

Seahawk Investments  
Quarterly Note  
2026/01



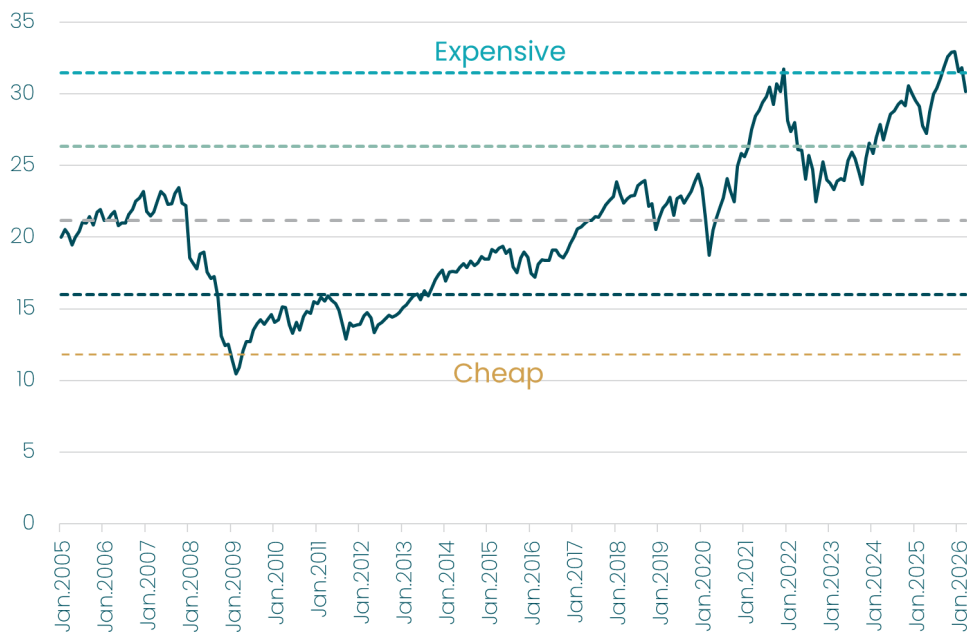
## Diversification Benefits of Liquid Alternatives

### Capital Market Environment

By late March 2026, the MSCI World Index continued to trade at elevated valuation levels, despite the market correction experienced during March. Using the long-term, trailing three-year inflation-

adjusted price-to-earnings ratio, valuations surpassed the two-standard-deviation level above the 20-year median in the first quarter of 2026. This indicates that, from a historical perspective, global equity markets appear overvalued.

MCSI World Long Term PE(3Y inflation-adjusted)



Source: Bloomberg as of March 2026

At the end of March, the MSCI World Index was trading at a trailing three-year inflation-adjusted price-to-earnings ratio of approximately 30, representing a substantial premium to its long-term median of around 21. In the current market environment, marked by rising geopolitical tensions, investors may be prompted to reassess their asset allocations and consider greater diversification beyond the traditional stock-and-bond portfolio, including alternative asset classes.

### The traditional 60/40 Balanced Portfolio

Taking a longer-term perspective, several warning signals have emerged over the past decade. Prolonged negative interest rates, historically elevated bond valuations, and a record-long equity bull market all pointed to growing imbalances in financial markets. By 2022 at the latest, these imbalances became evident as the long-held assumption of effective diversification between equities and

bonds broke down. Both asset classes delivered losses at the same time—a scenario many investors had previously considered highly unlikely.

As a result, a traditional 60/40 portfolio (bonds/equities) declined by approximately -10% to 15% in 2022, depending on its specific composition, marking one of the weakest perfor-

mances in decades. For example, a balanced portfolio consisting of a 40% allocation to the MSCI World Index and a 60% allocation to euro-denominated investment-grade bonds, represented by the Bloomberg Euro Aggregate (1–10 Year) Index, would have recorded a loss of -12.31% over the 2022 calendar year and a further decline of approximately -2.0% during the first three months of 2026.

