

Diversification: A strategy for troubled times

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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 U.S. TIPS Index, Commodities = Bloomberg Commodity Index, Long Duration = Bloomberg U.S. 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.

Index definitions

The **Russell 1000 Index** includes 1000 of the largest U.S. equity securities based on market cap and current index membership; it is used to measure the activity of the U.S. large-cap equity market.

The **Russell 2000 Index** includes 2000 small-cap U.S. equity names and is used to measure the activity of the U.S. small-cap equity market.

The **MSCI EAFE Index** is an unmanaged, market-capitalization-weighted equity index that represents the developed world outside North America.

The **MSCI Emerging Markets Index** is a free float-adjusted market-capitalization-weighted index designed to measure the performance of global emerging-market equities.

The **Bloomberg U.S. Aggregate Bond Index** is a benchmark index composed of U.S. securities in Treasury, government-related, corporate and securitized sectors. It includes securities that are of investment-grade quality or better, have at least one year to maturity and have an outstanding par value of at least \$250 million.

The **Bloomberg U.S. Corporate High Yield Total Return Index** measures the performance of the U.S. dollar-denominated, high-yield, fixed-rate corporate bond market.

The **50% JPM EMBI Global Diversified Index** and **50% JPM GBI EM Global Diversified Index** has a 50% weighting in U.S. dollar-denominated emerging-market bonds, including sovereign debt, quasi-sovereign debt, Brady bonds, loans and Eurobonds, and a 50% weighting in external debt instruments (including U.S.-dollar-denominated and other external-currency-denominated Brady bonds, loans, Eurobonds and local-market instruments) in the emerging markets.

The **Bloomberg 1-5 Year U.S. TIPS Index** measures the performance of inflation-protected public obligations of the U.S. Treasury that have a remaining maturity of one to five years.

The **Bloomberg Commodity Index** is a broadly diversified commodity price index that tracks prices of futures contracts on physical commodities on the commodity markets. The index is designed to minimize concentration in any one commodity or sector.

The **Bloomberg U.S. Long Government/Credit Index** measures the investment return of all medium and larger public issues of U.S. Treasury, agency, investment-grade corporate and investment-grade international dollar-denominated bonds with maturities longer than 10 years. The average maturity is approximately 20 years.

The **ICE BofA 1-3 Year U.S. Treasury Index** is an unmanaged index that tracks the performance of the direct sovereign debt of the U.S. government having a maturity of at least one year and less than three years.

The **ICE BofA USD 3-Month Deposit Offered Rate Constant Maturity Index** tracks the performance of a synthetic asset-paying Libor to a stated maturity. The index is based on the assumed purchase at par of a synthetic instrument having exactly its stated maturity and with a coupon equal to that day's fixing rate. That issue is assumed to be sold the following business day (priced at a yield equal to the current day fixing rate) and rolled into a new instrument.

Important information

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