

Glidepath Resilience Through Stock and Bond Correlation Regimes



Correlation between stocks and bonds is the foundation of target date portfolios, driving asset allocation for these portfolios and outcomes for retirees. How have shifting correlation levels in recent years affected these portfolios, and could a shift in bond sector allocations improve potential outcomes?

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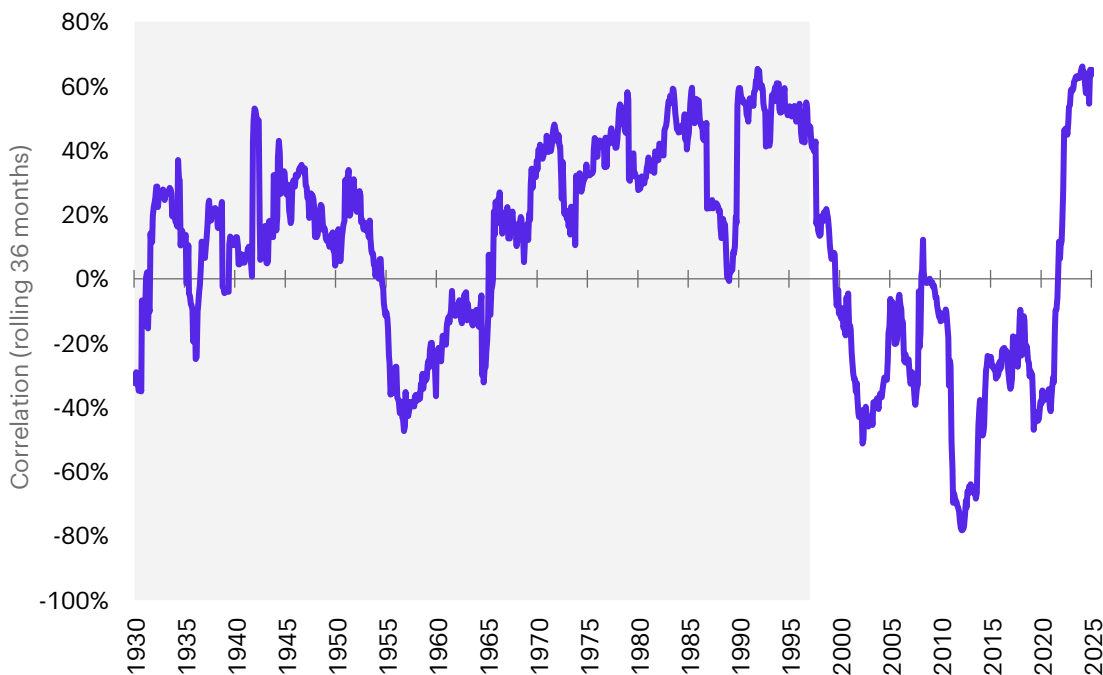
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The ups and downs of correlations

Negative correlations between stocks and bonds that target date funds depend on held up well after the passage of the Pension Protection Act from 2006 through 2020. When stocks declined, bonds provided ballast to these portfolios (Figure 1).

However, prior to 1997, stocks and bonds experienced extended periods of positive correlations, driven by variable inflation and financial crises. But amid the benign inflation environment of 1998 to 2021, the relationship between stocks and bonds supported target date fund diversification.

FIGURE 1: HISTORICAL STOCK AND BOND CORRELATIONS HAVE SHIFTED OVER TIME



Source: Bloomberg Finance L.P., as of 31-Dec-25. Correlations shown between the Bloomberg Long U.S. Treasury Bond Index and the S&P 500 Index. The S&P 500 Index is a market-capitalization-weighted price index composed of 500 widely held common stocks. Returns for the S&P 500 Index from 1926 to 1969 are calculated by Ibbotson and are represented by the SBBI U.S. Large Stock Index. Returns from 1970 to 2025 are for the S&P 500 Index. Returns for the Bloomberg Long U.S. Treasury Bond Index are shown from Feb. 1987–2025. Prior returns for 1926–Jan. 1987 are represented by the SBBI U.S. Long-Term Government Bond Index.



This relationship broke down in 2022 when stocks and bonds fell together as the Federal Reserve (Fed) embarked on its rate increase cycle in response to inflationary pressures following the COVID pandemic.

Stocks and bonds fell in tandem. Common target date bond portfolios, invested in investment-grade “core” bonds benchmarked to the Bloomberg U.S. Aggregate Bond Index, were down 13% while the S&P 500 Index fell 18% in 2022. Stock/bond correlations flipped sharply positive, where it has remained since.

