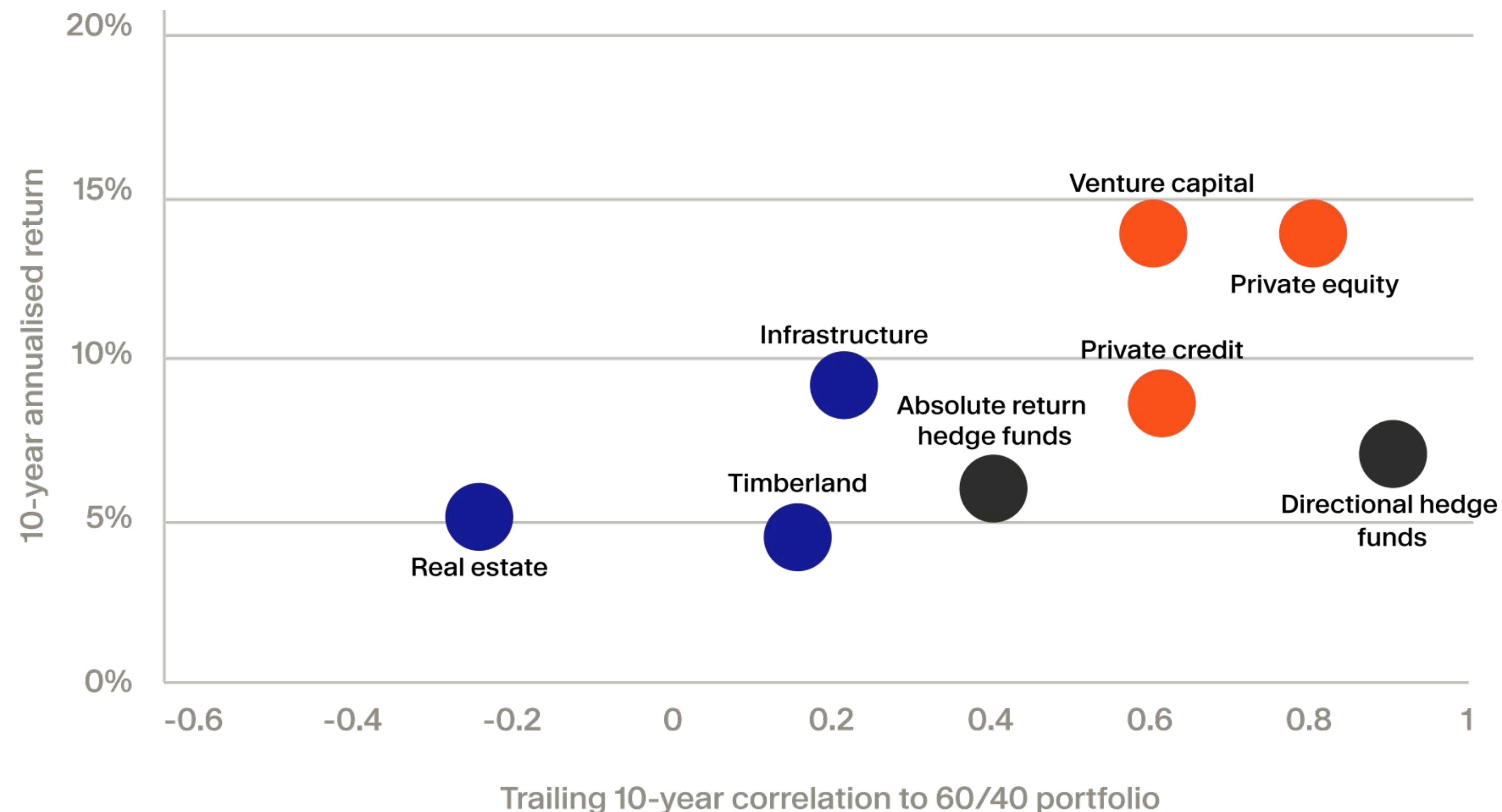
Alternatives including private equity exhibit lower correlation to both public equities and duration-sensitive bonds.

Their valuations depend more on operational improvements and illiquidity premiums rather than daily market sentiment.

By redirecting capital from the shrinking public opportunity set to private markets, investors may replace beta-heavy exposure with alpha-generating potential, while reducing risk through greater diversification.

## Adding low-correlation alts can reduce portfolio volatility

10-year correlations and 10-year annualised total returns, 4Q15 - 3Q25



● Real assets ● Private markets ● Hedge funds

### Source

Burgiss, Cliffwater, FactSet, MSCI, NCREIF, PivotalPath, J.P. Morgan Asset Management 2026.

### Note

Past performance does not guarantee future returns.

