February 11, 2026

Authors:
Christine Jayne R. Marcelo
John Joseph A. Chua
Vince Gerard V. Pena

Editors:
John Marvin Q. Blanco
Derric Paolo L. Tiongco
Tatyana Alessandra R. Garcia

WEALTH BLUEPRINT

WHY YOUR PORTFOLIO SHOULD BE AN ORCHESTRA, NOT A SOLO ACT

What is diversification?

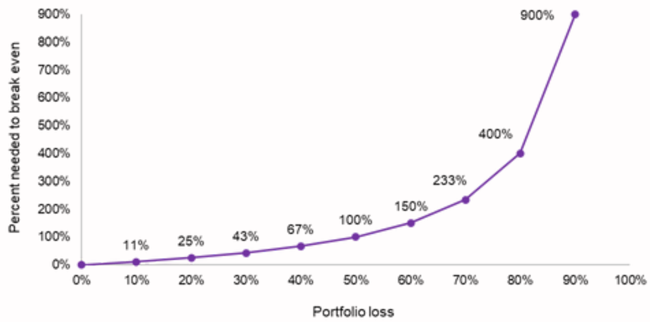
At its core, diversification is an investment approach that involves spreading your capital across a wide range of assets to manage and mitigate risk. By distributing investments, it reduces the effect of losses in one specific asset on the performance of the overall portfolio. However, diversification may not eliminate systematic risks such as global recessions or high inflation which may cause a downturn on most asset classes. Non-systematic risks are those that are avoidable and are specific to either particular companies, industries, or even asset classes. These are unique risks that single businesses face and can be minimized through diversification.

Ultimately, the goal is not to achieve the highest possible return, but rather to minimize volatility and avoid catastrophic losses, helping investors stay committed to their long-term financial plans despite short-term price fluctuations.

Why should you diversify?

If done correctly, diversification can serve as a tool to reduce a portfolio's volatility and limit its potential downside. The importance of diversification in the realm of investing is further highlighted by the Math of Recovery concept. This concept explains that when your portfolio declines, the percentage gain needed to recover will always be larger than the percentage lost. For instance, if a $100 million portfolio drops 50% due to an unexpected event, the remaining $50 million must double—a 100% gain—just to return to the original principal. Because recovery requirements grow non-linearly, smaller losses are significantly easier to overcome, as illustrated in Figure 1.

Figure 1. Graph of the Math of Recovery Concept



Diversification helps as it intends to establish positions across different assets, sectors, and market environments thereby spreading a portfolio's chances to both grow and lose value. Such positioning allows portfolios to weather changing markets while remaining exposed to growth probabilities. While diversification may limit extreme upside from a single big winner, it concurrently limits the downside potential as well, leading to more "measured" returns that can prove to be steadier and more sustainable over time.

How can you diversify your investments?

Diversification is not a mere exercise of choosing numerous options over having a singular holding. For it to work, appropriate selection is key. At the heart of successful diversification is correlation, which measures how investments move relative to each other:

- If two investments usually move in the same direction, they have high positive correlation.
- If they move in opposite directions, correlation is negative.
- If their movements are mostly unrelated, correlation is low or near zero.

Why does this matter? Combining assets with low or negative correlation helps reduce risk because they do not react the same way to market events.

Figure 2. Annual Returns (%)

DATE	YoY Returns				
	S&P 500	UST	PH Equities	PH Bonds	Gold
2005	3.0%	2.4%	15.0%	18.6%	17.8%
2006	13.6%	4.3%	42.3%	21.6%	23.2%
2007	3.5%	7.0%	21.4%	5.8%	31.9%
2008	-38.5%	5.2%	-48.3%	1.6%	4.3%
2009	23.5%	5.9%	63.0%	8.2%	25.0%
2010	12.8%	6.5%	37.6%	12.1%	29.2%
2011	0.0%	7.8%	4.1%	12.8%	8.9%
2012	13.4%	4.2%	33.0%	8.9%	8.3%
2013	29.6%	-2.0%	1.3%	5.2%	-27.3%
2014	11.4%	6.0%	22.8%	6.8%	0.1%
2015	-0.7%	0.5%	-3.9%	0.2%	-12.1%
2016	9.5%	2.6%	-1.6%	2.5%	8.1%
2017	19.4%	3.5%	25.1%	0.6%	12.7%
2018	-6.2%	0.0%	-12.8%	-4.4%	-0.9%
2019	28.9%	8.7%	4.7%	19.2%	18.4%
2020	16.3%	7.5%	-8.6%	10.5%	24.6%
2021	26.9%	-1.5%	-0.2%	-3.0%	-4.3%
2022	-19.4%	-13.0%	-7.8%	-4.2%	0.4%
2023	24.2%	5.5%	-1.8%	8.2%	14.6%
2024	23.3%	1.3%	1.2%	4.3%	25.5%
2025	16.4%	7.3%	-7.3%	5.9%	67.4%

