

Absolute Insight

The role of bonds within portfolios has long been taken for granted. For decades, they have been relied upon to provide income, preserve capital and, most importantly, diversify equity risk.

Yet the past five years have begun to challenge these assumptions in a meaningful way. In an environment defined by persistent inflation, higher interest rates and shifting correlations, the traditional relationship between equities and bonds has proven far less reliable than many expected.

This article examines what has changed, why it matters, and whether portfolios remain overly reliant on an asset class that may no longer behave as intended. It also explores the case for a more flexible, diversified approach to generating consistent returns in an increasingly uncertain market environment.

The Bond Illusion: Why Do Investors Cling to a Broken Shield?

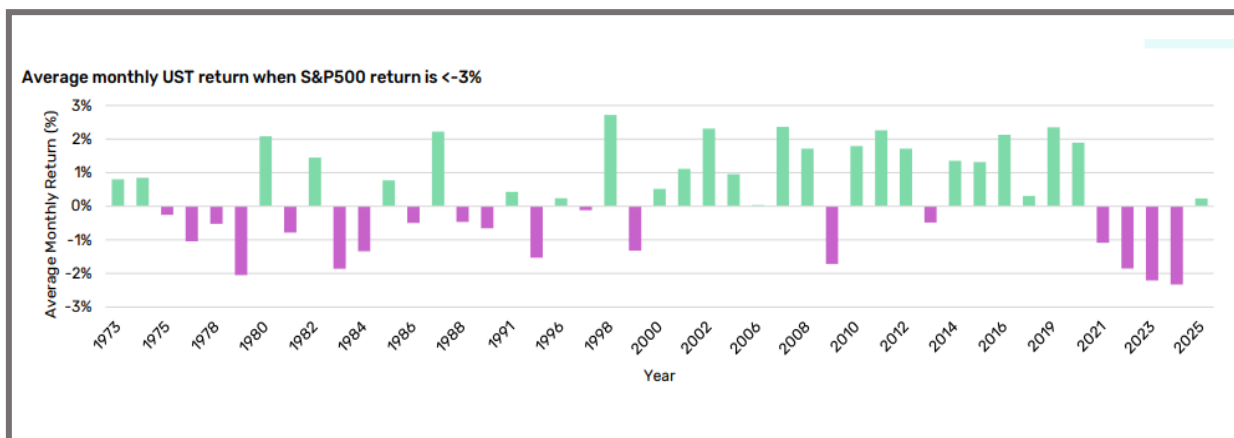
“The greatest danger in times of change is not the change itself — it is acting with yesterday’s logic.”
Peter Drucker

For an asset class that has spent much of the past five years failing to deliver returns, diversification, or protection, bonds remain firmly embedded in client portfolios. This persists despite a prolonged period of underperformance, laid bare in 2022 when their vulnerability was fully exposed, particularly for cautious investors.

Investors continue to cling slavishly to the textbook idea of equity–bond diversification and the well worn 60/40 model, kept alive as much by persuasive marketing as by results. Markets, however, appear not to have read the same material.

Bonds have traditionally been held for good reason. They are meant to provide income, preserve capital and, critically, diversify equity risk, forming the defensive core of portfolios designed to protect investors’ hard earned wealth and help shield portfolios during times of extreme equity stress. The assumption that they continue to do so, however, appears to persist more out of habit than evidence.

The chart below shows that as interest rate outlook changed in 2021, the correlation between equities and bonds ceased to be strongly inverse. With the returns of bonds in March 2026, this looks set to show a positive correlation once again. This clearly calls into question one of the central pillars of traditional portfolio construction.



Source: Man Group, February 2026

While liquid alternatives are often dismissed for a variety of reasons cost, performance, complexity, or a few well known failures, bonds appear to enjoy a far more forgiving assessment, despite a much longer and more consistent record of disappointment. The question is not whether bonds have historically worked. Nor is it whether they are working now. It is why they continue to be relied upon so heavily, even as the evidence challenges the role they are expected to play.

Five Years of Misery — Why Are Allocations Still So Blinkered?

Looking back over the past five years provides a useful lens through which to assess how different asset classes have behaved in practice, rather than in theory. The results are not especially flattering for fixed income.

Cash has delivered a steady and positive return over the period. By contrast, most bond asset classes have struggled to generate meaningful returns, with many failing even to keep pace. UK Government bonds have produced negative outcomes. The Bloomberg Global Aggregate index has also disappointed. Even corporate bonds, often positioned as a more attractive segment of the market, have delivered only modest gains.