Traditional Balanced Portfolio 40% MSCI World / 60% Bloomberg Euro Aggregate 1-10

		Balanced	
		40% MSCI World	
		60% EURO AGG BONDS	
MSCIW EUR	EURO IG Bonds	Portfolio	
NDDUWI Index	Portfolio	Portfolio	
12.00%	1.41%	5.65%	2019
5.81%	1.94%	3.58%	2020
32.72%	-1.40%	12.25%	2021
-13.12%	-11.76%	-12.31%	2022
19.31%	6.34%	11.53%	2023
26.45%	3.79%	13.20%	2024
7.42%	2.53%	4.49%	2025
-3.88%	-0.85%	-2.06%	2026
11.89%	0.00%	4.71%	Annual Ret.
17.11%	3.30%	7.02%	Volatility in %
0.62	-0.38	0.49%	Sharpe Ratio
-12.99%	-3.60%	-6.90%	Worst Calendar Month

Source: Bloomberg, Seahawks' own calculations. Period: 22.5.19 – 31.3.26 (Annual rebalancing)

While equity markets continue to offer long-term growth opportunities, the bond component - once considered a stabilising anchor - has increasingly become a source of uncertainty for conservative investors. Return expectations, particularly for euro-denominated bonds, remain subdued, while the asset class provides limited diversification benefits and, in some cases, exposes investors to greater downside risk. As a result, the traditional portfolio with a high allocation to bonds is no longer delivering the outcomes it historically promised.

Conservative investors typically aim to achieve returns that exceed inflation after

fees and taxes. However, under current conditions, this objective has become more difficult to achieve within the traditional balanced-portfolio framework. Preserving real wealth is no longer automatic and now requires a more deliberate and active investment approach. Even high-quality government bonds have generated negative real returns over extended periods in recent years, placing structural pressure on conservative portfolios.

Consequently, investors need to rethink their strategic asset allocation. While the traditional approach proved effective up until the beginning of 2022, the market environment since then has prompted

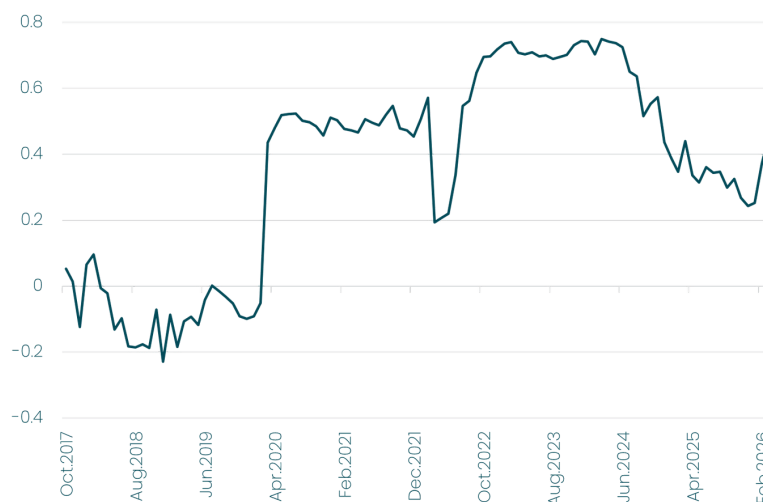
many investors to reassess their positioning and reconsider the role of alternative investments within their portfolios.

### A positive stock-bond correlation requires new portfolio components

The correlation between equities and

government bonds, which had historically been reliably negative, turned positive several years ago (see chart below). This structural shift has significant implications for diversification and, consequently, for effective portfolio construction.