Pre-retirement vintage-year target date funds, which are mostly invested in stocks, benefited from the subsequent stock market rebound. However, post-retirement vintage-year target date funds, which typically hold sizable allocations to core bonds, struggled. To date, the median target date retirement vintage fund has remained below water (adjusted for inflation) since 2021, representing a five-year negative real return for retired participants.¹ Even worse, retirees are typically the least able to make up this kind of shortfall in future returns.

The tailwind from declining interest rates that benefited bond investors since the early 1980s proved to be a major headwind as the Fed raised rates. Compounding this, the duration (interest rate sensitivity) of the Bloomberg U.S. Aggregate Bond Index rose 83% from the end of 2008 to late 2021, peaking just as the Fed raised rates and leading to the worst-ever year of total returns for the index.² The very characteristic of core bonds, which made it an attractive diversifier to stocks, intermediate duration, changed while target date glidepaths largely remained the same.

Addressing duration and correlation challenges

We believe the rise in stock/bond correlations and heightened interest rate sensitivity of the Bloomberg U.S. Aggregate Bond Index calls for a change in **target date glidepaths**. Modern glidepaths require a more nuanced approach to basic core bond diversification with lower interest rate sensitivity, fewer drawdowns, and higher income. Enter **Allspring’s U.S. Short-Term High Income (STHI)** strategy.

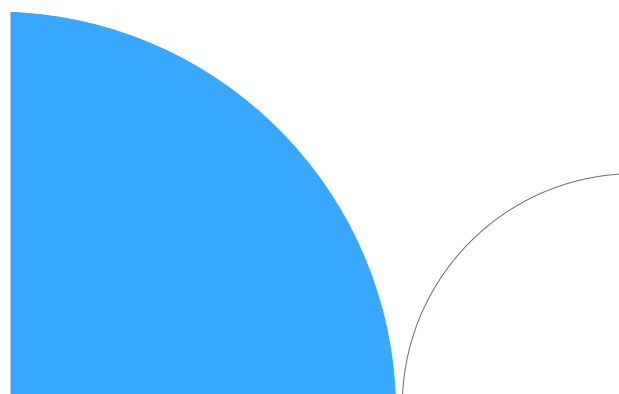
STHI seeks to generate a consistent stream of high income with limited default and duration risk through all market environments by avoiding the lowest-quality tier within the leveraged finance markets. The strategy invests primarily in a diversified portfolio of non-investment-grade corporate debt securities with an average maturity of three years or less.

FIGURE 2: TOTAL RETURNS (%)

Allspring U.S. Short-Term High Income strategy

AS OF 31-DEC-25	YTD*	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Composite (gross)	7.30	7.30	7.56	5.10	4.87
Composite (net)	6.85	6.85	7.08	4.61	4.37
ICE BofA 1–3 Year BB Cash Pay High Yield Index	7.22	7.22	7.59	4.50	4.99

Sources: Allspring and ICE Bank of America, as of 31-Dec-25. **Performance is historical and does not guarantee future results.** For more information, please refer to the GIPS composite report found in the documents section.



1. Source: Morningstar, from 01-Jan-21 to 31-Dec-25.

2. Note that the duration of the Bloomberg U.S. Aggregate Bond Index remains 63% higher than end of 2008 levels as of 31-Dec-25.



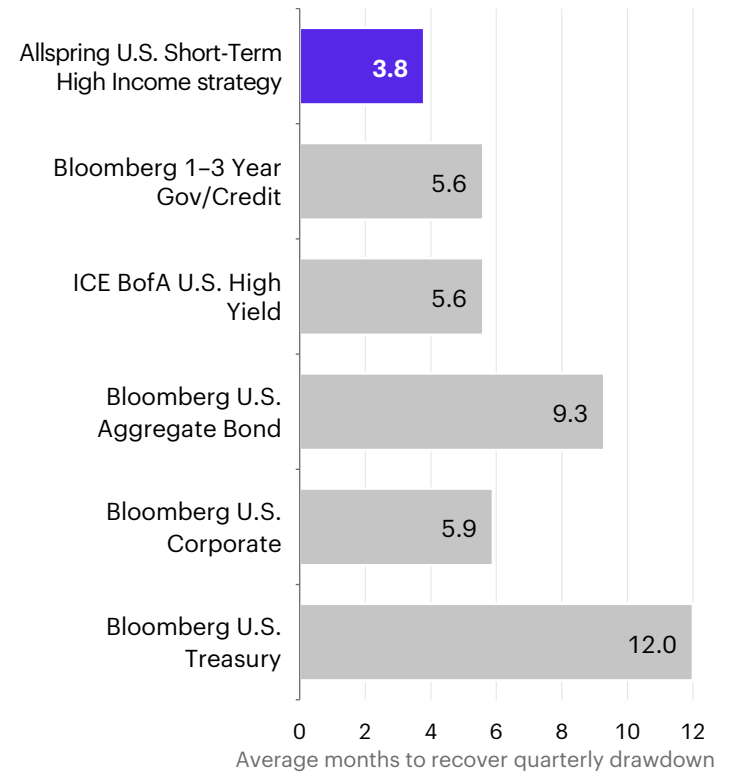
We believe the strategy’s design offers a diversifying asset for target date portfolios, with potential for high consistency (positive returns), elevated yield, infrequent drawdowns, and resiliency during periods of rising yields.