For example, during the 2008 Global Financial Crisis, the S&P 500 fell by 39% YoY in 2008 as investors pulled out of equities due to fears of a severe recession triggered by the collapse of the US housing market and failures of major financial institutions (Figure 2). In contrast, demand for safe-haven assets like US Treasuries and Gold surged as investors sought security and liquidity amid heightened uncertainty. Historically, both US Treasuries and Gold have shown negative to low correlation with equities (Figure 3). In 2008, US Treasuries returned 5% YoY and gold gained 4%, in sharp contrast to the steep decline in the S&P 500 (Figure 2).

However, these historical patterns are not guaranteed. Asset relationships can shift when economic conditions change, such as during periods of high inflation or rapid interest rate hikes. For example, in 2022, the S&P 500 fell 19% YoY (Figure 2) as the Federal Reserve raised rates aggressively. Higher rates make borrowing more expensive, which can lead consumers to spend less and businesses to cut back on investments. This slows economic activity and hurts company earnings, pushing stock prices down. Meanwhile, US Treasuries, which usually move differently from stocks, also fell 13% in 2022 (Figure 2). This happened because when interest rates rise, new bonds pay higher yields, making older bonds with lower rates less attractive. As a result, their prices drop. This shows that even assets considered "safe" can lose value when economic conditions change, and correlations between assets can shift.

As a rule of thumb, correlations above 0.90 mean assets move very similarly, offering little protection. Correlations below 0.50 are generally better for diversification.

Figure 3. Average Rolling 10-year Correlation

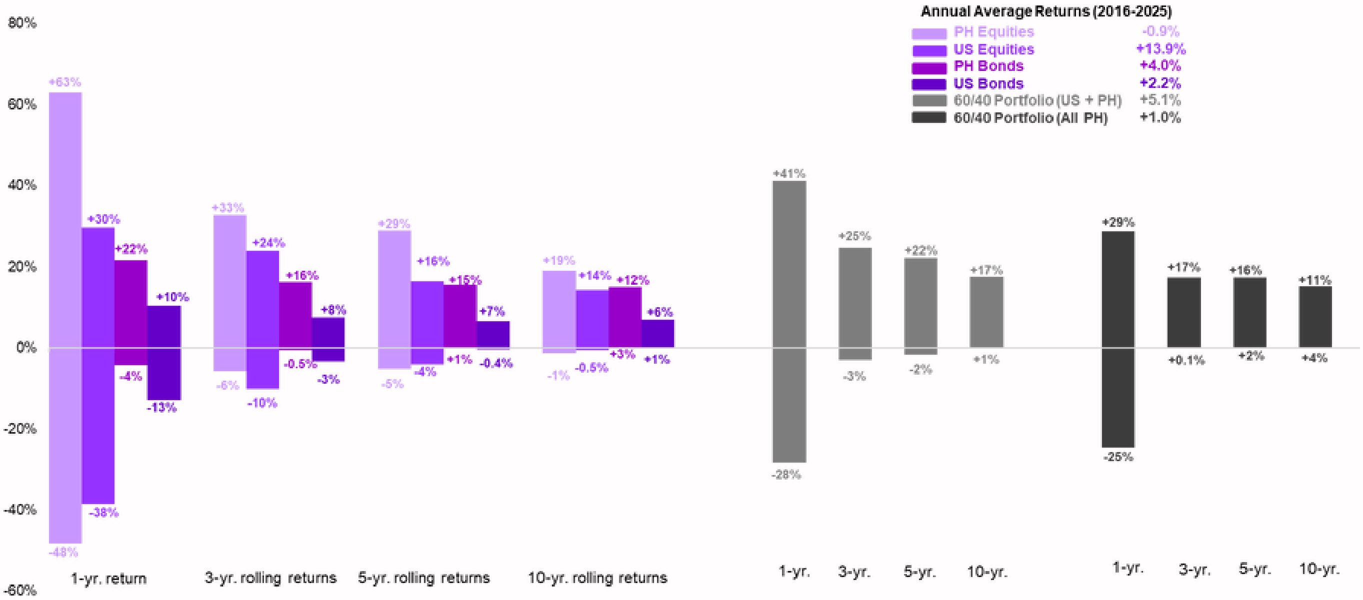
ASSET CLASS	US Equities	US Bonds	PH Equities	PH Bonds	Gold
US Equities	1.00				
US Bonds	0.10	1.00			
PH Equities	0.48	0.08	1.00		
PH Bonds	0.37	0.44	0.36	1.00	
Gold	-0.06	0.23	0.08	0.25	1.00

