Rising stock–bond correlations strengthen the strategic case for commodities

Published 16 November 2026

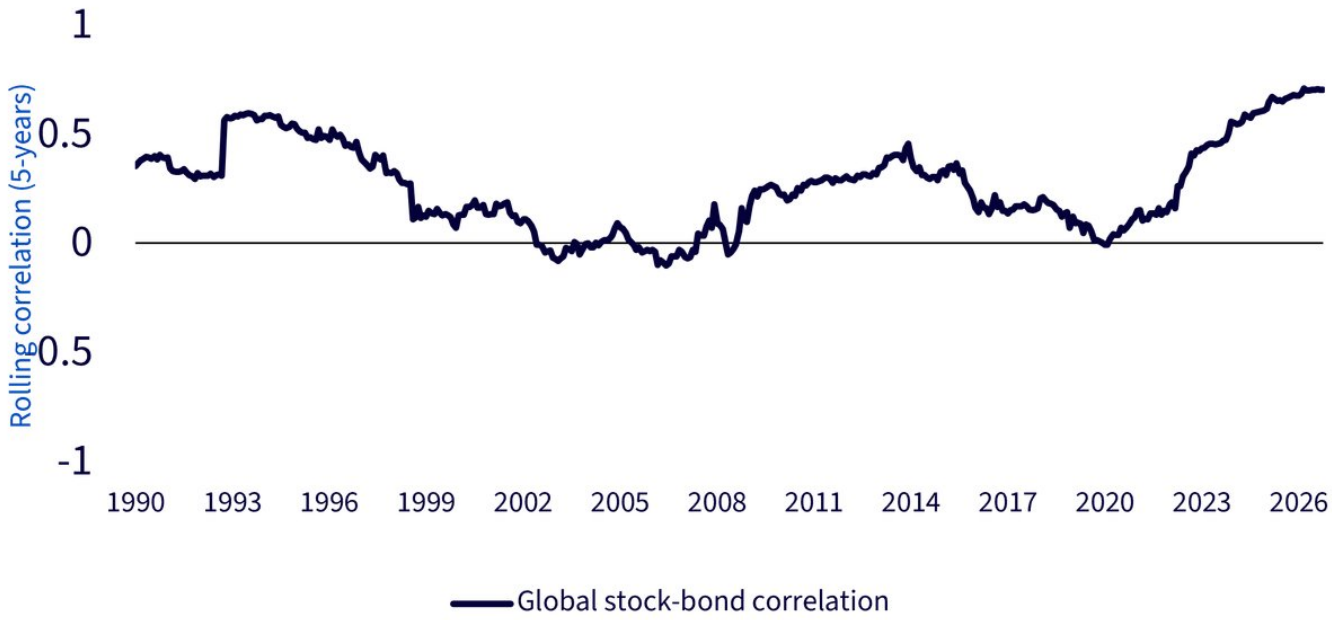
Tobias Lazar
Associate Director, Quantitative Research

Key Takeaways

- Rising stock–bond correlations are weakening diversification in traditional multi-asset portfolios.
- Greater inflation uncertainty helps explain why stocks and bonds increasingly move together.
- Low correlations with stocks and bonds, alongside positive sensitivity to unexpected inflation, strengthen the strategic case for broad commodities.

2026 saw yet another sharp bond sell-off, driven by higher-than-expected inflation as well as doubts about the sustainability of high debt burdens. Government bond yields reached highs in developed markets, and as yields move inversely to prices, bond investors incurred losses. A closer look reveals a more systematic and persistent challenge for allocators: the 5-year correlation coefficient between global stocks and bonds has reached 0.7, higher than in any other 5-year period since January 1985 (Figure 1).

Figure 1: Global stock-bond correlation reaches its highest level since 1985



Source: Bloomberg Finance L.P., WisdomTree, from January 1985 to October 2026 based on monthly total returns (unhedged) in US Dollars of the MSCI World Index and the FTSE World Government Bond Index. **Historical performance is not an indication of future performance and any investments may go down in value.**

