



# ASSET ALLOCATION

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## Mapping Investable Return Sources to Macro Environments

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We explore the empirical relationships between investable strategies (asset classes and style premia) and macroeconomic environments.

Identifying these relationships is not straightforward — results often depend on design choices as well as time periods — but this additional perspective may help investors to identify portfolio risks and potentially benefit from increased diversification.

We find that style premia have meaningfully less macro exposure than do asset classes. Additionally, we provide further evidence on the benefits of diversification: namely, that a well-diversified portfolio (both for asset classes and style premia) may rely less on a specific macroeconomic outcome for success.

We also identify environments that are most challenging for asset classes and style premia, such as ones marked by illiquid, unstable conditions.

This analysis can help bridge macroeconomic forecasts to investment decisions, but the difficulty of forecasting and the potential instability of mapping relations limit the usefulness in tactical timing.

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