Source: Bloomberg, BPI Wealth estimates. Returns used for correlation are based on calendar years 1988-2025, except for PH bonds due to data availability (2000-2025).
US Equities are proxied by the S&P 500 Index (SPX Index)
US Bonds are proxied by the Bloomberg US Aggregate Bond Index (LBUSTRUU Index)
PH Equities are proxied by the PSEi (PCOMP Index)
PH Bonds are proxied by the HSBC/BPI Blended Overall Index

Diversification can be applied in different ways:

- **By Asset Class.** A mix of short-term investments, stocks, bonds, and alternatives like real estate or commodities help balance risk. Short-term investments offer safety and liquidity, while bonds provide income and stability. Stocks offer higher growth potential but are more volatile. Lastly, alternatives like gold can help protect against inflation and currency risk.
- **By Geography.** Investing in different countries reduces exposure to risks tied to one economy. For Philippine investors, adding foreign stocks can provide opportunities not available locally, such as technology and healthcare sectors. These investments can offer higher potential returns but also come with risk and currency fluctuations.
- **By Industry or Sector.** Different sectors respond differently to economic changes. Energy moves with oil prices and geopolitical events. Healthcare tends to be more stable during downturns. Technology thrives in growth periods but can fall sharply in economic downturns. Spreading investments across sectors helps reduce sector-specific risks.

Let's look at an example.



Source: Bloomberg, BPI Wealth estimates.
US Equities are proxied by the S&P 500 Index (SPX Index)
US Bonds are proxied by the Bloomberg US Aggregate Bond Index (LBUSTRUU Index)
PH Equities are proxied by the PSEi (PCOMP Index)
PH Bonds are proxied by the HSBC/BPI Blended Overall Index

What the chart shows

The chart above presents calendar-year returns from 2000 to 2025. Each bar shows the highest and lowest rolling-period returns for key asset classes, a 60/40 US+PH portfolio, and a 60/40 all-PH portfolio.

What the numbers tell us

Equity markets can move sharply in either direction.

- **PH equities:** +63% to –48%
- **US equities:** +30% to –38%

These swings show how volatile single-market equity exposure can be. Portfolios fully invested in equities may benefit in strong markets but suffer significantly during downturns.

Why diversification helps

- Diversifying asset classes by adding fixed income reduces extreme fluctuations and creates a steadier return pattern.
- Further diversifying through geography, such as in the globally diversified 60/40 US+PH portfolio, further narrows return ranges, reduces drawdowns, and improves long-term performance compared to an all-PH portfolio.

What this means for investors

Portfolio allocations vary depending on an investor's risk profile. For instance, younger investors often hold more equities because they have longer time horizons and greater ability to recover from short-term market declines. As investors progress through different life stages, many choose to gradually increase their allocation to fixed income to help stabilize returns.

Diversification through a selection of different asset classes, countries/regions and sectors is also not a straightforward affair. Though each asset class, country and sector exhibit a unique set of characteristics that influence correlations, the selection process is often aided by an overarching macro strategy. Such is influenced by factors such as economic growth expectations, monetary policy environment, geopolitical considerations, and other thematic factors that may influence the performance and behavior of asset classes, countries, and entire sectors.

Diversification isn't about chasing the highest return it's about reducing volatility for a smoother long-term investment experience.

TERMS FOR PROVISION OF REPORT, DISCLOSURES AND DISCLAIMERS

This report, and any electronic access to it, is restricted to and intended only for clients of Bank of the Philippine Islands BPI Wealth - A Trust Corporation ("BPI Wealth") who are institutional and individual investors and who are allowed access thereto (each an "Authorized Person") and is subject to the terms and disclaimers below.

IF YOU ARE NOT AN AUTHORISED PERSON OR DO NOT AGREE TO BE BOUND BY THE TERMS AND DISCLAIMERS SET OUT BELOW, YOU SHOULD DISREGARD THIS REPORT IN ITS ENTIRETY AND LET ITS RELATED ENTITY (AS RELEVANT) KNOW THAT YOU NO LONGER WISH TO RECEIVE SUCH REPORTS.