# 50/30/20 has consistently outperformed 60/40

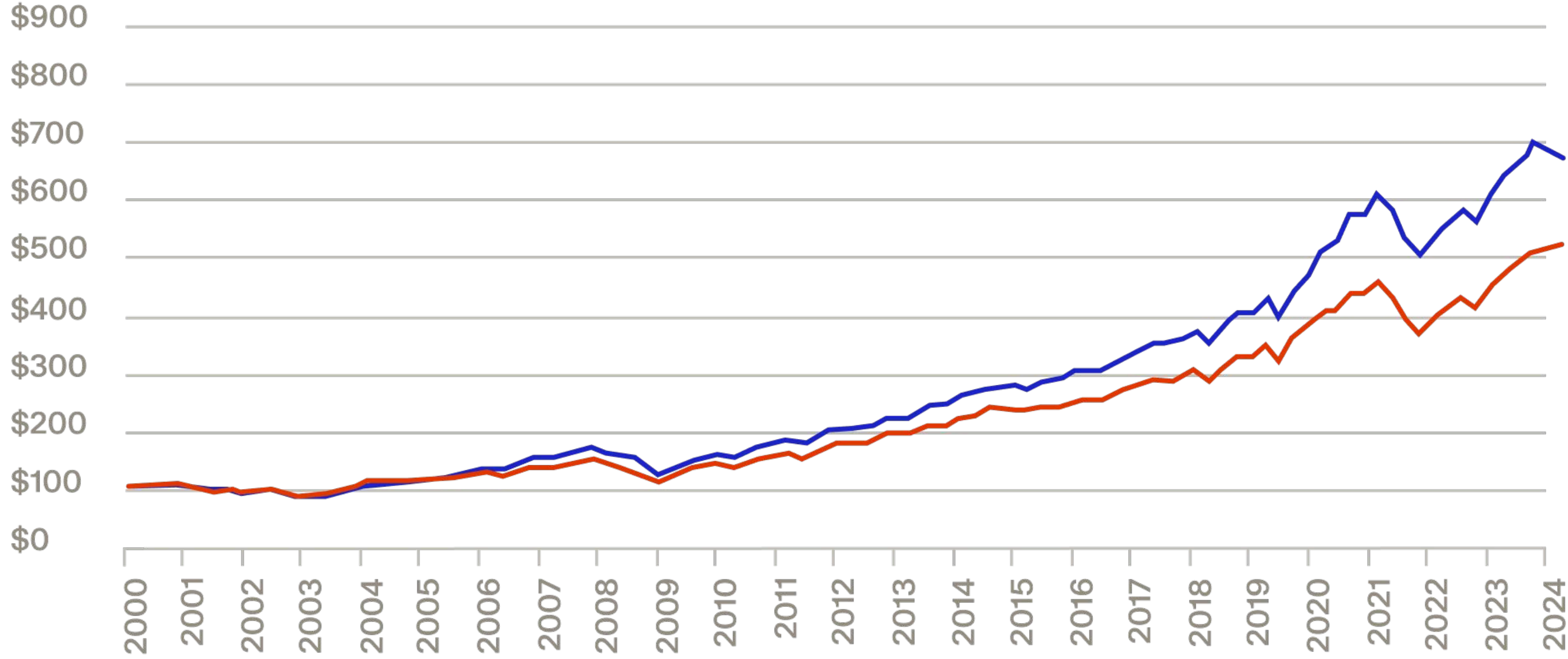
Replacing the traditional 60/40 model with a 50/30/20 target allocation that includes a 20% weighting to alternatives has been shown to outperform.

50/30/20 maintains sufficient liquidity for individual investors while accessing the structural return premiums available in private markets.

Moonfare research has found that buyout funds have delivered 3–5% annualised net-of-fees premium over public equities across multiple decades.

## Historical backtests show 3–5% annual premium over traditional blend

Cash return from a \$100,000 investment over time, by portfolio type (in \$K)



● 50/30/20 portfolio ● 60/40 portfolio

**Source**  
Moonfare, Pitchbook 2025. Data spans from 1 January 2000 to 31 December 2024.

**Note**  
Past performance does not guarantee future returns.

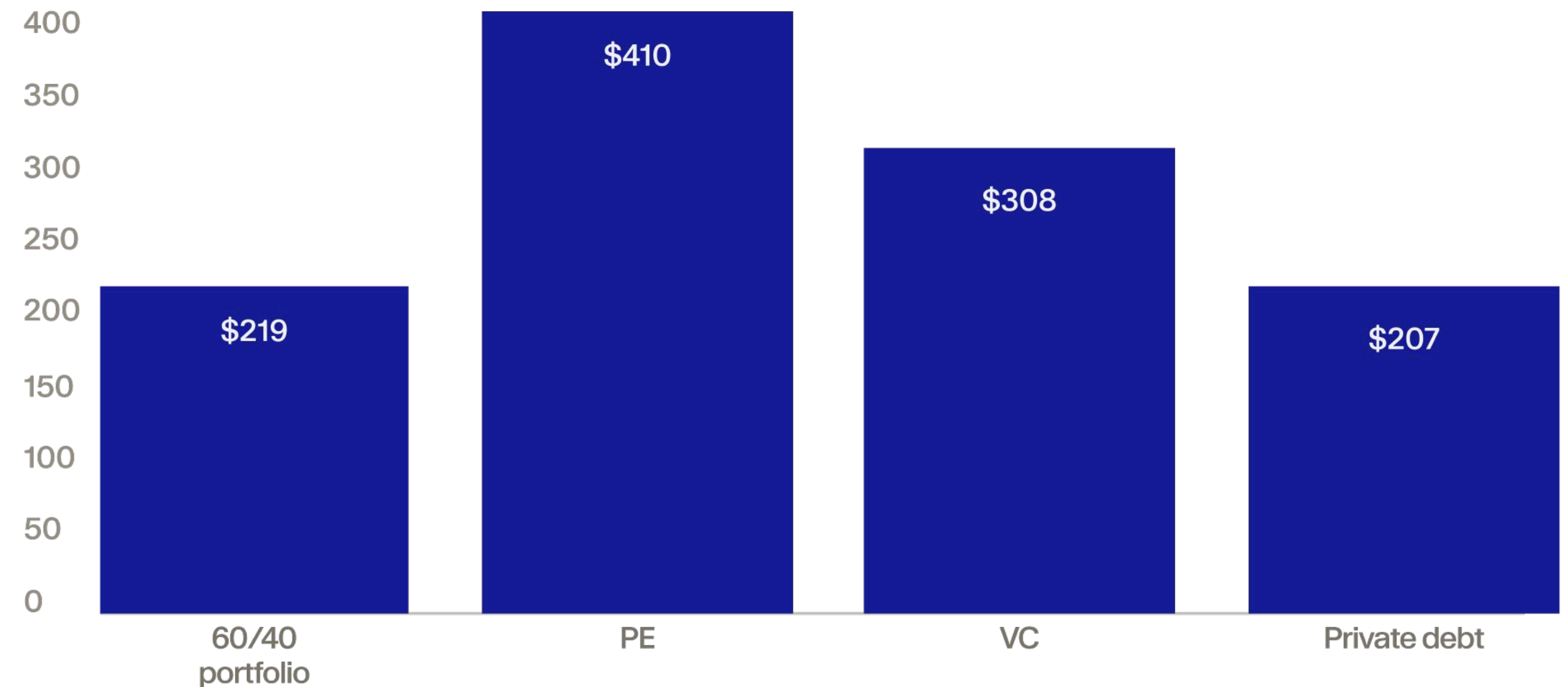
# Public market constraints cost returns

