

## Diversification Benefits Are Reasserting Themselves During this U.S. Equity Sell-off

Since mid-February, investors have been inundated with fear-inducing headlines around tariffs, recessions, and bear markets. Throughout this volatile period, the S&P 500 has experienced its third-fastest correction (a 10% decline) in the past century and, as of March 19<sup>th</sup>, stands roughly 7% below its all-time high.

While these headlines have been primarily focused on U.S. equities, we believe they are obscuring the re-emergence of a market dynamic that is helping mitigate that sharp pullback for investors: *diversification is working again.*

For the past several years, investors have been more concerned about the risk of higher inflation than the risk of slower growth, which has resulted in global stocks and bonds often moving in tandem. In some years (such as in 2023 and 2024) that dynamic was to the benefit of investors, while in others (such as in 2022) it was to their detriment. But more recently, as data have pointed to a cooling in inflation, investor attention has turned once again to future economic growth.

While increasing uncertainty over U.S. growth due to tariffs and worsening consumer sentiment has led to the recent negative performance of U.S. stocks, U.S. bonds are up during this sell-off. Historically, when growth expectations fall, it has been a good time to be a fixed income investor, as bond yields are driven in part by growth expectations. When these expectations have declined bond yields have followed suit, pushing bond prices higher.

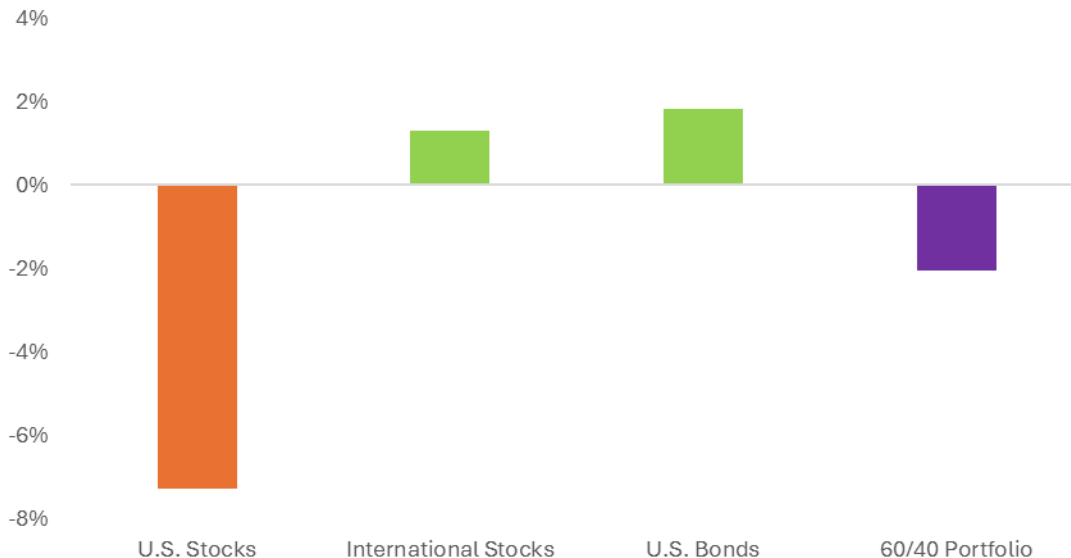
Similarly, although growth expectations are softening domestically, policy has become more stimulative abroad – translating to positive performance from international stocks (up roughly 1% over that same period).

For a diversified investor, for example one that invests 60% of their portfolio in global stocks<sup>1</sup> and 40% in U.S. bonds, this means that roughly half of their portfolio has risen in value during this sell-off in U.S. equities.

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<sup>1</sup> Global stocks as represented by the MSCI All-Country World Index, which has a roughly 35% allocation to international stocks.

## Market Performance Since 2/19/2025 <sup>2</sup>



To be clear, these allocations aren't enough to fully offset the recent sell-off in U.S. equities. But they are helping truncate the downside for investors while also illustrating a major benefit of being a long-term investor: *In periods of uncertainty, diversifying your portfolio within and across assets classes that experience different opportunities and risks simultaneously, including bonds and alternative assets, can provide a more consistent path of overall performance.*

If you have any questions or would like to talk about your specific situation, please do not hesitate to contact your Advisor.

Your O'Brien Team

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<sup>2</sup> The S&P 500 peaked on 2/19/25. U.S. Stocks are represented by the S&P 500, International Stocks are represented by the MSCI All-Country World ex U.S., and U.S. Bonds are represented by the Bloomberg US Aggregate Bond Index. Source: Morningstar Direct, O'Brien Wealth Partners as of 3/19/25.