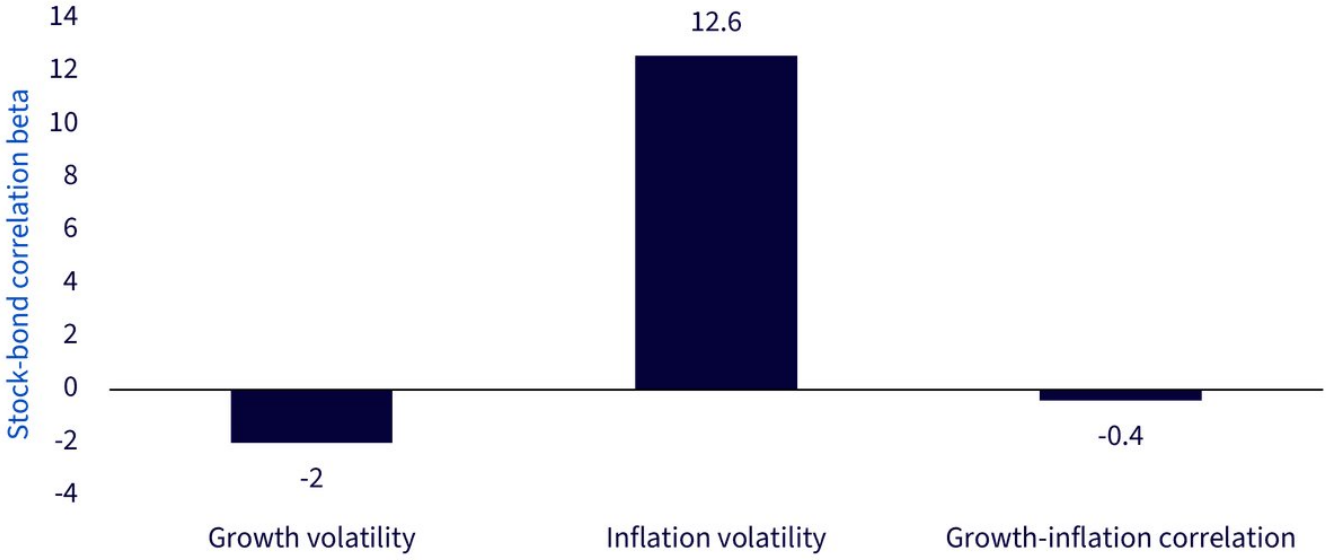
A high stock-bond correlation is a problem for asset allocators as it reduces bonds' ability to de-risk the equity portion of a multi-asset portfolio and to produce attractive risk-adjusted returns.

As correlation rises and diversification benefits weaken, portfolio volatility increases. Hence, investors relying solely on stocks and bonds may need to reduce equity allocations to maintain a given risk target. That, on the flip side, can lead to lower expected long-term returns.

What drives stock-bond correlation?

Brixton et al. (2023) introduce a simple empirical framework that explains changes in stock-bond correlation over time. By regressing observed correlation against growth volatility (industrial output volatility), inflation volatility, and the correlation between growth and inflation, they find significant coefficients that help explain the directional effects of these variables on stock-bond correlation (Figure 2). After controlling for these three variables, the level of inflation adds little explanatory power, leading the authors to argue that uncertainty is the dominant factor explaining stock-bond correlation.

Figure 2: Growth and inflation uncertainty help explain stock–bond correlation



Source: Brixton, A., Brooks, J., Hecht, P., Ilmanen, A., Maloney, T. and McQuinn, N. (2023) 'A changing stock–bond correlation: drivers and implications', The Journal of Portfolio Management, 49(4), pp. 64–80.