While impractical for most investors due to liquidity requirements, the 100% PE comparison demonstrates that the "diversification" in 60/40 has often amounted to holding two correlated assets with suboptimal return profiles.

The exercise proves that accessing private market return streams, not merely rebalancing between public stocks and bonds, is the critical variable for long-term wealth compounding in the current regime.

## Total PE portfolio demonstrates the premium available to unconstrained capital

Cash return from a \$100,000 investment over the last ten years, by asset class (in \$K)



**Source**

Moonfare, Pitchbook 2025. Data spans from 1 January 2000 to 31 December 2024.

**Note**

Past performance does not guarantee future returns.

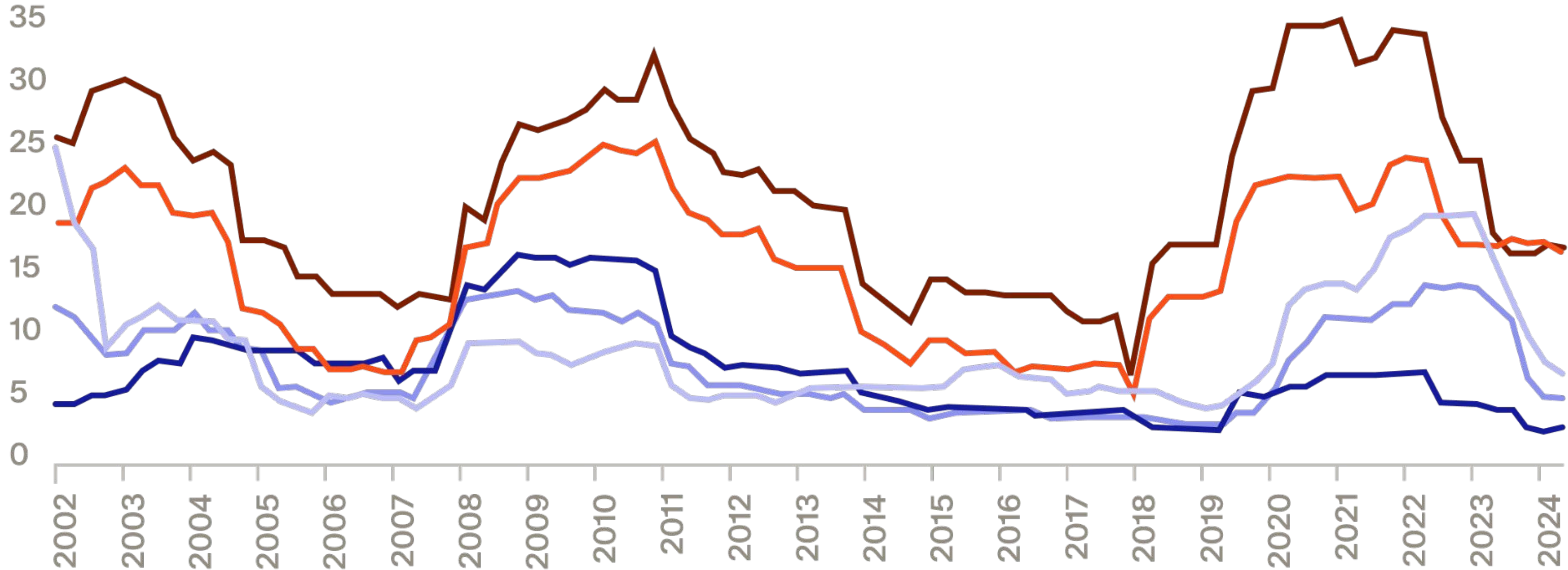
# Private markets are less volatile

While impractical for most investors due to liquidity requirements, the 100% PE comparison demonstrates that the "diversification" in 60/40 has often amounted to holding two correlated assets with suboptimal return profiles.

