# Market volatility comes and goes. Diversification remains.

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**Have you ever found yourself sighing in exhaustion, muttering "what a day," and then realizing it's only 10:30 AM? If so, you know how investors in capital markets feel at the time of this writing (mid-April 2025).**

## Today's tariff turmoil

Barely a quarter of 2025 has passed, and we've experienced more than enough excitement for a whole year. Markets have been whipsawed by unpredictable shifts in trade rhetoric and policy announcements, with the Trump administration repeatedly issuing harsh tariff threats only to soften them days later. Policy toward China is the exception, but there are exceptions to the exception—staying up to date on tariff news is a full-time job these days.

Year to date through April 8 is a short period of time—and an especially volatile one—meaning there is inevitably a good deal of noise in the data. Yet in times like these, we find it useful to look at our portfolios' experience and compare it to our prior expectations. We can't know what the market will do in any particular period, but naturally we have some understanding of how our portfolios should typically perform in specific market environments. Every crisis is different, so our expectations won't always hold true. Still, we believe there is value in conducting this exercise and using what we learn to evolve our expectations for the future.

For the purposes of this analysis, we considered the year to date through April 8, the day before President Trump's 90-day tariff pause for non-retaliating nations and the subsequent market rally—one of the largest one-day rallies on record. Obviously, we have no idea whether this marks the ultimate bottom in equity prices (We certainly hope it does!). We simply chose this period as it feels like a non-arbitrary lens through which to assess our portfolios' performance during this especially volatile time.

# Strategic asset allocation

The essence of diversification is acknowledging the unknown and seeking to mitigate losses to one's portfolio as much as possible. SEI's asset allocation approach is built with this objective in mind. Our process includes several unique principles that differentiate our portfolios from more simplistic approaches. Importantly, these principles are strategic, not tactical, in nature. In other words, they are features that we believe make sense as a neutral or default position rather than being based on any particular temporary market view. These principles reflect different means by which we diversify our portfolios and seek to insulate them against the inevitable unpredictability that comes with investing in capital markets.

# Principle: Global equity diversification

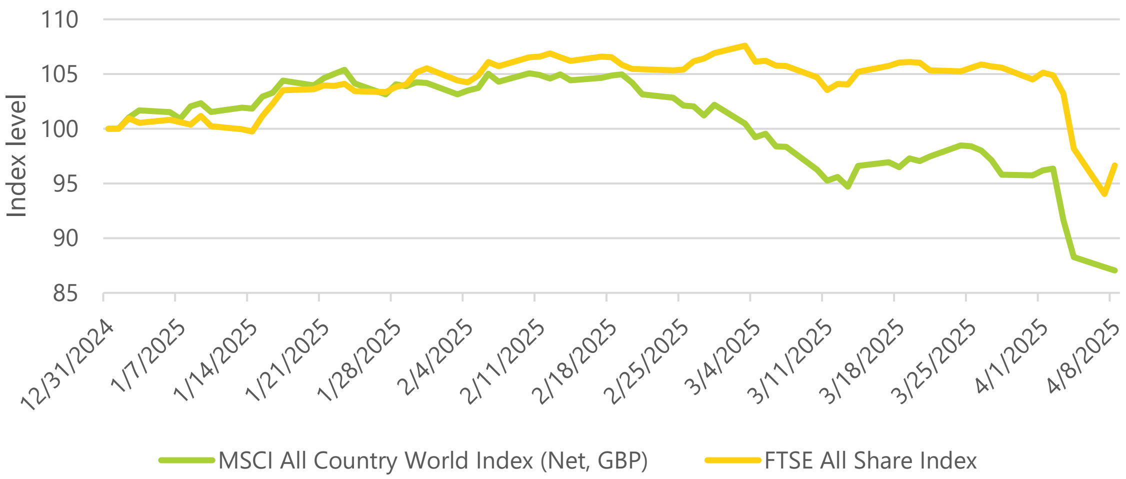
We recognize that many investors feel more comfortable with securities listed in their home country and therefore prefer to favor that country in their portfolios' geographic exposures. As goals-based investors operating at the intersection of traditional and behavioral finance, we are able to accommodate investors who have a strong preference for this "home country bias." That common preference aside, we firmly believe there is a strong case to be made in favor of globally diversified equity portfolios.

