



## Negative Stock Bond Correlations are a Historic Artifact:

What happens today to  
diversification when you actually  
need it?

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# Negative Stock Bond Correlation Is a Historic Artifact

What happens to diversification today when you actually need it.

Modern portfolio theory assumes correlations are stable and stocks/bonds are negatively correlated. They are not. In past crises and in the current period, they have reverted to positive correlations. The diversification benefit investors count seems to have disappeared.

## THE CALM VS. THE STORM — 60/40 CORRELATION IN PRACTICE

### PAST PERIODS

Equity / bond correlation

**-0.2 to -0.3**

Bonds zig when equities zag. Risk models show low portfolio volatility. Advisors point to the Sharpe ratio.

### CURRENT PERIOD

Equity / bond corr. (2022)

**+0.6 to +0.8**

Both assets fall together. The portfolio that looked diversified suffers on both legs. 2022 was the worst 60/40 year in roughly four decades.

## THE CRISIS RECORD — DID DIVERSIFICATION HOLD?

Crisis	S&P 500	US Bonds	Both fell simultaneously?
Dot-com bust 2000–2002	-9% / -12% / -22%	Positive all 3 yrs	X No — bonds cushioned
GFC 2008	-37%	~+5%	X No — bonds cushioned
COVID Mar 2020	-34%*	Positive*	X Initially no
Rate shock 2022	-18%	-13%	✓ Yes — both fell

## A REAL DIVERSIFIER

**+15.8%**

NCREIF Farmland 2008

While the S&P fell 37% and 60/40 lost ~22%, farmland posted a positive return — structurally uncorrelated to the crisis.

**~0.05**

Farmland / S&P 500 corr.

Near-zero long-run correlation to equities — and this figure did not spike during the 2008 or 2022 stress periods.

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crises: positive returns

Farmland posted positive calendar-year returns in every crisis period in the table above.

The asset classes most investors rely on for diversification appear not to provide it during crisis nor at all recently. Portfolio diversification requires assets whose return drivers are structurally independent of financial market cycles.

Sources: NCREIF Farmland Property Index (annual returns); Bloomberg US Aggregate Bond Index; S&P 500 Index (calendar year returns); Longin & Solnik (2001), 'Extreme Correlation of International Equity Markets,' Journal of Finance; Morningstar 60/40 portfolio analysis. Correlation estimates approximate; based on published academic and practitioner literature. Past performance does not guarantee future results. Crisis record is \* Intra-year peak-to-trough. † Calendar year 2008. Bond proxy: Bloomberg US Aggregate Bond Index.



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