



Diversifying beyond traditional assets as correlations rise.



Steven Treftz, CFA
Portfolio Manager
Multi-asset strategies

Much has been written recently about the diminished diversification benefit of bonds relative to equities in a portfolio context. We agree that bonds have provided less diversification over the past five years than they did during the prior two decades. However, we view this less as a structural break in the stock-bond relationship and more as a reversion toward the longer-term historical pattern, in which correlations have generally been flat to modestly positive rather than persistently negative.

Stock vs. bond correlations explained

Although the long-term correlation between stocks and bonds has been positive on average, the relationship is highly regime dependent. In periods characterized by low inflation and periodic growth shocks, the stock-bond correlation has typically been negative, allowing bonds to provide a meaningful source of portfolio diversification. By contrast, during periods of elevated inflation or inflation shocks, stocks and bonds have tended to move more closely together, reducing the diversification benefit of fixed income.

As shown in Exhibit 1, the correlation between stocks and bonds was negative for much of the 2000 to 2020 period. More recently it has reverted to positive territory.

Exhibit 1: Bonds are no longer dependable ballast due to rising correlations



Source: Bloomberg. As of 6/30/2026.

Why did this long-term relationship turn negative from 2000 to 2020?

The 2000 to 2020 period was characterized by low inflation, or even outright disinflation at times, alongside periodic growth shocks, such as the technology bubble, the Global Financial Crisis, and the COVID-19 pandemic. In this environment, concerns about weakening economic growth generally placed downward pressure on equity prices, while also contributing to lower interest rates and higher bond prices. This opposing response to growth shocks helped produce a negative correlation between stocks and bonds.

Several broader forces contributed to the low-inflation environment. Increasing globalization and an emphasis on free trade and market liberalization limited the use of trade barriers, such as tariffs, that can contribute to inflationary pressure. Furthermore, coordinated and accommodative central bank policies kept interest rates suppressed for extended periods.

Why did correlations revert to the long-term positive relationship?

Several economic and geopolitical dynamics have shifted since the low-inflation, low-rate environment that prevailed from 2000 to 2020. Inflation became less benign following the extraordinary fiscal and monetary measures introduced during the pandemic. Although much of that emergency stimulus has been spent, a range of factors continues to keep inflation above central bank targets. Elevated input costs, a shift to onshoring, tariffs, and resilient labor markets have placed a floor under goods and services prices, while large and rising fiscal deficits have contributed to upward pressure on term premiums.

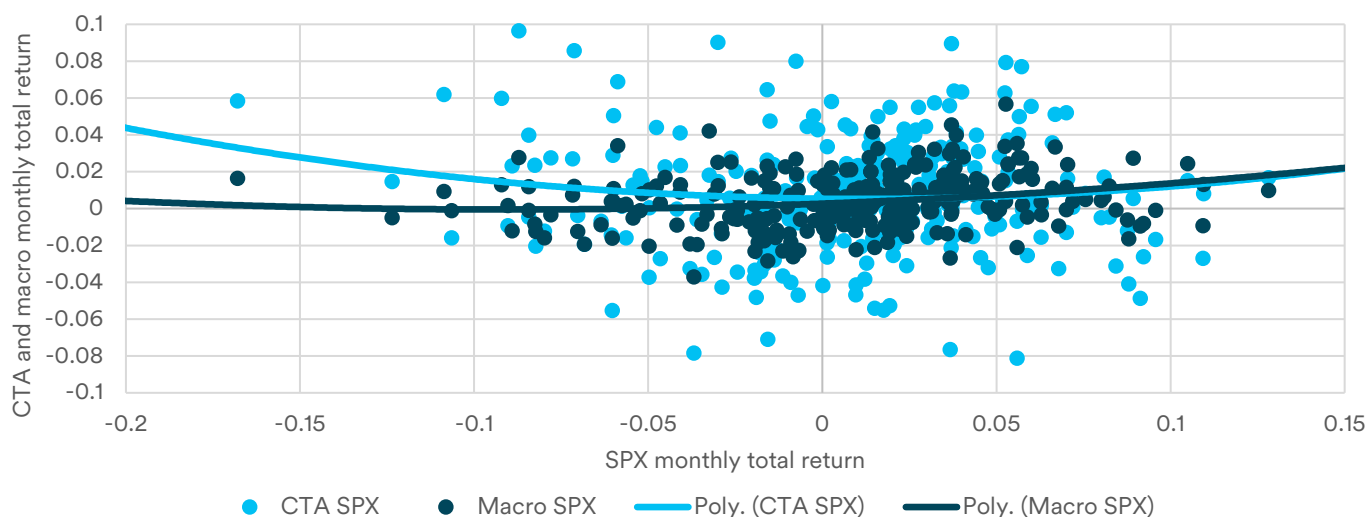
Summary

The unusually negative stock-bond correlation that prevailed for much of the 2000 to 2020 period reflected a specific macroeconomic backdrop of low inflation, suppressed interest rates, and recurring growth shocks. As inflationary pressures, higher policy rates, and larger fiscal deficits have reemerged, stock-bond correlations have reverted closer to their longer-term pattern of being flat to modestly positive, limiting the diversifying role of bonds.