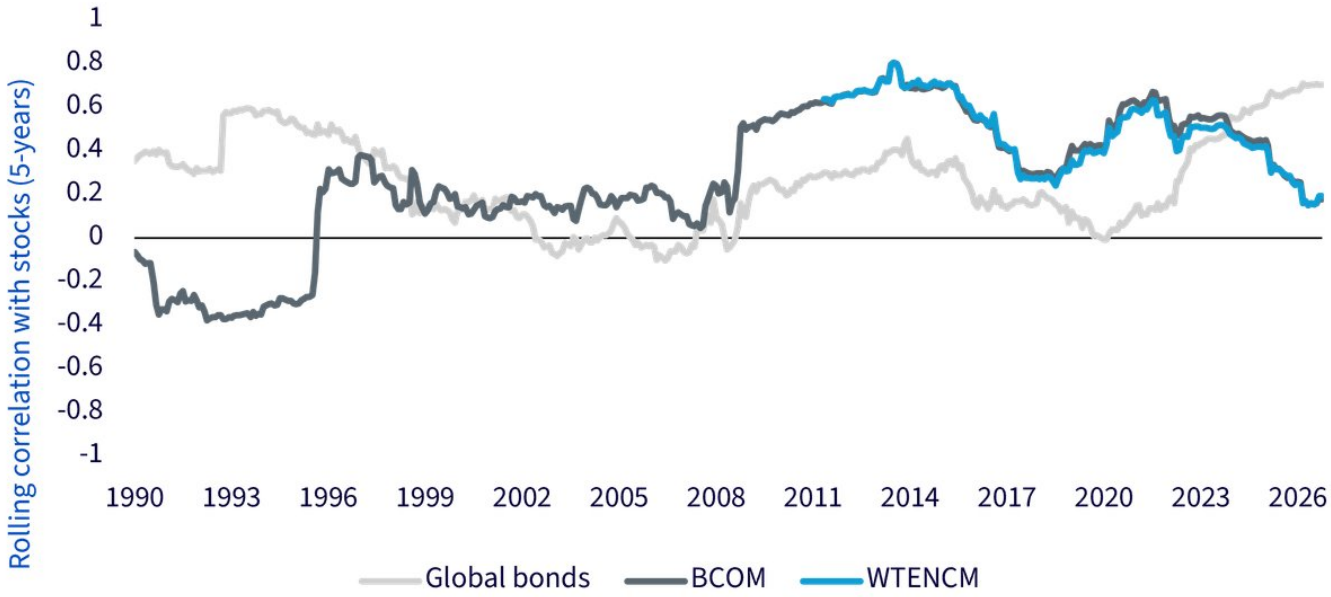
The takeaways are straightforward: higher uncertainty around growth lowers stock-bond correlation, while higher uncertainty around inflation leads to higher correlation. When growth and inflation move together, stock-bond correlation tends to fall. Conversely, when they move in opposite directions, it tends to rise.

Another takeaway is that inflation volatility, or the level of uncertainty around inflation, explains much more of the variation in correlation than growth risks. Looking back over the past 5 years, supply-driven inflation shocks have been more frequent: the rapid economic recovery following Covid-19 overwhelmed disrupted supply chains, the outbreak of war in Ukraine saw energy and agricultural prices spike, and, more recently, the war in Iran created yet another energy-led inflation shock. Viewed through this framework, the rise in stock-bond correlation is consistent with the current macroeconomic backdrop.

Broad commodities as an alternative diversifier

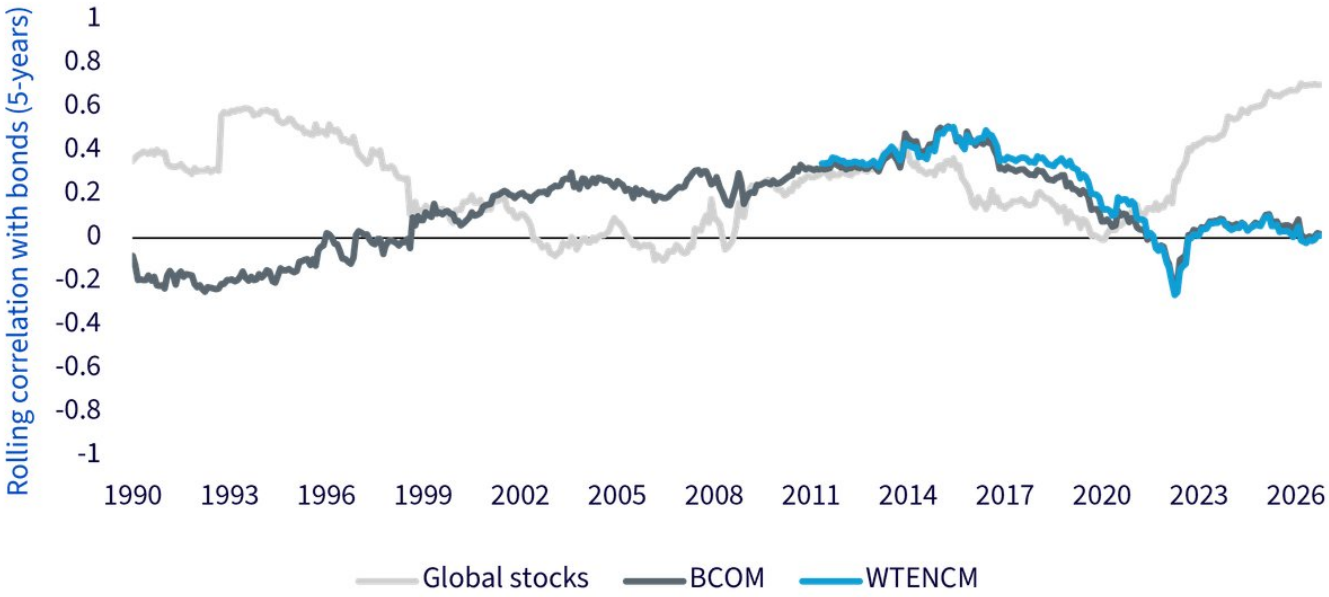
As mentioned at the beginning of this blog, rising stock-bond correlations pose a headache for multi-asset allocators. Bonds contribute less to improving risk-adjusted returns, and the recent sell-off has frustrated investors looking for stable returns. Commodities, on the other hand, measured by the Bloomberg Commodity Index (BCOM), have seen falling correlations with both stocks and bonds (Figures 3A and 3B). By October 2026, commodities' 5-year rolling correlation with global equities had fallen to 0.18, while its correlation with global government bonds stood at 0.02.