The exercise proves that accessing private market return streams, not merely rebalancing between public stocks and bonds, is the critical variable for long-term wealth compounding in the current regime.

## Smoothed valuations delivered one-third the drawdown of public equities in 2022

Three-year rolling average annual volatility by asset class, 2002-2024 (%)



● Private equity ● Venture capital ● Private debt  
● S&P 500 ● Russell 2000

**Source**  
Moonfare, Pitchbook 2025. Data spans from 1 January 2000 to 31 December 2024.

**Note**  
Past performance does not guarantee future returns.

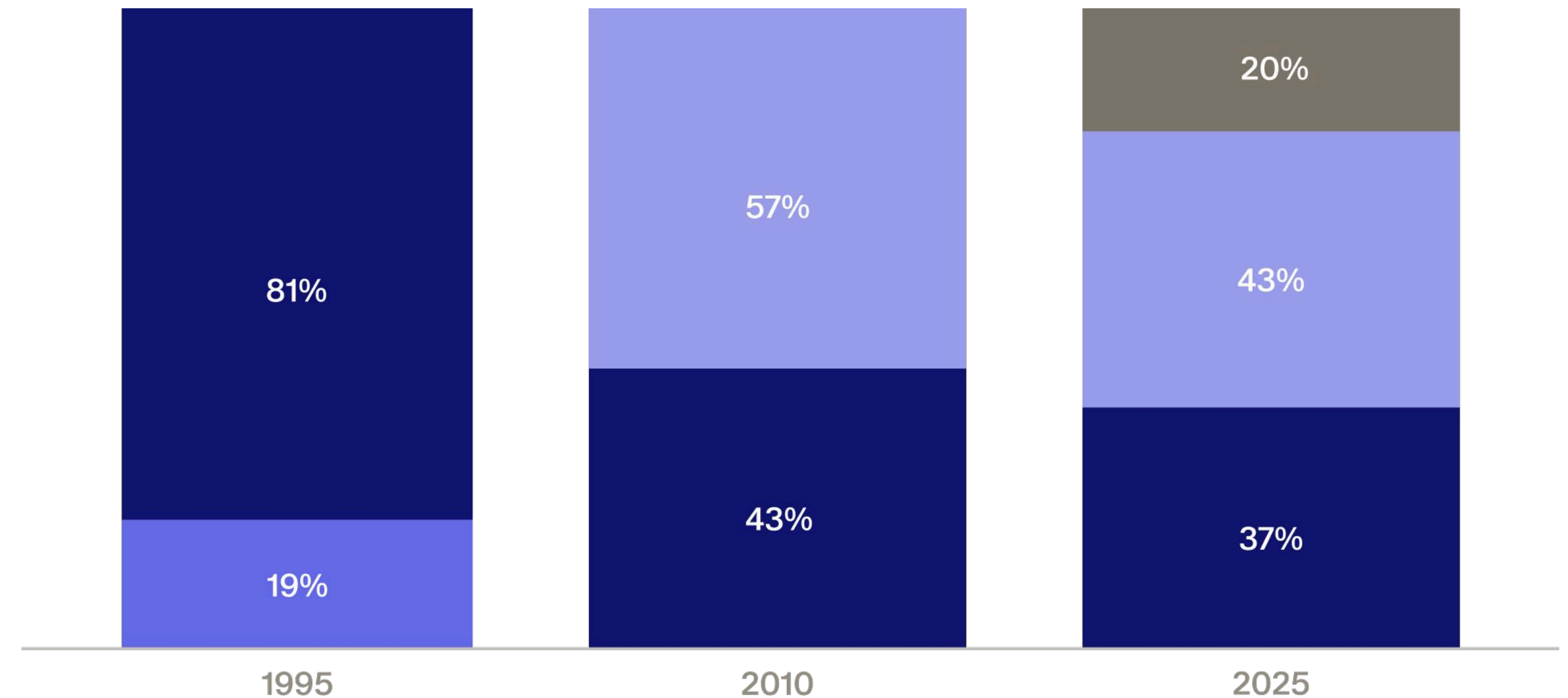
# Return forecasts favour private markets exposure

Achieving a target return of 7% now requires private market exposure, as public equity and fixed income assumptions cluster below that threshold.

BlackRock's models specifically identify private markets including buyout funds, private credit and infrastructure as the primary lever for closing the return gap that has emerged as traditional portfolios face expensive starting conditions.