Asset Class	Performance
IA Targeted Absolute Return	22.0%
Bank Of England Base Rate	17.5%
ICE BofA 1-3 Year Sterling Non-Gilt	10.7%
IA Mixed Investment 0-35% Shares	9.2%
IA Sterling Corporate Bond	0.6%
Bloomberg Global Aggregate	-7.1%
FTSE Actuaries UK Conventional Gilts All Stocks	-19.5%

Source: FE Analytics. Total return. 5 years to 31 March 2026

For an asset class expected to provide stability, income, and protection, this is, at the very least, uncomfortable. And yet, despite this, bonds remain one of the most widely held components of portfolios, particularly for lower risk investors. That raises a more fundamental question:

- Is it because of high confidence in future returns?
- A belief that their diversification properties will reassert themselves?
- Or simply the continued influence of long standing assumptions that have yet to be fully challenged?

The reality over the past five years is difficult to ignore. In many cases, investors would have been better served by a simple barbell of cash and equities, excluding bonds altogether, and paying lower fees for the privilege. The IA Mixed Investment 0–35% Shares sector, one which is dominated by exposure to fixed income assets, highlights this clearly, having lagged even cash over the period.

The outcomes are clear. The logic behind current allocations, less so. At the same time, liquid alternatives, when considered at the aggregate level rather than through individual fund selection, have delivered positive outcomes over the same period, drawing on a broader and more flexible set of return drivers.

March: A Stress Test That Failed

If the past five years challenge the strategic case for bonds, more recent events raise questions about their behaviour when it matters most. Periods of market stress tend to expose underlying assumptions. March was one such period.

It was a challenging environment across asset classes, with volatility rising sharply and correlations behaving in less predictable ways. Bonds, which are typically expected to provide a degree of protection in such environments, struggled alongside other risk assets.

IA Sector Returns in March 2026

	Best	Worst	Average	# of positive funds
IA Corporate Bond	-0.98%	-6.44%	-3.12%	0/94
IA Gilt	-1.48%	-7.31%	-3.83%	0/30
IA Targeted Absolute Return	2.16%	-9.88%	-2.77%	6/80

Source: FE Analytics. Total return. 1 - 31 March 2026

Across the corporate bond universe, outcomes were both negative and remarkably consistent. Corporate bond and gilt funds both delivered losses across the board, with no funds in either sector producing a positive return. The range of outcomes was relatively narrow, reflecting a common exposure to the same underlying drivers. This is a somewhat uncomfortable outcome for an asset class relied upon for both defence and diversification.

By contrast, outcomes within the absolute return universe were more varied. Some strategies struggled, particularly those with exposure to rates and macro positioning and those with higher risk profiles. Others were more resilient, and a number were able to navigate the environment more effectively.

This variation is often presented as a weakness. In reality, it reflects something quite different. Absolute return is not a single trade; it is a collection of different strategies responding in different ways to the same set of conditions. It should be viewed as a broad, diversified basket of exposures, not a single fund to be selected and judged in isolation. When bonds struggle, they tend to struggle together. When absolute return strategies struggle, they do so for different reasons and, most importantly, not always at the same time.

Judging the Wrong Thing

One of the more predictable responses to periods like March is to point to the absolute return sector delivering negative returns and conclude that the asset class “doesn’t work”. It is an easy conclusion to draw. It is also a flawed one.

Absolute return has never been positioned as an asset class that should deliver consistent positive returns in every month, nor one that should be inversely correlated to equities in all environments. That has never been the objective. And yet, it is often judged as though it were.

What is less frequently acknowledged is that, in the same environment, bonds, which are widely assumed to provide downside protection, not only failed to protect, but in many cases delivered more consistent losses across the board. There is a clear asymmetry in how these outcomes are interpreted. When absolute return funds lose money over a short period, it is taken as evidence that the approach is fundamentally flawed. When bonds do the same, often more uniformly, it is viewed as an unfortunate but temporary deviation.

Over longer periods, however, the evidence is increasingly difficult to ignore. Absolute return, when viewed as a diversified opportunity set, has delivered stronger outcomes than bonds across a range of metrics, not just returns, but volatility, drawdowns, and the balance of positive and negative periods.

IA Sector Returns 5 years to March 2026

	Best	Worst	Average	# of positive funds
IA Corporate Bond	17.99%	-28.26	0.59%	44/87
IA Gilt	7.69%	-43.27%	-19.78%	5/28
IA Targeted Absolute Return	118.55%	-4.51%	21.95%	66/67

Source: FE Analytics. Total return. 31 March 2021 - 31 March 2026

The data makes this clear. When approached as a diversified allocation, absolute return has delivered stronger and more consistent outcomes than bonds.

Over five years, 97% of targeted return funds delivered a positive return. For corporate bonds, that figure is just over 50%.

That is before any attempt is made to improve outcomes through manager selection. And yet, this is rarely how the debate is framed. Instead, periods of short term weakness are often used to dismiss the entire category, while bonds continue to benefit from a far more optimistic narrative. Consequently, allocation to liquid alternatives remains woefully low in client portfolios.

At some point, it is reasonable to ask whether this reflects a genuine shift in fundamentals, or simply a reluctance to move on from a familiar framework.