Figure 3A: Commodity correlations with global equities have fallen



Source: Bloomberg Finance L.P., WisdomTree, from January 1985 to October 2026 based on monthly total returns (unhedged) in US Dollars of the MSCI World Index, Bloomberg Commodity Index (BCOM), and WisdomTree Enhanced Commodity Index (WTENCM). **Historical performance is not an indication of future performance and any investments may go down in value.**

Figure 3B: Commodity correlations with global government bonds have fallen



Source: Bloomberg Finance L.P., WisdomTree, from January 1985 to October 2026 based on monthly total returns (unhedged) in US Dollars of the FTSE World Government Bond Index, Bloomberg Commodity Index (BCOM), and WisdomTree Enhanced Commodity Index (WTENCM). **Historical performance is not an indication of future performance and any investments may go down in value.**

Diversified commodity baskets exhibit a positive beta to unexpected inflation.[1] This is intuitive, as such baskets track price developments across energy, metals, and agriculture. Therefore, the same supply-related inflation shocks that heightened stock-bond correlation also help explain the remarkable performance of commodities as a real asset this decade. Put another way, commodities can offer diversification exactly when bonds fail multi-asset portfolios.

In our whitepaper 'The Role of Broad Commodities in a Portfolio' (May 2026), we examine the optimal weight of a commodity allocation within an otherwise diversified stock–bond portfolio. Using a large number of simulations based on historical returns, resampled with replacement, the analysis suggests that an allocation of 20–23% to a broad commodity basket would have delivered the highest risk-adjusted portfolio returns under the assumptions used.

Implementing alternative diversifiers within a multi-asset portfolio requires an emphasis on low correlation with traditional asset classes, but also on meaningfully positive expected returns. The WisdomTree Enhanced Commodity UCITS ETF tracks the total return of the WisdomTree Enhanced Commodity Index (WTENCM). Starting from a weighting that emphasises economic significance and liquidity, the index systematically overweights commodities experiencing a tight or tightening supply-demand balance, as well as positive price momentum. While the index has exhibited similarly low correlations with stocks and bonds as the Bloomberg Commodity Index, its systematic approach has also delivered higher historical returns over the period analysed.[2]

Implications for multi-asset portfolios

Rising stock-bond correlations make diversification more challenging for multi-asset allocators. Recent supply-driven inflation shocks help explain this shift and highlight the value of assets that respond differently to inflation news.

Broad commodity baskets combine low recent correlations with stocks and bonds with positive sensitivity to unexpected inflation. This strengthens their strategic role alongside traditional allocations. The WisdomTree Enhanced Commodity Index offers a systematic approach to implementing that exposure, seeking to improve returns through smarter index construction.

An investment in commodities may be subject to significant price volatility. The fund uses derivatives, including futures contracts, which introduce additional risks and mean returns can differ from movements in commodity spot prices. The value of an investment may also be affected by currency movements. Investors should refer to the KID and Prospectus for full details of the risks associated with the fund.