Individual countries' stock markets often contain high levels of concentration in individual sectors, industries, and companies. Diversifying globally spreads this risk out more broadly, reducing the portfolio's vulnerability to shocks from any individual source of risk. This is a classic application of the principle of diversification: by broadening out geographic exposures, the investor can reduce portfolio volatility without sacrificing expected return.

Naturally, over any short period of time, assessing the effectiveness of global diversification is subject to noise. With the benefit of hindsight, one's home country will either have underperformed the rest of the world or outperformed it, making global diversification appear to be a good decision or a bad one, respectively. Unfortunately, predicting the future is far more challenging than describing the past. Investing in capital markets inherently entails uncertainty, and in the face of uncertainty, effective diversification prepares portfolios for the widest range of potential outcomes.

For the UK-based investor, global diversification has generally produced positive outcomes in recent years. With the United States such a large component of global benchmarks, both strong price performance and an appreciating U.S. dollar have yielded significant outperformance for international equities. The year to date has seen precisely the opposite dynamic, with U.S. equities and the dollar lagging versus peers as investors try to make sense of ever-changing U.S. trade policy. These two environments demonstrate the importance of global diversification: we never know where the next crisis will be focused, and balancing risk across many geographies, sectors, and industries provides the best insulation against unpredictable future shocks.

**Exhibit 1: U.K. versus Global Equities**



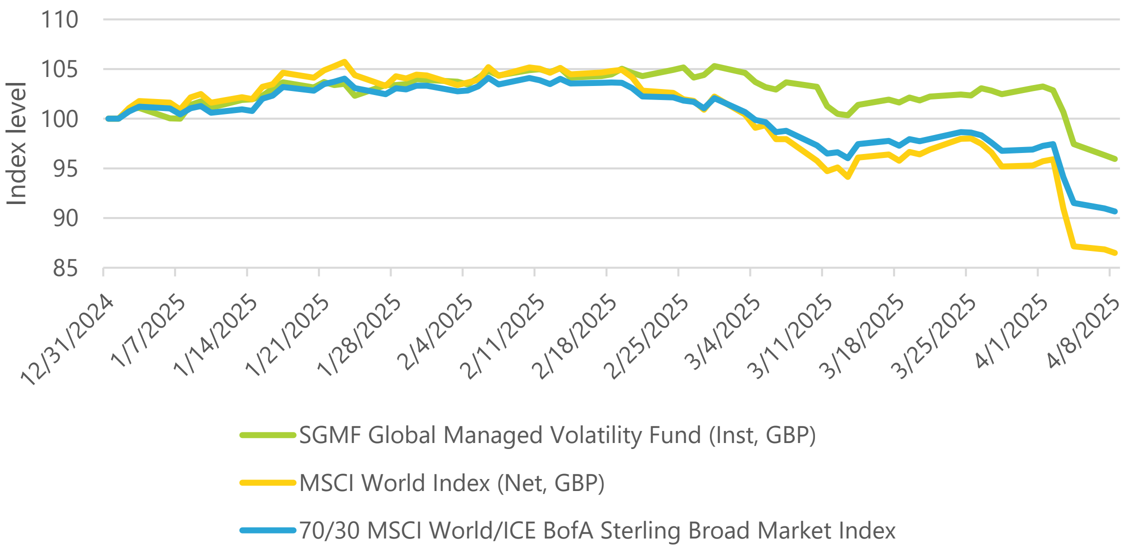

Past performance is not a guarantee of future results.
Sources: SEI, Bloomberg, December 31, 2024, to April 8, 2025.

# Principle: Exposure to low-volatility equity

SEI has invested in low volatility (in our parlance, managed volatility) equities for more than 20 years. The historical record demonstrates that low volatility stocks have generated equity-like returns over the long-term, but with a 20% or greater reduction in volatility. Particularly for investors in lower-risk portfolios—where absolute risk is of greater importance than tracking error (relative risk) to a benchmark—this is an extremely compelling option for a portion of one's equity exposure.