## BlackRock models show 7% return targets require alternatives

Sample portfolio allocation required to reach a 7% return



**Source**  
Source: BlackRock 2026.

**Note**  
For illustrative purposes only. Past performance does not guarantee future returns.

# Manager selection makes or breaks the 50/30/20 thesis

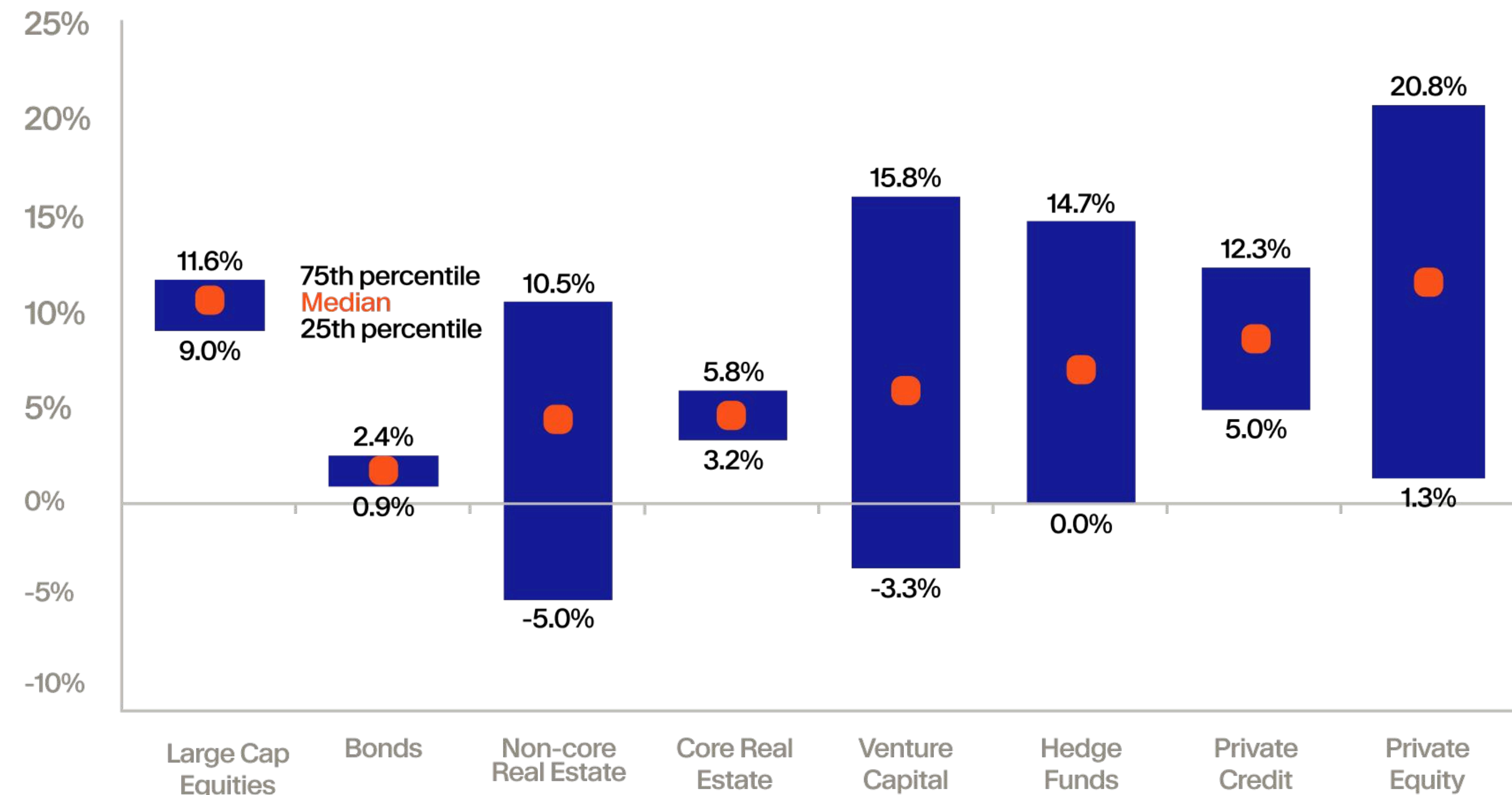
While the 50/30/20 framework creates the structural opportunity for outperformance, capturing it requires accessing top-quartile managers.

The 19-percentage-point spread between good and bad PE managers far exceeds the entire expected annual return of a 60/40 portfolio.

This makes platform access and due diligence capabilities critical components of alternative allocation success.

## Private market return dispersion far exceeds public markets

Based on returns from 4Q 2015 to 4Q 2025



**Source**

J.P. Morgan Asset Management 2026.

**Note**

Past performance does not guarantee future returns.