Trailing 2 Yr. Correlation Bonds vs. Stocks  
(Bloomberg Aggregate Bond Index 1-10/ MSCI World Index (EUR))



Source: Bloomberg as of March 2026

Government bonds have become positively correlated with equities, limiting their ability to diversify portfolios as they once did. As a result, bonds are increasingly unable to fulfil their traditional role as a stabilising element within multi-asset portfolios. This shift suggests that investors may need to reduce their reliance on bonds and introduce additional diversifying asset classes.

Liquid alternatives, in particular, can offer meaningful diversification benefits and help mitigate overall portfolio risk. For many institutional investors, fixed-income market risks have historically dominated portfolio construction. Consider the canonical 60/40 bond-equity portfolio, represented by a 40% allocation to the MSCI World Index and a 60% allocation to the Bloomberg Euro Aggregate Investment Grade Index.

During the period from 2000 to 2020, when equities and bonds generally exhibited a negative correlation, such a two-asset portfolio structure was largely sufficient. However, since 2022, markets have entered a regime shift. The two-year trailing correlation between stocks and bonds has turned positive, weakening the effectiveness of traditional diversification. Notably, equities remain the primary driver of portfolio risk, regardless of whether stock-bond correlations are positive or negative.

While today's market environment differs from the past in several important respects, the conclusion that positive stock-bond correlations alone have created a diversification problem is incomplete. Portfolios are facing—and have always faced—a diversification challenge. The current regime has merely made these structural limitations more visible and more pressing.

#### Positive Market Beta between Stocks and Bonds

Building a more resilient portfolio in an environment where stocks and bonds are

positively correlated requires identifying asset classes and strategies that provide genuine diversification relative to equities.

While correlations offer insight into how closely assets move together, beta is a more informative metric when assessing economic exposure—particularly equity risk. Beta has a straightforward interpretation: an equity beta of 0.5 implies that for every dollar invested in an asset, the portfolio gains approximately 50 cents of exposure to equity market movements, in addition to the asset's other return drivers.

Over the past five years, bonds have exhibited a positive correlation with equity markets. With an equity beta of approximately 0.2, each dollar allocated to bonds has effectively contributed around 20 cents of additional equity market exposure relative to the global equity benchmark, as represented by the MSCI World Index. This reinforces the view that bonds currently provide less diversification against equity risk than traditionally expected.

Correlation Matrix Monthly Returns (past 5 years)

	Broad EURO den. Fixed Income Segment	Traditional Equity Benchmarks			Liquid Alternative
Beta	Bbg EURO Aggr 1-10 Year index	S&P 500 Index	MSCI World (EUR)	Stoxx 600 Europe	Seahawk Equity Long Short Fund
Bbg EURO Aggr 1-10 Year index	1.00	0.18	0.20	0.13	-0.05
S&P 500 Index	0.18	1.00	0.94	0.60	0.15
MSCI World (EUR)	0.20	0.94	1.00	0.66	0.27
Stoxx 600 Europe	0.13	0.60	0.66	1.00	0.45
SELS Fund	-0.05	0.15	0.27	0.45	1

Source Bloomberg, Seahawk own calculations Performance; Statistics since 22.05.2019 (inception SELS)

Long Short Equity as a diversifier to a balanced portfolio

Long/short alternative strategies have a long track record as portfolio diversifiers. In 2019, Seahawk Investments launched a long/short equity strategy designed to help investors further diversify beyond traditional fixed-income and equity allocations, as well as to enhance diversification within equity-heavy portfolios.

As illustrated in the example above, the liquid alternative strategy has provided more effective diversification than both bonds and broad equity markets. Consequently, incorporating such liquid alternative solutions can enhance portfolio resilience and add value within a comprehensive, multi-asset investment framework.