While exceptions always exist, low volatility equities historically provide a meaningful amount of cushion during equity drawdowns. Year-to-date results followed this pattern, as seen in Exhibit 2. Global low-volatility equities significantly outperformed both their traditional counterparts and even a roughly risk-adjusted combination of stocks and bonds.

**Exhibit 2: Managed Volatility**



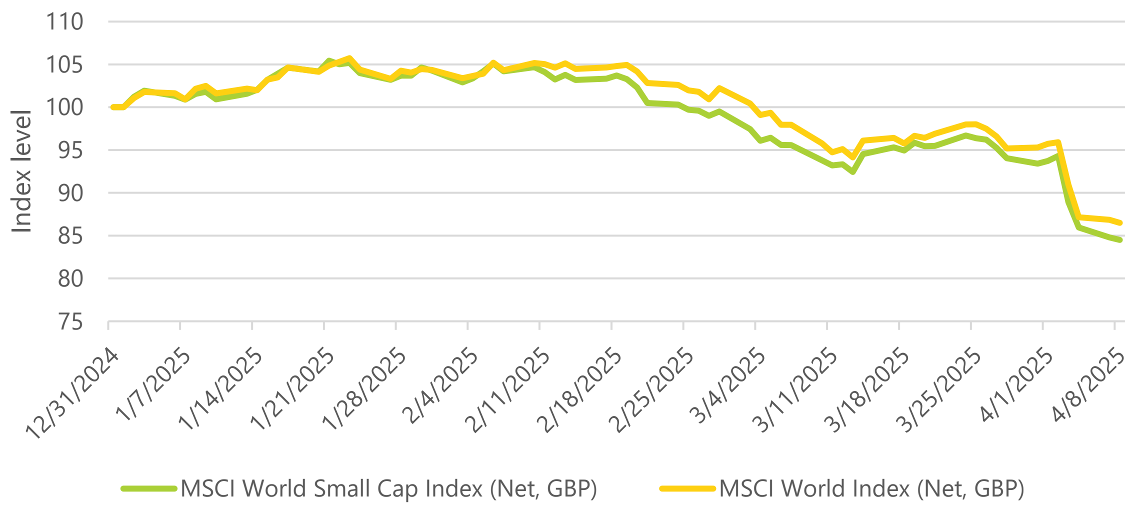

Past performance is not a guarantee of future results, please see standardized performance section.
Sources: SEI, Bloomberg. 70/30 portfolio is rebalanced monthly. December 31, 2024, to April 8, 2025.

# Principle: Equity diversification by size

Consistent with our pursuit of diversification wherever it's available, we strategically invest in equities across the market-capitalization spectrum. We are confident that this more diversified posture offers enhanced expected risk-adjusted returns compared to more concentrated, large- or mega-cap-focused approaches.

In the interest of an unbiased assessment, we believe it fair to note that small-cap equities have modestly lagged their larger counterparts so far in 2025, as shown in Exhibit 3. This is largely expected given the market backdrop. Small company stocks tend to be more volatile than those of larger firms, and they often underperform during periods of extreme market stress. While this year has been no exception, we remain confident in our size-diversified approach to equity portfolios.