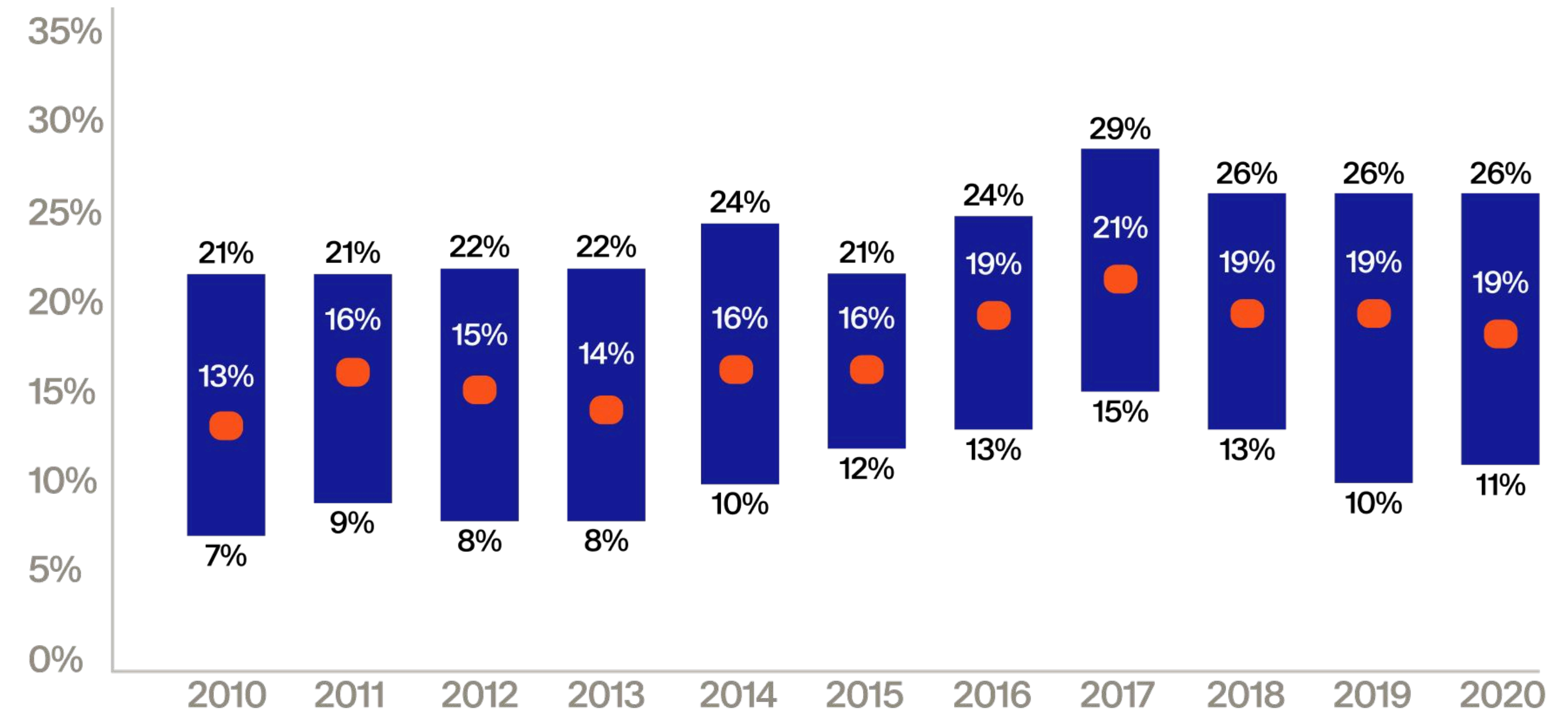
# Return dispersion is intensifying

The distribution of returns within private markets is also growing wider. This trend means that simply adding alts is insufficient.

The 20% allocation must be curated toward consistently top-quartile sponsors to achieve the 50/30/20 premium over 60/40 demonstrated in historical backtests.

## Top-bottom quartile spreads are widening

Global PE return dispersion by vintage year (2000-2020)



**Source**

J.P. Morgan Asset Management 2024.

**Note**

Past performance does not guarantee future returns.

# Top-quartile PE generates significant excess returns

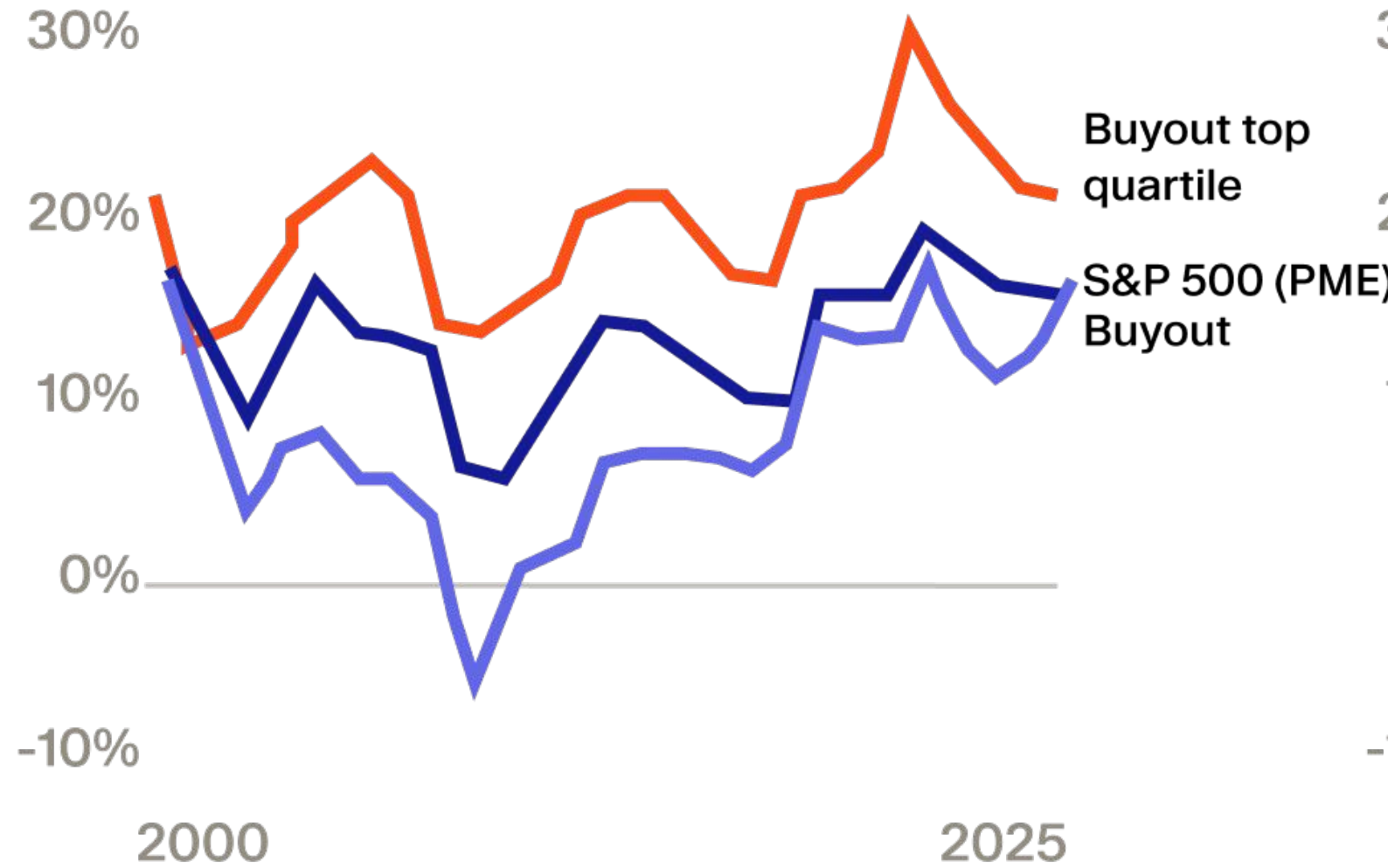
Top-quartile private equity funds have generated IRRs exceeding 20% annually, outperforming S&P 500 and MSCI Europe benchmarks by approximately 1,000 basis points.

