

Diversification: A strategy for troubled times

March 2022



Russia’s invasion of Ukraine has resulted in a series of downstream developments that have unsettled many investors. Many countries have responded to Russia’s offenses with an array of sanctions, bans, and other coordinated actions—largely focused on disrupting the country’s financial, energy, technology and transportation activities, as well as state-owned enterprises and high-profile individuals in public and business positions. As a result, inflation has leapt higher, particularly in food and fuel, further challenging central banks amid ongoing supply bottlenecks and robust demand pressures that have caused inflation to run hot. The stock market has responded with roller-coaster-like volatility and, as is the case whenever volatility rears its head, many investors are responding with panic.

Turmoil can come from any direction at any time

While it is human nature to feel uncomfortable during times of volatility, it helps to remember that volatility is normal. It’s an expected—if unpredictable—part of investing. While the current focus is on Russia, this isn’t the first geopolitical conflict that has turned markets sideways—and it also won’t be the last. From the COVID-19 pandemic to the collapse of Lehman Brothers, disruption comes in many forms. And, as the exhibit shows, there’s a different “winner” and “loser” almost every year. Because of this unpredictability, we remain firm in our belief that a diversified portfolio is one of the best ways to reduce risk and increase the odds of long-term investment success.

Exhibit 1: Diversification: The boring winner

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Emerging Equity 18.2%	US Small Cap 38.8%	Long Duration 19.3%	Short Duration 1.0%	US Small Cap 21.3%	Emerging Equity 37.3%	Cash 2.1%	US Large Cap 30.7%	US Small Cap 20.0%	US Large Cap 28.2%
International Equity 17.3%	US Large Cap 31.5%	US Large Cap 13.0%	US Large Cap 0.7%	High Yield 17.5%	International Equity 25.0%	Short Duration 1.5%	US Small Cap 25.5%	Emerging Equity 18.3%	Commodities 27.1%
Emerging Debt 17.1%	International Equity 22.8%	Core Fixed 6.0%	Core Fixed 0.5%	Commodities 11.8%	US Large Cap 21.1%	TIPS 0.4%	International Equity 22.0%	US Large Cap 17.8%	US Small Cap 14.8%
US Small Cap 16.3%	High Yield 7.4%	US Small Cap 4.9%	Cash 0.2%	US Large Cap 11.2%	US Small Cap 14.6%	Core Fixed 0.0%	Long Duration 19.6%	Long Duration 16.1%	International Equity 11.3%
High Yield 15.5%	Cash 0.2%	High Yield 2.5%	TIPS -0.1%	Emerging Equity 11.2%	Emerging Debt 12.7%	High Yield -2.3%	Emerging Equity 18.4%	International Equity 7.8%	TIPS 5.5%
US Large Cap 15.2%	Short Duration -0.2%	Short Duration 1.2%	International Equity -0.8%	Emerging Debt 10.0%	Long Duration 10.7%	Long Duration -4.7%	High Yield 14.4%	Core Fixed 7.5%	High Yield 5.3%
Long Duration 8.8%	TIPS -2.0%	Emerging Debt 0.9%	Long Duration -3.3%	Long Duration 6.7%	High Yield 7.5%	US Large Cap -4.9%	Emerging Debt 14.3%	High Yield 6.1%	Cash 0.2%
Core Fixed 4.2%	Core Fixed -2.0%	Cash 0.2%	US Small Cap -4.4%	TIPS 3.1%	Core Fixed 3.5%	Emerging Debt -5.2%	Core Fixed 8.7%	TIPS 5.7%	Short Duration -1.1%
TIPS 2.7%	Emerging Equity -2.6%	TIPS -1.1%	High Yield -4.6%	Core Fixed 2.6%	Commodities 1.7%	US Small Cap -11.0%	Commodities 7.7%	Short Duration 4.3%	Core Fixed -1.5%
Short Duration 0.9%	Emerging Debt -7.1%	Emerging Equity -2.2%	Emerging Debt -6.9%	Short Duration 1.1%	Cash 1.1%	Commodities -11.2%	TIPS 5.1%	Emerging Debt 4.0%	Long Duration -2.5%
Cash 0.5%	Long Duration -8.8%	International Equity -4.9%	Emerging Equity -14.9%	International Equity 1.0%	TIPS 0.8%	International Equity -13.8%	Short Duration 4.2%	Cash 1.1%	Emerging Equity -2.5%
Commodities -1.1%	Commodities -9.5%	Commodities -17.0%	Commodities -24.7%	Cash 0.7%	Short Duration 0.7%	Emerging Equity -14.6%	Cash 2.6%	Commodities -3.1%	Emerging Debt -5.3%

Chart disclosures on page 2.

Annual performance from 1/1/2012 through 12/31/2021. Asset-class proxy indexes: U.S. Large = Russell 1000, U.S. Small = Russell 2000, Int'l Equity = MSCI EAFE, EM Equity = MSCI Emerging Markets, Core Fixed = Bloomberg Aggregate Index, High Yield = Bloomberg US Corporate High Yield Total Return Index, EM Debt = 50% JP Morgan EMBI Global Diversified/50% JP Morgan GBI EM Global Diversified thereafter, TIPS = Bloomberg 1-5 Year US TIPS Index, Commodities = Bloomberg Commodity Index, Long Duration = Bloomberg US Long Government/Credit Index, Short-Duration = ICE BofA 1-3 Year US Treasury Index, Cash = ICE BofA USD 3-Month Deposit Offered Rate Constant Maturity Index. Sources: Index providers, SEI. Past performance is not a guarantee of future results.

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. This information should not be relied upon by the reader as research or investment advice and is intended for educational purposes only. There are risks involved with investing, including possible loss of principal. Diversification may not protect against market risk.

Index returns are for illustrative purposes only and do not represent actual portfolio performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Information provided by SEI Investments Management Corporation, a wholly owned subsidiary of SEI Investments Company.