**Exhibit 3: Global Small Cap vs. Global Large Cap**



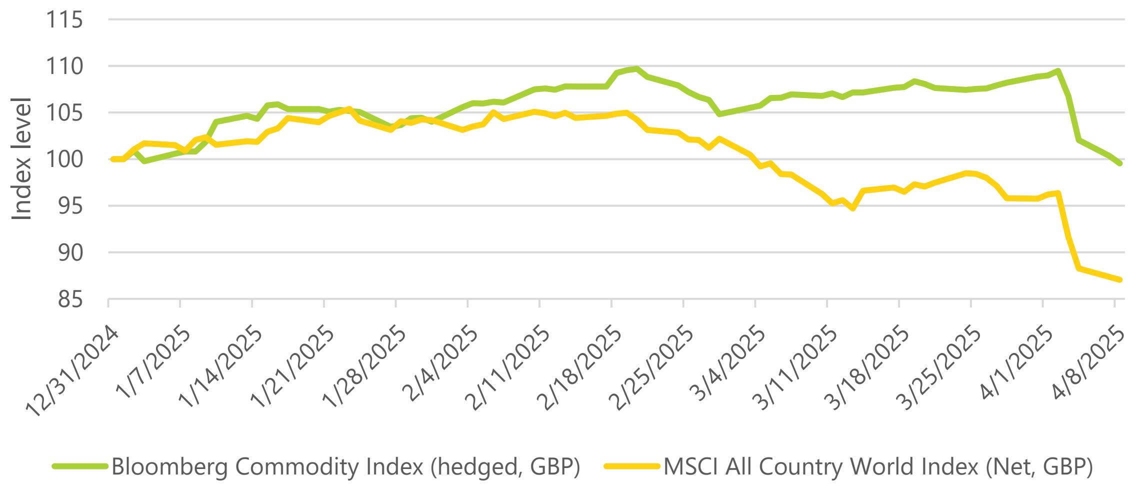

Past performance is not a guarantee of future results.
Sources: SEI, Bloomberg, December 31, 2024, to April 8, 2025.

# Principle: Inflation sensitivity

We firmly believe inflation sensitivity should be a strategic holding in most portfolios. All SEI portfolios are designed to support some form of future spending, and most spending goals are subject to the risk of unexpected inflation. In other words, inflation presents a substantial risk to most portfolios' objectives. As with any risk, attempting to mitigate it after the event has already occurred is prohibitively expensive and self-defeating. Accordingly, we believe that investors should maintain consistent inflation sensitivity in their portfolios. Markets are forward-looking, and outsmarting the market's expectations of inflation is no easier than predicting the direction of stock prices or interest rates. Therefore, efficient inflation sensitivity is an important strategic feature of most portfolios.

Certain forms of inflation sensitivity have served investors well year to date in 2025. It's worth noting that tariff-driven inflation stands in stark contrast to demand-pull inflation generated by strong economic activity. As the year-to-date period shows, growth-oriented assets (like equities) generally serve as a poor hedge to this type of inflation (and certainly to its more extreme form, outright stagflation—high inflation with slow or negative economic growth). Commodities, in contrast, have held up relatively well (as shown in Exhibit 4) compared to other risky assets such as equities. Given their direct role in consumption baskets and their intermediate role in the production of finished goods, commodities provide a natural source of sensitivity against unexpected inflation.

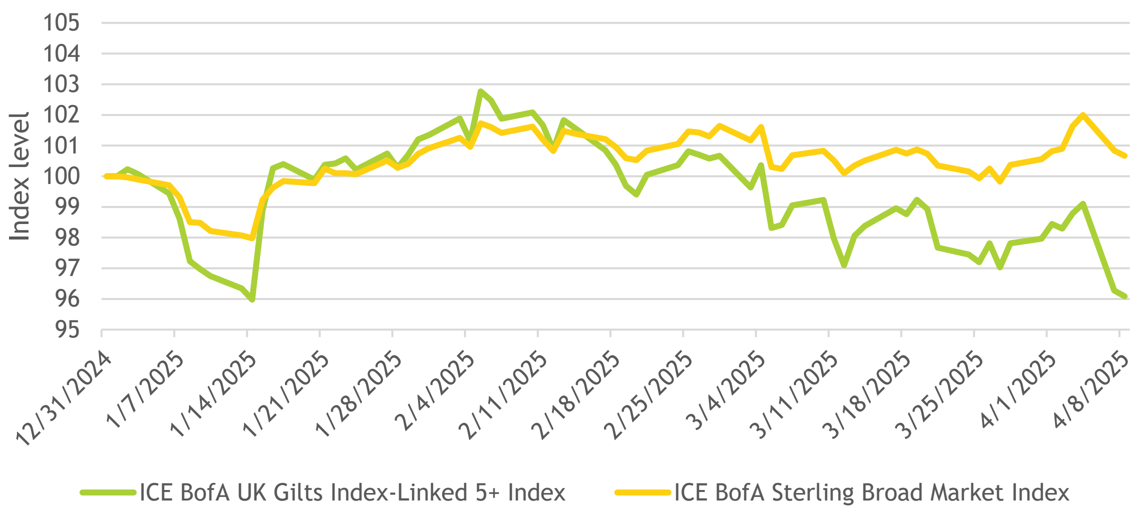
**Exhibit 4: Commodities**




Past performance is not a guarantee of future results.
Sources: SEI, Bloomberg, December 31, 2024, to April 8, 2025.

