

Tech vs. Treasuries: An Unusual Divergence

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During the Iran tensions period from February 27 to March 13, 2025, both the technology sector (XLK) and long-duration Treasuries (TLT) declined, Tech by 4.8% and TLT by 4.2%. This is unusual. In typical risk-off episodes, Treasuries rally as investors seek safety while growth-sensitive assets like tech sell off. Their joint decline signals a regime where inflation and supply concerns may outweigh flight-to-safety, or where Fed path uncertainty is repricing both duration and growth.

Executive Summary

Research supports the unusual nature of this dynamic. Morningstar and DataTrek find that tech stocks and Treasury yields have only a weak inverse correlation (-0.32 to -0.33) over longer periods; true divergence occurs during acute risk-off, when tech falls and bonds rally. When oil spikes sharply, as in Middle East supply shocks, inflation expectations can push nominal yields higher and pressure both tech (rate-sensitive) and long-duration bonds. In Iran-related supply disruptions, WTI crude has surged over 40% in short windows, with the Strait of Hormuz (through which ~20% of global oil passes) as the key chokepoint. Such episodes have coincided with sharp tech selloffs as higher energy costs raise inflation concerns and compress margins.

The Tech and Treasury selloff over Feb 27 to Mar 13 reflects multiple forces: oil and inflation concerns from Iran tensions, tariff and recession fears, and uncertainty around the Fed path. Oil surged 42% and the VIX rose 37%, while gold gained only 0.8% and the dollar 2.2%. The fact that Treasuries did not rally suggests that inflation expectations from higher oil, or fears of fiscal stress, offset the usual flight-to-safety bid. Tech, as a rate-sensitive and risk asset, was hit by both risk-off sentiment and duration repricing.

Tech vs. Treasuries: Joint Decline (Feb 27 – Mar 13, 2025)



Source: AVANTAS Research, Bloomberg

Key Takeaways:

- Tech (XLK) fell 4.8% and Treasuries (TLT) fell 4.2% over Feb 27 to Mar 13, both declined despite risk-off conditions that typically lift bonds.
- Oil (+42%) and VIX (+37%) led gains; inflation and supply risk likely offset the usual flight-to-safety demand for Treasuries.
- The regime suggests inflation and oil premiums matter more than pure risk-off in driving bond yields. Duration is vulnerable when oil spikes.
- **Portfolio implications:** favor gold and real assets as hedges; be cautious on long duration; quality and defensives in equities.

Why Tech and Treasuries Usually Diverge

In standard risk-off episodes, Treasuries rally as investors flee risk assets and seek safe, liquid government bonds. Tech stocks, as long-duration growth assets, typically underperform when risk aversion rises and discount rates increase. The two have historically moved in opposite directions during stress. Their joint decline in late February and early March 2025 breaks that pattern and points to a different set of drivers.

What Drove the Joint Decline

Several factors likely contributed. First, oil surged 42% (WTI) over the period on Iran supply risk, raising inflation expectations and putting upward pressure on nominal yields. Second, tariff and recession fears created uncertainty about growth and policy, which can hurt both tech (earnings risk) and bonds (fiscal and inflation risk). Third, the Fed path remained uncertain, sticky inflation from oil could delay cuts, repricing duration, while growth concerns could support cuts, creating two-way volatility. Fourth, the dollar strengthened 2.2%, which can pressure both tech (multinational earnings) and gold; the modest gold gain (0.8%) suggests the inflation/oil channel dominated over pure safe-haven demand.

The Regime Signal

The joint decline in Tech and Treasuries suggests a regime where supply-driven inflation (oil) and policy uncertainty matter more than classic flight-to-safety. When oil spikes, bond investors may demand higher nominal yields to compensate for inflation risk, even as equity risk aversion rises. This creates a rare environment where both duration and growth-sensitive assets suffer. Gold's modest gain and oil's surge support the view that real assets and inflation hedges are favored over nominal bonds in this setup.