Allspring’s STHI strategy has delivered positive returns in 78% of monthly periods and 99% of rolling 20-year periods over the past 20 years. It’s had fewer quarterly drawdowns and recovered faster from those drawdowns compared with other bond sectors (Figures 3 and 4).

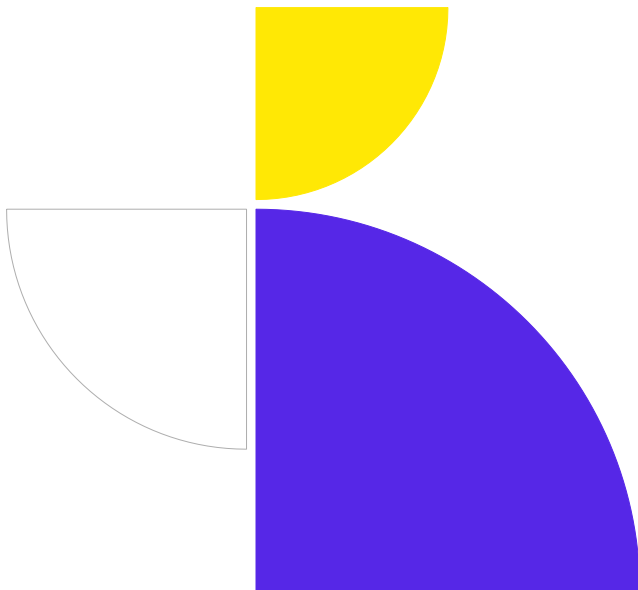
FIGURES 3 & 4

Over the past 20 years, the Allspring U.S. Short-Term High Income strategy has had **fewer quarterly drawdowns ...**