Inflation-linked bonds (linkers), with their principal and coupon payments directly linked to changes in the Retail Price Index (RPI), provide a somewhat different form of inflation protection. Although their payments are tied directly to inflation, their relatively long maturity means that short-term returns will be sensitive to changes in real (inflation-adjusted) interest rates. This sensitivity is not inherently a bad thing: duration is typically a valuable diversifier to equity risk, and longer-duration bonds are naturally designed to mitigate against long-term inflation by minimizing reinvestment risk (the risk that real interest rates fall, forcing investors to reinvest coupon and principal payments at less attractive rates). In the year to date, this duration has not been rewarded, as real interest rates have risen, and inflation-linked bond prices have fallen modestly. This demonstrates the difficulty in evaluating the efficacy of a long-term inflation hedge over short-term periods. Importantly, this rise in real interest rates offers benefits for the long-term investor, as existing bond holdings are now priced to deliver higher real returns and future cash flows can be deployed at higher real interest rates. We view linkers and commodities as complementary positions and remain confident in our strategic exposure to inflation protection through multiple sources.

**Exhibit 5: Linkers versus nominal bonds**




Past performance is not a guarantee of future results.
Source: SEI, Bloomberg, December 31, 2024, to April 8, 2025.

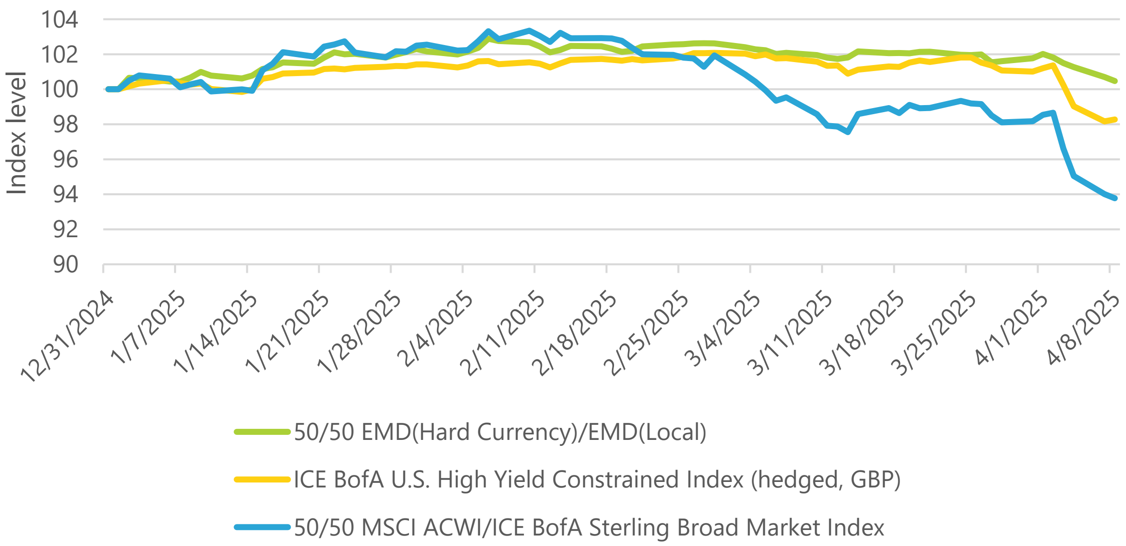
 

## Principle: Plus sector fixed income

Plus sector fixed income assets (assets that are largely excluded from core investment-grade indexes like the Bloomberg Global Aggregate Bond Index) such as high-yield and emerging-market debt serve an important role in our approach to strategic asset allocation. While structured as fixed-income securities, these asset classes carry risks associated with both bonds (interest-rate sensitivity, or duration) and equities (vulnerability to economic and earnings downturns). Although they share these common risk exposures, they are not perfectly correlated with either stocks or bonds and can therefore provide valuable diversification to a broader portfolio. Since these exposures are largely absent from traditional core bond indexes, such as the Bloomberg Global Aggregate Bond Index,more simplistic approaches to asset allocation often forego the potential benefits of plus sector exposure.