This reinforces the importance of building diversification from multiple sources rather than relying on any single asset class or historical relationship. Allocating assets across equities, bonds, and real assets may help provide positive exposure to growth, disinflationary, and inflationary regimes, respectively. Complementing those core exposures with alternative diversifiers, such as trend and macro strategies, can help broaden a portfolio's opportunity set and improve resilience during periods when traditional stock and bond allocations move together.

These exposures can enhance portfolio balance, reduce reliance on any one source of diversification, and support more durable long-term risk-adjusted outcomes.

Exhibit 2: Trend-following and macro strategies give reason to smile (or smirk)



Source: Bloomberg. As of 6/30/2026.

GLOSSARY AND INDEX DEFINITIONS

For financial term and index definitions, please see: <https://www.sei.com/ent/imu-communications-financial-glossary>

IMPORTANT INFORMATION

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events or a guarantee of future results. All information as of the date indicated. There are risks involved with investing, including possible loss of principal. This information should not be relied upon by the reader as research or investment advice, unless you have otherwise separately entered into a written agreement with SEI for the provision of investment advice nor should it be construed as a recommendation to purchase or sell a security. The reader should consult with their financial professional for more information.

Statements that are not factual in nature, including opinions, projections and estimates, assume certain economic conditions and industry developments and constitute only current opinions that are subject to change without notice. Nothing herein is intended to be a forecast of future events, or a guarantee of future results.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties, which in certain cases have not been updated through the date hereof. While such sources are believed to be reliable, neither SEI nor its affiliates assumes any responsibility for the accuracy or completeness of such information and such information has not been independently verified by SEI.

This material is not directed to any persons where (by reason of that person's nationality, residence or otherwise) the publication or availability of this material is prohibited. Persons in respect of whom such prohibitions apply must not rely on this information in any respect whatsoever.

The information contained herein is for general and educational information purposes only and is not intended to constitute legal, tax, accounting, securities, research or investment advice regarding the strategies or any security in particular, nor an opinion regarding the appropriateness of any investment. This information should not be construed as a recommendation to purchase or sell a security, derivative or futures contract.

You should not act or rely on the information contained herein without obtaining specific legal, tax, accounting and investment advice from an investment professional.

The views contained herein are not to be taken as advice or a recommendation to buy or sell any investment in any jurisdiction.

Our outlook contains forward-looking statements that are judgments based upon our current assumptions, beliefs, and expectations. If any of the factors underlying our current assumptions, beliefs or expectations change, our statements as to potential future events or outcomes may be incorrect. We undertake no obligation to update our forward-looking statements.

Alternative strategies may involve additional risks and complexity, that they may not be suitable for all investors, and that diversification does not guarantee against loss.

Information in the U.S. is provided by SEI Investments Management Corporation (SIMC), a wholly owned subsidiary of SEI Investments Company (SEI).

Information in Canada is provided by SEI Investments Canada Company, a wholly owned subsidiary of SEI Investments Company (SEI), and the Manager of the SEI Funds in Canada.

In the UK and the EEA this information issued in the UK by SEI Investments (Europe) Ltd, 1st Floor, Alphabeta, 14-18 Finsbury Square, London EC2A 1BR which is authorised and regulated by the Financial Conduct Authority. Investments in SEI Funds are generally medium- to long-term investments.

This document has not been registered as a prospectus with the Monetary Authority of Singapore.

This information is made available in Latin America, the Middle East and Australia FOR PROFESSIONAL (non-retail) USE ONLY by SIEL.

Any questions you may have in relation to its contents should solely be directed to your Distributor. If you do not know who your Distributor is, then you cannot rely on any part of this document in any respect whatsoever.

Issued in South Africa by SEI Investments (Europe) Ltd, an authorised financial services provider (FSP No. 9796). This material is provided for general information and educational purposes only and does not constitute financial advice as contemplated in the Financial Advisory and Intermediary Services Act, 2002. It has not been prepared with regard to the investment objectives, financial situation or particular needs of any individual investor. Any reference to portfolio positioning represents SEI's investment views at the date of publication and may differ between portfolios and mandates. Investors should obtain appropriate professional advice before making an investment decision.