The Misunderstanding of Absolute Return

The mistake in this asset class is rarely the strategy itself, but rather how it is used. We do not expect a single equity or a solitary bond to represent the entirety of their respective markets; we diversify across sectors, geographies, and issuers to mitigate specific risk. Absolute return must be viewed through this same lens.

Selecting a single absolute return fund and expecting it to perform in all conditions is no more robust than selecting a single bond and expecting it to represent the entire fixed income market. There is no silver bullet in this space; while the sector contains many excellent strategies, it also includes those that will inevitably encounter periods of friction. Relying on a single fund is an exercise in unnecessary concentration.

There is, however, clear scope for wealth managers to sift through this universe and build a robust portfolio of highly diversified strategies that can deliver strongly over time. Even with a reluctance to do this, there are diversified fund of funds options available that act as a single, one stop solution for allocating towards the asset class.

By moving away from a singular reliance on one fund and instead creating a diversified allocation, investors can better capture the true benefits of the asset class. While a blended basket will not guarantee a positive return in every down market, it will certainly deliver a more resilient portfolio profile, one with the genuine ability to outperform.

Shattering the Shield: A New Logic for Portfolio Defence

Bonds have played a central role in portfolios for decades, but their ability to deliver on that mandate can no longer be taken for granted. While liquid alternatives are not a substitute for every asset class, nor a guaranteed hedge in all conditions, they represent a more adaptive approach to portfolio construction, one that is less reliant on a single set of assumptions holding true.

The question, therefore, is not whether bonds should be removed entirely, but whether their role and weighting still reflect the realities of the current environment. Investors often say they do not trust absolute return, yet when the evidence of the past five years is laid bare, a more relevant question emerges: why do we continue to cling to a shield that has already shattered, while avoiding the very tools better suited to the world we now inhabit.

The Apollo Diversified Multi Strategy Fund

The role of bonds in portfolios is not redundant, but it is increasingly constrained. Their ability to deliver diversification, protection and consistent returns can no longer be assumed, particularly in a regime characterised by higher inflation, elevated debt levels and more volatile macro conditions.

At the same time, the evidence suggests that a diversified allocation to absolute return strategies can provide a more balanced and resilient return profile over the long term. Not because any single strategy consistently outperforms, but because a carefully constructed combination of complementary approaches reduces reliance on any one outcome and improves overall consistency.

This is where implementation becomes critical. The benefits of the asset class are only fully realised when it is approached as a diversified, actively managed allocation rather than a collection of individual fund selections.

Our Apollo Diversified Multi Strategy Fund has been built with this philosophy at its core. By combining a range of specialist managers across multiple uncorrelated strategies, it seeks to deliver steady, consistent returns with low volatility and limited drawdowns, while maintaining daily liquidity and full transparency.

In an environment where traditional defensive assets are proving less reliable, a more flexible and diversified approach is not simply an alternative, it is increasingly becoming a necessity.



Source: FE Analytics.
Total return. 31.12.17 -
31.03.26

APOLLO MULTI ASSET MANAGEMENT

Absolute Vision: A Smarter, More Resilient Way to Invest

At Apollo Multi Asset Management, we believe in Absolute Vision—the ability to see beyond short-term market noise and invest with clarity, conviction, and discipline. The financial world is evolving, and traditional investment models are no longer fit for purpose. The once-reliable 60/40 portfolio—built on the assumption that bonds will always hedge equity risks—has failed to deliver real returns in an era of inflation, rising interest rates, and geopolitical uncertainty.

Apollo stands apart as a firm built for the future. We are not bound by benchmarks or outdated conventions. Instead, we take a forward-thinking, multi-asset approach alongside absolute return investing—targeting consistent, risk-adjusted performance throughout the full market cycle.

Founded during the 2008 financial crisis, Apollo has consistently demonstrated the ability to thrive in uncertainty—because we see what others don't.

For professional advisers only

Please remember that the value of your investment and any income arising may fall as well as rise and investors may not get back the amount originally invested. Past performance is not a reliable indicator of future results. Nothing in this document should be construed as investment advice.

The performance data presented prior to 3rd October 2025 refers to the Apollo UK Model Portfolio, which follows the same strategy, investment process, and underlying investments as the Apollo Diversified Multi Strategy Fund. Demonstrated with the solid line on the chart, the UCITS fund itself launched on 3rd October 2025 and therefore has no performance history of its own.

The performance of the UK Model Portfolio is shown net of fees, adjusted to reflect the fees and expenses applicable to the UCITS fund. Although the Model Portfolio has been managed *pari passu* with the UCITS strategy, differences may arise due to fund structure, regulatory requirements, and operating costs. The fund has no official benchmark, Bank of England SONIA is shown for comparison only.

If you require investment advice you should contact an authorised financial adviser.

Apollo Multi Asset Management is authorised and regulated by the Financial Conduct Authority (FCA Number: 487458).

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