[1] WisdomTree, “The Role of Broad Commodities in a Portfolio” (May 2026).
[2] Source: Bloomberg Finance L.P., WisdomTree. October 2016 to October 2026. The WisdomTree Enhanced Commodity Total Return Index returned 13.21% p.a., compared with 7.89% p.a. for the Bloomberg Commodity Total Return Index. Performance includes backtested data. Backtested performance is hypothetical and does not represent actual historical investment returns. **Historical performance is not an indication of future performance and any investments may go down in value.**

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area ("EEA") & Switzerland: This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA, except Switzerland: This document has been issued and approved by WisdomTree UK Limited or Atlantic House Investments Limited, which are both authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited, WisdomTree UK Limited and Atlantic House Investments Limited are referred to as "WisdomTree" (as applicable) throughout. Our Conflicts of Interest Policy and Inventory are available on request.

This marketing communication is intended for all investors; however, the WisdomTree products described in this document and related materials may be restricted in certain jurisdictions and may only be available to particular categories of investors in accordance with applicable laws and regulations. Where a product is not authorised or its distribution is restricted in your jurisdiction, it is the responsibility of any person or entity in possession of this information to inform themselves of, and comply with, all relevant restrictions. Before making any investment, investors should seek appropriate legal, regulatory, tax and investment advice to assess the suitability and implications of investing in these products. Information about WisdomTree products is available at wisdomtree.eu. WisdomTree does not offer investment advice tailored to individual circumstances. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

This marketing communication should be read in conjunction with the relevant WisdomTree products' Prospectus, Key Investor Information Document ("KIID"), Key Information Document ("PRIIPS KID") as relevant. In particular, investors should carefully read the specific risks detailed under the section entitled 'Risk and Reward Profile' in the KIID, 'What are the risks and what could I get in return?' in PRIIPs KID and under the section entitled 'Risk Factors' in the Prospectus of the Issuer for further details of risks associated with an investment in the product(s) detailed herein. Further information regarding the WisdomTree exchange-traded product(s) detailed herein, such as a detailed list of the underlying investments and the indicative net asset value, can be obtained by visiting the WisdomTree website at (www.wisdomtree.eu).

An investment in WisdomTree exchange-traded products ("ETPs") is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. An investment in WisdomTree funds is dependent on the performance of the underlying investments, less costs.

Both WisdomTree ETPs and funds involve numerous risks including among others, general market risks relating to any relevant underlying index, credit risks on the provider of index swaps utilised in ETPs, exchange rate risks, interest rate risks, inflationary risks, liquidity risks, derivatives risk and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

WisdomTree Issuer ICAV

Certain funds referred to in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an open-ended, umbrella-type Irish Collective Asset-management Vehicle with segregated liability between sub-funds and is authorised by the Central Bank of Ireland ("CBI") as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under Irish law. Each fund is represented by a separate class of shares (the "Shares") issued by WT Issuer.

The Fund is described in a Key Information Document (KID) or Key Investor Information Document (KIID) for UK investors, and the prospectus of WT Issuer ("WT Prospectus"). A copy of the WT Prospectus and the KID / KIID is available, for EEA/UK only, in English at www.wisdomtree.eu. Where required under national rules, the KID will also be available in the local language of the relevant EEA Member State. Investors should read the WT Prospectus before investing and should refer to the section of the WT Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in the Shares.

The summary of investor rights associated with an investment in the fund is available in English on WisdomTree Europe's website. WisdomTree Management Limited may decide to terminate the arrangements made for the marketing of its collective investment undertakings. In such circumstances, shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the fund free of any charges or deductions for at least 30 working days from the date of such notification.

WisdomTree Enhanced Commodity Index

The base weightings for each commodity in the WisdomTree Enhanced Commodity Index are determined by reference to Bloomberg® Commodity Indices. "BLOOMBERG®" and the Bloomberg indices listed as index components therein (the "Bloomberg Indices") are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the Bloomberg Indices (collectively, "Bloomberg") and have been licensed for use for certain purposes by WisdomTree Issuer ICAV as the umbrella Irish collective asset-management vehicle of the Fund (the "Licensee"). Bloomberg is not affiliated with Licensee, and Bloomberg does not approve, endorse, review, or recommend the Fund. Bloomberg does not guarantee the timeliness, accuracy, or completeness of any data or information relating to the Fund.

For Investors in Switzerland:

This document/constitutes/an advertisement of the financial product(s) mentioned/herein.

The prospectus (in English only) and the key investor information documents (KID) (in German, French and Italian) are available from WisdomTree's website:https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports

For WisdomTree UCITS products only: the representative and paying agent of the ETPs in Switzerland is Société Générale Paris, Zurich Branch,/Talacker/50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of/jurisdiction/and performance is at the registered seat of the representative and paying agent. Some of the sub-funds referred to in this document may not have been registered with the Swiss Financial Market Supervisory Authority ("FINMA"). In Switzerland, such sub-funds that have not been registered with FINMA may only be available to Qualified Investors.