This report provides information and opinions as a reference resource only. This report is not intended to be and does not constitute financial advice, investment advice, trading advice, or any other advice. It should not be construed as a solicitation or an offer to buy or sell securities or related financial products. The information and commentaries are also not meant to be endorsements or offerings of any securities, options, stocks, or other investment vehicles.

The report has been prepared without regard to the individual financial circumstances, needs, or objectives of the persons who receive it. The securities discussed in this report may not be suitable for all investors. Readers should not rely on any of the information herein as authoritative or substitute for the exercise of their own skill and judgment in making any investment or other decision. Readers should independently evaluate particular investments and strategies and are encouraged to seek the advice of a financial adviser before making any investment or entering into any transaction in relation to the securities mentioned in this report. The appropriateness of any particular investment or strategy whether opined on or referred to in this report or otherwise will depend on an investor's individual circumstances and objectives and should be confirmed by such investor with his advisers independently before adoption or implementation (either as is or varied). You agree that any and all use of this report which you make is solely at your own risk and without any recourse whatsoever to BPI Wealth, its related and affiliate companies, and/or their employees. You understand that you are using this report AT YOUR OWN RISK.

This report is being disseminated to or allowed access by Authorized Persons in their respective jurisdictions by the BPI Wealth affiliated entity/entities operating and carrying on business as a securities dealer or financial adviser in that jurisdiction (collectively or individually, as the context requires, "BPI Wealth").

BPI Wealth, its related and affiliate companies, and/or their employees may have investments in securities of companies mentioned in this report and may trade them in ways different from those discussed in this report.

BPI Wealth and its related and affiliated companies are involved in many businesses that may relate to the companies mentioned in this report. These businesses include market making and specialized trading, risk arbitrage and another proprietary trading, fund management, investment services, and corporate finance.

Except with respect to the disclosures of interest made above, this report is based on public information. BPI Wealth makes a reasonable effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. The reader should also note that unless otherwise stated, none of BPI Wealth or any third-party data providers make ANY warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

Proprietary Rights to Content.
The reader acknowledges and agrees that this report contains information, photographs, graphics, text, images, logos, icons, typefaces, and/or other material (collectively "Content") protected by copyrights, trademarks, or other proprietary rights and that these rights are valid and protected in all forms, media, and technologies existing now or hereinafter developed. The Content is the property of BPI Wealth or that of third-party providers of content or licensors. The compilation (meaning the collection, arrangement, and assembly) of all content in this report is the exclusive property of BPI Wealth and is protected by Philippine and international copyright laws. The reader may not copy, modify, remove, delete, augment, add to, publish, transmit, participate in the transfer, license, or sale of, create derivative works from, or in any way exploit any of the Content, in whole or in part, except as specifically permitted herein. If no specific restrictions are stated, the reader may make one copy of select portions of the Content, provided that the copy is made only for personal, information, and noncommercial use and that the reader does not alter or modify the Content in any way, and maintain any notices contained in the Content, such as all copyright notices, trademark legends, or other proprietary rights notices. Except as provided in the preceding sentence or as permitted by the fair dealing privilege under copyright laws, the reader may not reproduce, or distribute in any way any Content without obtaining permission of the owner of the copyright, trademark, or other proprietary rights. Any authorized/permitted distribution is restricted to such distribution not being in violation of the copyright of BPI Wealth only and does not in any way represent an endorsement of the contents permitted or authorized to be distributed to third parties.

Additional information on mentioned securities is available on request.
THIS REPORT IS STRICTLY CONFIDENTIAL TO THE RECIPIENT, MAY NOT BE DISTRIBUTED TO THE PRESS OR OTHER MEDIA, AND MAY NOT BE REPRODUCED IN ANY FORM, AND MAY NOT BE TAKEN OR TRANSMITTED. FAILURE TO COMPLY WITH THIS RESTRICTION MAY CONSTITUTE A VIOLATION OF SECURITIES LAWS IN THE REPUBLIC OF THE PHILIPPINES. BY ACCEPTING THIS REPORT, YOU AGREE TO BE BOUND BY THE FOREGOING LIMITATIONS. Without prejudice to the foregoing, the reader is to note that additional disclaimers, warnings, or qualifications may apply if the reader is receiving or accessing this report in or from other than the Philippines.

Analyst Certification:
The views expressed in this report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

BPI Wealth is a subsidiary of BPI. For inquiries and comments, please send us a message by visiting the BPI or BPI Wealth websites and click the Contact Us page. You may also call our 24-hour BPI Contact Center at (+632) 889-10000.

BPI Wealth is regulated by the Bangko Sentral ng Pilipinas. https://www.bsp.gov.ph