Multi Asset Portfolio incl. Liquid Alternatives  
20% MSCI World (EUR) / 20% Seahawk Equity LS /  
60% Bloomberg Euro Aggregate 1-10

			Multi Asset Portfolio	
			20% MSCI World / 20% SELS Fund	
SELS	MSCIW NR EUR	LEUITREU Index	60% EURO AGG BONDS	
SHEQLSE LX Equity	NDDUWI Index	Portfolio	Portfolio	
6.72%	12.00%	1.41%	4.59%	2019
7.57%	5.81%	1.94%	3.92%	2020
18.63%	32.72%	-1.40%	9.43%	2021
48.42%	-13.12%	-11.76%	0.00%	2022
8.81%	19.31%	6.34%	9.43%	2023
-10.50%	26.45%	3.79%	5.43%	2024
3.02%	7.42%	2.53%	3.61%	2025
12.75%	-3.88%	-0.85%	1.27%	2026
12.81%	11.89%	0.00%	5.26%	Annual Ret.
15.98%	17.11%	3.30%	5.45%	Volatility in %
0.72	0.62	-0.38	0.73%	Sharpe Ratio
-7.90%	-12.99%	-3.60%	-5.75%	Worst Calendar Month

Source: Bloomberg, Seahawks' own calculations, Performance statistics since 22.05.2019 (inception SELS, annual rebalancing)

Compared with the traditional balanced portfolio highlighted on page 2, the inclusion of the liquid alternative solution meaningfully improved risk-adjusted returns, as measured by the Sharpe ratio. The multi-asset portfolio illustrated above allocates only 20% (versus 40%) to global equities, as represented by the MSCI World Index, and an additional 20% to a long/short equity strategy (the Seahawk Equity Long Short Fund).

In retrospect, such an allocation would have significantly stabilised portfolio performance, achieving a Sharpe ratio of 0.73 compared with 0.49 for the traditional balanced portfolio. In addition, the more diversified allocation reduced overall portfolio volatility while preserving return potential, demonstrating the effectiveness of liquid alternatives in enhancing portfolio efficiency within a multi-asset framework.

Long Short Equity as a diversifier to a pure equity portfolio

A similar diversification benefit can be achieved by incorporating liquid alternatives into a purely equity-based portfolio. The inclusion of the Seahawk Equity Long Short Fund alongside a traditional equity allocation would have materially enhanced the portfolio's risk-return profile. The example below illustrates the diversification effect of

allocating 30% to the long/short strategy within a global equity portfolio represented by the MSCI World Index. The annualised return would have increased by 77 basis points, while portfolio volatility would have declined by 3.37 percentage points. As a result, the risk-adjusted return-measured by the Sharpe ratio-would have improved markedly, rising from 0.62 to an attractive 0.83.

Equity Portfolio 70% MSCI World incl. Liquid Alternatives 30% (Seahawk Equity Long Short Fund)

SEAHAWK EQUITY L/S- EUR S	MSCI World (EUR)	70% MSCI World EUR/30% SELS Fund	
6.72%	12.00%	10.42%	2019
7.57%	5.81%	6.34%	2020
18.63%	32.72%	28.49%	2021
48.42%	-13.12%	5.34%	2022
8.81%	19.31%	16.16%	2023
-10.50%	26.45%	15.59%	2024
3.02%	7.42%	6.10%	2025
12.75%	-3.88%	1.11%	2026
12.81%	11.89%	12.66%	Annual Ret.
15.98%	17.11%	13.74%	Volatility in %
0.72	0.62	0.83	Sharpe Ratio
-7.90%	-12.99%	-12.42%	Worst Calendar Month

Source: Bloomberg, Seahawks' own calculations. Performance Statistics since 22.05.2019 (inception SELS, annual rebalancing)

## Key takeaways

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Conservative portfolios can be meaningfully enhanced by incorporating additional sources of return beyond traditional interest income and dividends. In particular, return drivers that are less correlated with equities and bonds are becoming increasingly important. What ultimately matters is not the complexity of individual strategies, but their ability to contribute to the stability of the overall portfolio.

Liquid alternatives, such as long/short equity strategies, can play a valuable role in this context by helping investors achieve more consistent returns without sacrificing long-term return objectives.

## Contacts

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