This magnitude of excess return delivers the institutional-grade wealth accumulation that validates reallocating capital from public markets to high-quality private exposure within the 50/30/20 model.

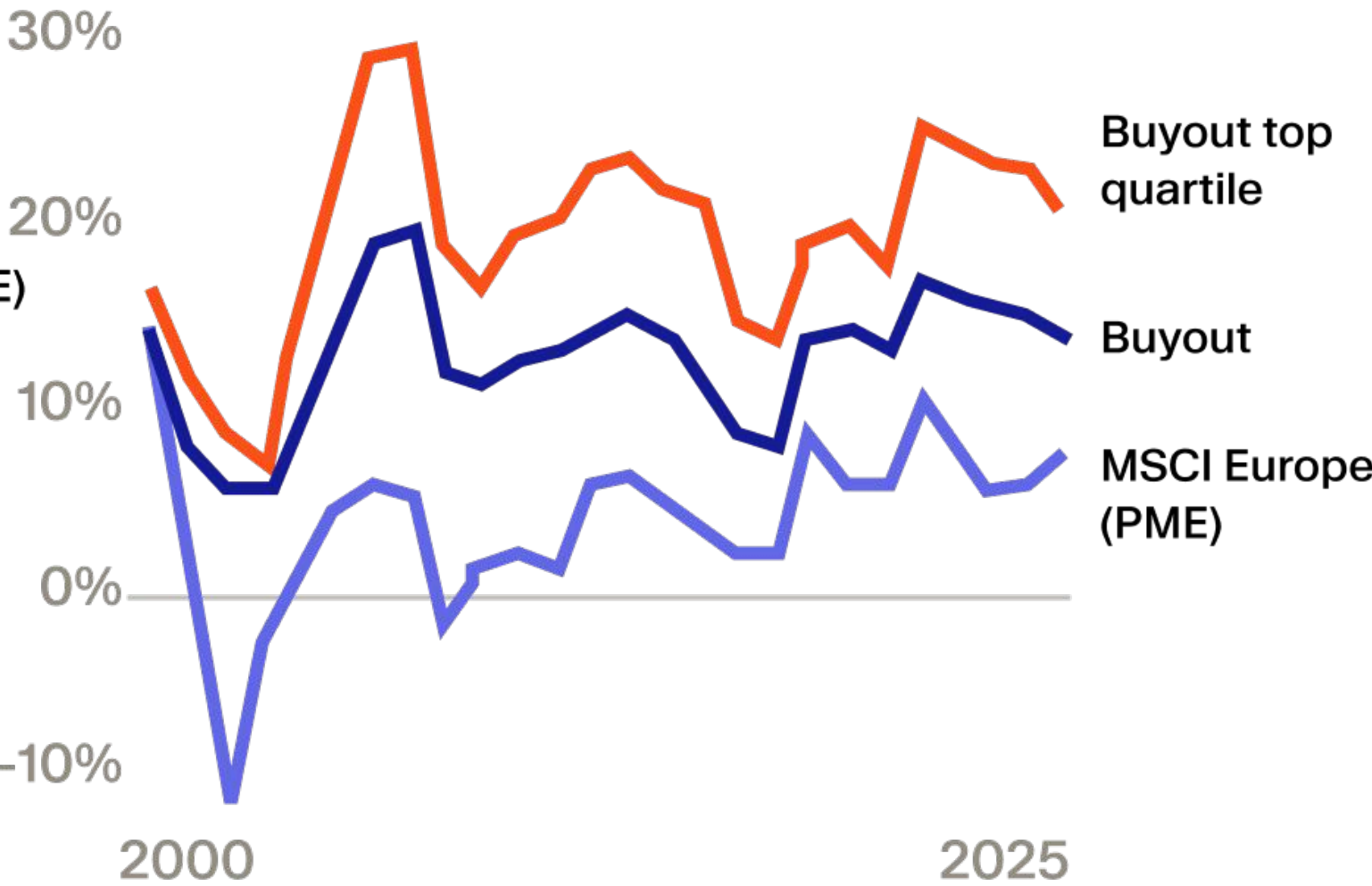
## Best managers around the world beat public averages

