

Quick Take: When Markets Decorrelate, Diversify

May 2026

Equity correlations have fallen

- Cross-country equity correlations have declined in the 2020s, a clear shift from the highly synchronized regime of the prior years.
- The top chart documents this pattern in both developed and emerging markets, offering possible evidence of an ebbing of global economic and financial integration.
- This decorrelation of equity markets implies an increase in the benefits of global diversification. If “diversification is the only free lunch in finance,” then that lunch gets more nutritious when markets decorrelate.

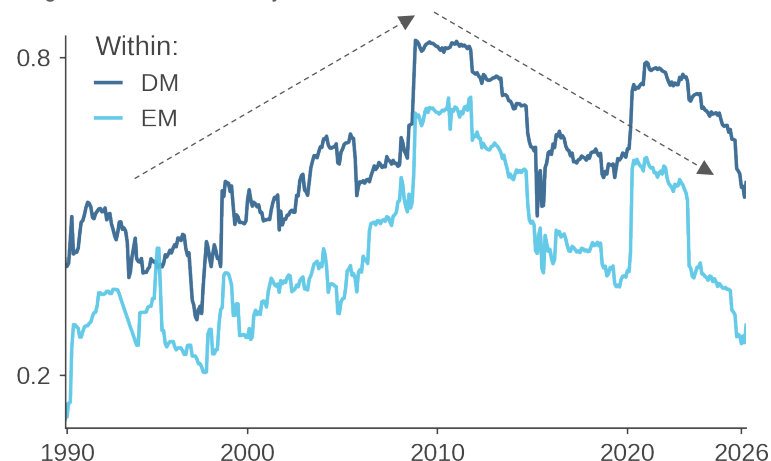
A measure of diversification’s benefit

- One way to measure this benefit of lower correlations is to compare the drawdowns of a well-diversified global portfolio to drawdowns of its component country allocations.
- The bottom chart does so for an equally weighted collection of developed and emerging market indexes. The blue arrow highlights that as correlations declined from the three-year period ending in 2019 to that ending in 2025, the drawdown reduction from diversification roughly doubled.
- If correlations continue to fall in coming years, the benefits of diversification will rise further.

➔ For further discussion, please see [Putting Portfolios Together when the World is Falling Apart](#), Acadian, April 2026.

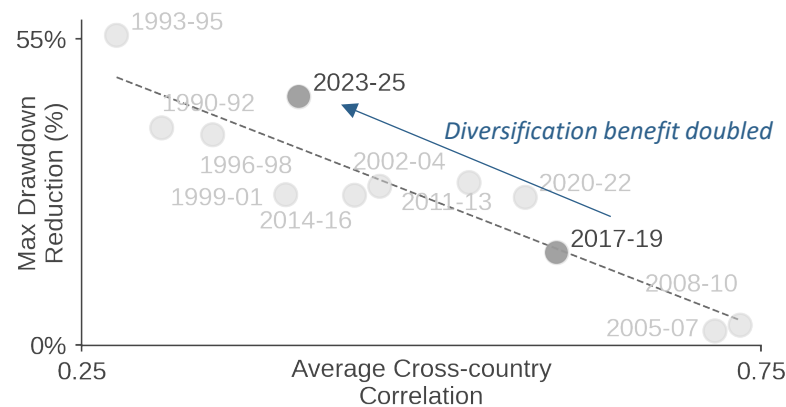
Average Cross-Country Equity Correlation

Rolling 3Y windows of monthly USD returns



Diversification’s Drawdown Benefit over Different 3Y Intervals

1990-2025



Sources: Acadian based on MSCI indexes for ACW countries. Bottom chart: Vertical axis shows reduction in maximum drawdown for an equally weighted portfolio of DM and EM country indexes relative to the average max drawdown of the individual countries. Horizontal axis shows average cross-country correlation over the same periods. MSCI data copyright MSCI 2026. All Rights Reserved. Unpublished. PROPRIETARY TO MSCI. It is not possible to invest in any index. For illustrative purposes only.



Owen Lamont, Ph.D.
SVP, Portfolio Manager, Research
olamont@acadian-asset.com



Ram Thirukkonda, CFA, CAIA
SVP, Client Advisory
rthirukkonda@acadian-asset.com

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