FOR INVESTORS IN FRANCE:

Further information regarding the WisdomTree exchange-traded product(s) detailed herein, such as a detailed list of the underlying investments and the indicative net asset value, can be obtained by visiting the WisdomTree website at (www.wisdomtree.eu).

The product is intended for retail investors who: (i) can withstand capital loss, are not seeking to preserve capital and are not seeking a capital guarantee; (ii) have specific knowledge or experience in investing in similar products and in the financial markets; and (iii) are looking for a product that provides exposure to the performance of the underlying asset(s) and have an investment horizon in line with the recommended holding period indicated in the KID.

In addition, the indicative net asset value is shown on the Reuters and Bloomberg pages of the product and may also be mentioned on the websites of the product's listing venues.

Units in a listed exchange-traded product purchased on the secondary market generally cannot be sold directly back to the listed exchange-traded product. For investors who are not authorised participants, the purchase and sale of units must be done on a secondary market with the help of an intermediary (e.g., a broker), and may therefore be subject to additional fees and taxes. In addition, it is possible that investors may pay more than the current net asset value when purchasing units and receive less than the current net asset value when selling them.

Investors should carefully read the specific risks detailed under the section entitled 'What are the risks and what could I get in return?' in the Key Information Document for Packaged Retail and Insurance-based Investment Products (PRIIPs KID) and under the section entitled 'Risk Factors' in the Prospectus of the Issuer for further details of risks associated with an investment in the product detailed herein.

Investors are advised that the prospectus is available in French and English.

This document is a promotional material relating to the financial product(s) mentioned herein. The prospectus and the Key Investor Information Document (KIID) are available on the WisdomTree website: https://www.wisdomtree.eu/resource-library/prospectus-and-regulatory-reports

The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Central Bank of Ireland as UCITS compliant with European regulations although it may not have to comply with the same rules as those applicable to a similar product approved in France.

The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, any supplements or addenda thereto, the Key Information Document, the latest annual reports and the instrument of incorporation) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.

Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, this UCITS presents disproportionate communication on the consideration of non-financial criteria in its management.

For Investors in Malta: This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

For Investors in Monaco: This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.

For Investors in Israel: Offering materials for the offering of the Shares and securities have not been filed with or approved or disapproved by the United States Securities and Exchange Commission or any other state or federal regulatory authority, nor has any such regulatory authority passed upon or endorsed the merits of this offering or passed upon the accuracy or completeness of any offering materials. Any representation to the contrary is unlawful. The products mentioned herein have not been approved by the Israel Securities Authority and will only be distributed to Israeli residents in a manner that will not constitute “an offer to the public” under sections 15 and 15a of the Israel Securities Law, 5728-1968 (“the Securities Law”) or section 25 of the Joint Investment Trusts Law, 5754-1994 (“the Joint Investment Trusts Law “), as applicable. The products are being offered to a limited number of investors (35 investors or fewer during any given 12 month period) and/or those categories of investors listed in the First Addendum (“the Addendum”) to the Securities Law, “Sophisticated Investors”) who in each case have provided written confirmation that they qualify as Sophisticated Investors, and that they are aware of the consequences of such designation and agree thereto; in all cases under circumstances that will fall within the private placement or other exemptions of the Joint Investment Trusts Law, the Securities Law and any applicable guidelines, pronouncements or rulings issued from time to time by the Israel Securities Authority.

This prospectus or this document may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Any offeree who purchases a product is purchasing such product for its own benefit and account and not with the aim or intention of distributing or offering such product to other parties (other than, in the case of an offeree which is a Sophisticated Investor by virtue of it being a banking corporation, portfolio manager or member of the Tel-Aviv Stock Exchange, as defined in the Addendum, where such offeree is purchasing a product for another party which is a Sophisticated Investor).

Nothing in this document should be considered investment advice or investment marketing as defined in the Regulation of Investment Counselling, Investment Marketing and Portfolio Management Law, 5755-1995. Investors are encouraged to seek competent investment counselling from a locally licensed investment counsel prior to making the investment. A recipient of this document may be required to provide confirmation that it is a Sophisticated Investor purchasing a product for its own account or, where applicable, for other Sophisticated Investors.