Given their hybrid bond/equity-like characteristics, our portfolios typically fund exposures to plus sectors from a combination of bonds and stocks. This affords us the ability to improve expected portfolio returns without increasing expected risk, as would occur if the allocations were funded strictly from investment-grade bonds. Accounting for this hybrid risk exposure is especially critical during times of economic stress, when correlations between riskier credit and equities tend to rise. Thus far in 2025, this approach has benefited investors, with high-yield and emerging-market debt outperforming approximately risk-equivalent combinations of equities and bonds. Exhibit 6 highlights the results.

**Exhibit 6: Plus sectors**




Past performance is not a guarantee of future results.
Sources: Bloomberg, ICE, SEI, December 31, 2024, to April 8, 2025. High Yield is represented by the ICE BofA US High Yield Constrained Index (hedged, GBP); EMD (Hard Currency) is represented by the J.P. Morgan EMBI Global Diversified Composite Index (hedged, GBP), and EMD (Local) is represented by the J.P. Morgan GBI-EM Global Diversified Index (GBP). Both 50/50 portfolios are rebalanced monthly.

## Conclusion: Diversification remains

What a short, strange trip it's been. Neither we nor any other investor can claim to know what will happen next. Volatility is a normal—even healthy—part of investing in capital markets. But that surely doesn't make it pleasant. The good news is that diversification is an investor's best friend in times of heightened uncertainty. And though we can't guarantee outperformance every time there's a crisis, we are grateful that our portfolios have performed as expected in the context of this one. Tariffs or no tariffs, at SEI, diversification is never in short supply.

**Index definitions**

The Bloomberg Commodity Index comprises futures contracts and tracks the performance of a fully collateralized investment in the index.

Consumer-price indexes measure changes in the price level of a weighted-average market basket of consumer goods and services purchased by households. A consumer price index is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically.

The MSCI ACWI Index is a market capitalization-weighted index that tracks the performance of over 2,000 companies, and is representative of the market structure of 48 developed and emerging-market countries in North and South America, Europe, Africa, and the Pacific Rim.

The FTSE All Share Index represents 98-99% of U.K. equity market capitalization. The Index aggregates the FTSE 100, FTSE 250 and FTSE Small Cap Indices.

The ICE BofA Sterling Broad Market Index is a benchmark that tracks the performance of UK investment-grade debt, including government and corporate bonds. It covers a broad range of maturities and credit ratings, providing a comprehensive view of the Sterling bond market.

The ICE BofA UK Gilts Index-Linked 5+ Index tracks the performance of UK government bonds that adjust their coupon and principal payments based on inflation (index-linked gilts). The bonds have maturities of five years or more.

The ICE BofA U.S. High Yield Constrained Index is a market capitalization-weighted index which tracks the performance of U.S. dollar-denominated below-investment-grade (rated BB+ or lower by S&P Global Ratings and Fitch Ratings or Ba1 or lower by Moody's Investors Service) corporate debt publicly issued in the U.S. domestic market.

The MSCI World Index tracks the performance of the large- and mid-cap segments of equity markets across 23 developed-market countries. The index's 1,517 constituents comprise approximately 85% of the free float-adjusted (i.e., including only shares that are available for public trading) market capitalization in each country.

The MSCI World Small Cap Index captures small cap representation across 23 Developed Markets (DM) countries*. With 3,890 constituents, the index covers approximately 14% of the free float-adjusted market capitalization in each country.

**Glossary**

Emerging-market debt refers to bonds issued by governments or corporations in countries with developing economies. These markets are often characterized by rapidly growing economies and increasing integration into the global financial system.

High-yield debt comprises bonds with a credit rating of BB+ or lower by S&P Global Ratings and Fitch Ratings or Ba1 or lower by Moody's Investors Service.

Low volatility stocks typically exhibit less volatility and have more stable prices than traditional equity indexes.

Nominal bonds provide fixed payments based on a predetermined interest rate, rather than adjusting for inflation.

Plus sector fixed income assets are those that are not included in an investment-grade fixed income index, such as the Bloomberg U.S. Aggregate Bond Index.

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