... and recovered faster from quarterly drawdowns



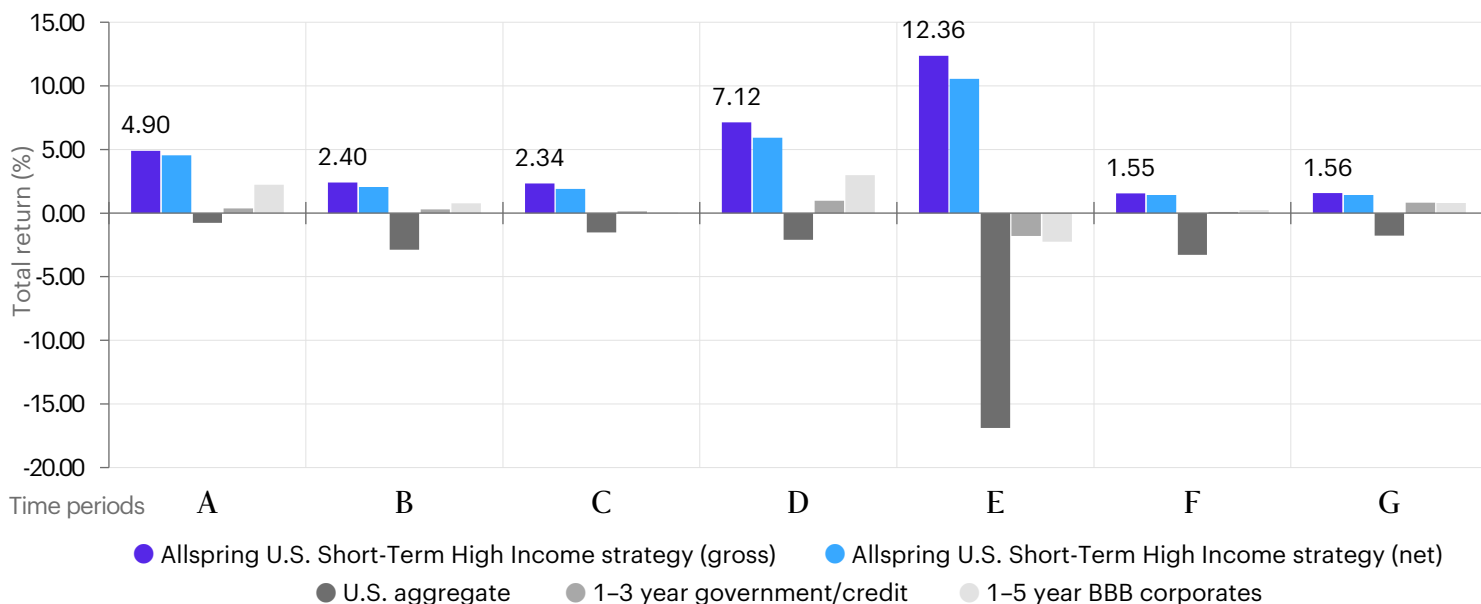
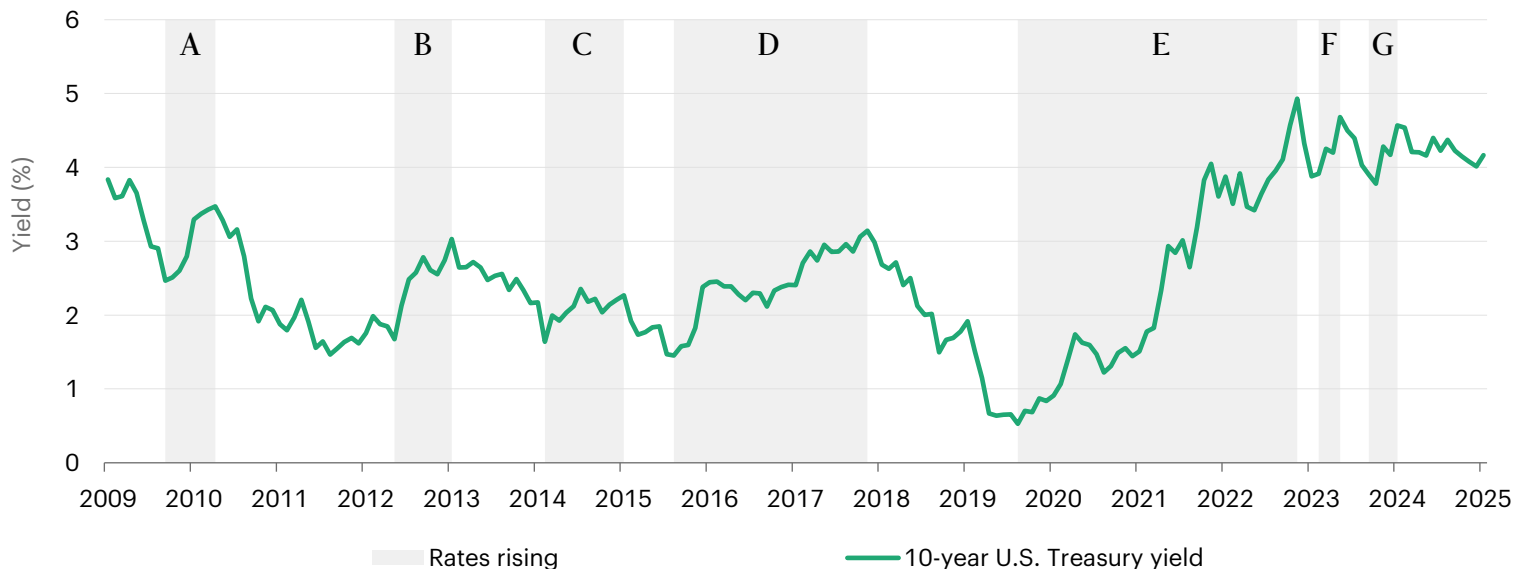
Sources: Allspring, Bloomberg Finance L.P., and ICE Bank of America, as of 31-Dec-25.





STHI also has outperformed the Bloomberg U.S. Aggregate Bond Index and other short-duration bonds in prior **periods of rising yields** (Figures 5 and 6). Over the five-year period (2021 to 2025) when the Bloomberg U.S. Aggregate Bond Index returned a cumulative -1.8%, STHI rose 25.1%, providing true resiliency in the face of rising stock/bond correlations and rising yields.