10-year horizon IRR vs. public markets

### US buyout funds



### Western European buyout funds



**Source**  
Bain & Company, MSCI 2026.

**Note**  
Data as of September 2025. Past performance doesn't guarantee future returns.

# Institutions have already made the switch

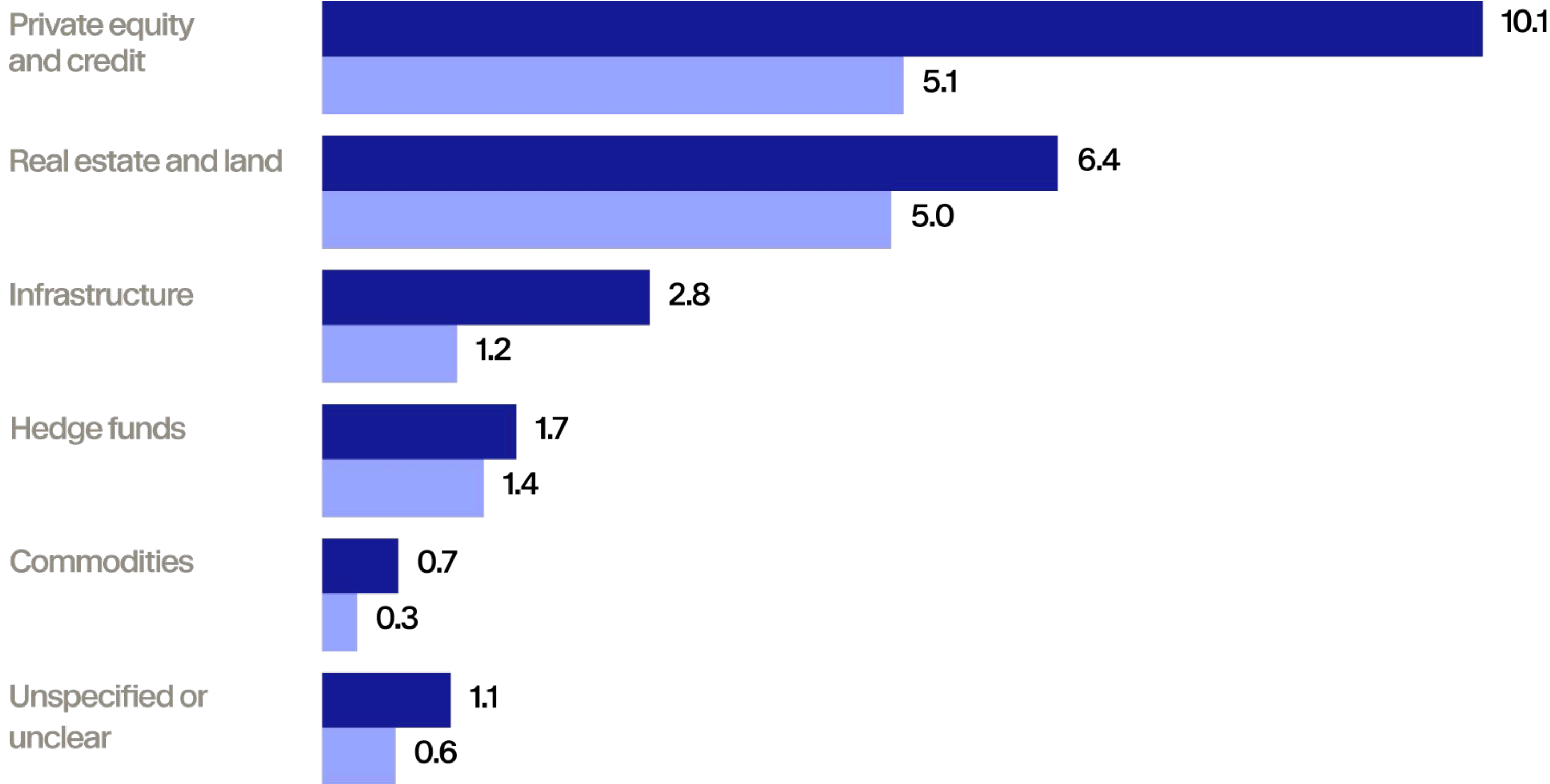
Institutions with indefinite time horizons and sophisticated governance have already migrated.

State Street data shows public pension alternatives allocation grew from 11% in 2008 to 23% in 2024, with the shift accelerating post-2022 as correlation breakdowns forced liability-driven investors to replace bond diversification with alternative risk premia.

We believe that their collective movement validates 50/30/20 as the new strategic baseline.

## Public pension funds have already increased alternatives allocations

Percent share of assets %



● 2024 ● 2014

Source  
State Street Investment Management Macro Research 2025

## WHAT WORKED BEFORE

The 60/40 portfolio was a solution for a specific macro regime that has since passed.

## WHAT CHANGED

As correlations, valuations and market structures have permanently shifted, so too must allocation frameworks.

## WHAT WE BELIEVE

We believe that the 50/30/20 model — encompassing equities for growth, bonds for contractual cash flows and alternatives for correlation-adjusted alpha — is the superior path to long-term wealth accumulation.

*Adapt the model, preserve the objective*

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