FIGURES 5 & 6: PERIODS OF RISING RATES (2010-2025)



Sources: Allspring, Bloomberg Finance L.P., and ICE Bank of America, as of 31-Dec-25. U.S. aggregate = Bloomberg U.S. Aggregate Bond (LBUSTRUU) Index, 1-3 year gov/credit = Bloomberg U.S. 1-3 Year Government/Credit (LGC3TRUU) Index, 1-5 year BBB corporates = ICE BofA 1-5 Year BBB U.S. (CVA4) Index. 31-Dec-09 through 31-Dec-25. Total returns, not annualized for periods longer than one year. **Past performance is no guarantee of future results.**

We believe that Allspring’s U.S. Short-Term High Income strategy has the potential to add resiliency to target date glidepaths. A modest allocation to STHI in target date portfolios (e.g., 10% of core bonds) may complement core bond exposure to reduce its interest rate sensitivity, improve drawdown performance, and increase bond income. Stock and bond correlations have evolved along with the benchmark for core bonds. Perhaps it’s time to evolve target date bond allocations to improve resiliency in future environments.



GIPS® composite report

Composite: U.S. Short-Term High Income

PRIMARY INDEX ICE BofA 1-3 Yr BB Cash Pay High Yield Index

ANALYSIS DATE 31-Dec-25

Period	Gross annual return (%)	Net annual return (%)	Primary index return (%)	Composite 3yr standard deviation (%)	Primary index 3yr standard deviation (%)	Internal dispersion (%)	Number of accounts	Composite assets (\$M)	Total firm assets (\$M)
2025	7.30	6.85	7.22	1.93	2.08	N/A	1	2,536.8	479,205
2024	7.26	6.81	6.69	4.01	4.10	N/A	1	2,005.6	458,112
2023	8.11	7.59	8.86	3.97	4.05	N/A	1	1,745.8	432,838
2022	-1.21	-1.7	-3.07	5.45	6.24	N/A	1	1,549.8	374,321
2021	4.32	3.80	3.24	4.28	5.35	N/A	1	1,003.4	483,747
2020	6.14	5.62	5.44	4.33	5.38	N/A	2	959.9	508,914
2019	7.51	6.97	8.69	1.47	1.68	N/A	2	1,112.0	419,579
2018	1.37	0.86	1.34	1.14	1.77	N/A	2	1,086.5	371,582
2017	3.05	2.54	6.64	1.35	2.17	N/A	3	1,878.3	385,111
2016	5.29	4.77	8.46	1.66	2.36	N/A	3	1,838.9	330,718
1-year	7.30	6.85	7.22						
5-years	5.10	4.61	4.50						
10-years	4.87	4.37	4.99						

Source: Allspring Global Investments

Disclosures

Allspring Global Investments (Allspring) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Allspring has been independently verified for the periods January 1, 1997 - December 31, 2024. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The U.S. Short-Term High Income Composite has had a performance examination for the periods January 1, 2014 - December 31, 2024. The verification and performance examination reports are available upon request.

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Composite returns are net of transaction costs and non-reclaimable withholding taxes, if any, are expressed in U.S. dollars, and reflect the reinvestment of dividends and other earnings. Gross Composite returns do not reflect the deduction of investment advisory fees. Net Composite returns are calculated using a model investment advisory fee, which is the maximum annual advisory fee based upon the fee schedule in effect during each respective performance period. Any changes to the fee schedule are reflected in the calculation of the net Composite returns beginning with the period in which the fee schedule is revised. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Allspring's fee schedules are available upon request and may also be found in Part 2 of Form ADV. The published fee schedule for this strategy is 0.42% for the first \$100mm, 0.37% for the next \$100mm, and 0.32% over \$200mm. Additional information regarding Allspring's policies for valuing investments, calculating performance and preparing GIPS Composite Reports is available upon request. A list of composite descriptions, a list of limited distribution pooled fund descriptions, and a list of broad distribution pooled funds are available upon request.

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Index returns are provided to represent the investment environment existing during the time periods shown and are not covered by the report of independent verifiers. The ICE BofA 1-3 Yr BB Cash Pay High Yield Index tracks the performance of BB rated U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market with maturities of 1 to 3 years. For comparison purposes, the index is fully invested, which includes the reinvestment of income. The returns for the index are net of transaction costs as of July 1, 2022 and do not include management fees or other costs.

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