Portfolio Implications

Investors should treat the Tech to Treasury divergence as a signal to reassess duration and equity exposure. Long-duration bonds are vulnerable when oil and inflation expectations rise; shorter duration or inflation-linked securities may offer better protection. In equities, quality and defensives with pricing power tend to hold up better than rate-sensitive growth. Gold and real assets remain relevant hedges when inflation and supply risk dominate. Avoid over-reliance on Treasuries as a risk-off hedge when oil is spiking.

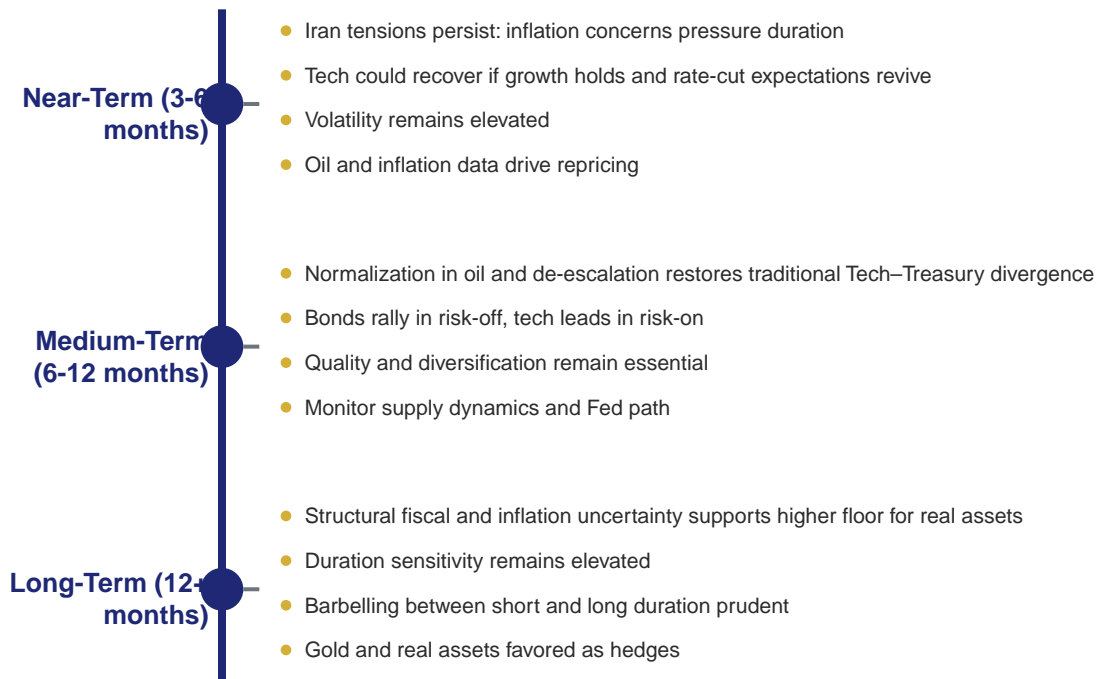
Timeline and Outlook

Near-Term Outlook (3 to 6 months): If Iran tensions persist and oil remains elevated, inflation concerns may continue to pressure duration. Tech could recover if growth holds and rate-cut expectations revive, but volatility will remain high.

Medium-Term Outlook (6 to 12 months): A normalization in oil and de-escalation could restore the traditional Tech to Treasury divergence, with bonds rallying in risk-off and tech leading in risk-on. Quality and diversification remain essential.

Long-Term Outlook (12+ months): Structural fiscal and inflation uncertainty supports a higher floor for real assets. Duration sensitivity will remain elevated; barbell between short and long duration is prudent.

Timeline Overview



Source: AVANTAS Research Analysis

Risk Factors

Oil Spike Risk: Further oil upside from supply disruption would reinforce inflation concerns and pressure both Tech and Treasuries.

De-escalation Risk: Rapid de-escalation could unwind oil and inflation premiums, supporting bonds and risk assets. Hedging positions would lose value.

Policy Risk: Fed communication and inflation data will drive repricing. Sticky inflation delays cuts and hurts duration; weak growth supports cuts and helps growth assets.

Correlation Shift Risk: Historical correlations can break down in stress; the joint decline itself is evidence that regime assumptions should be questioned.

Sources and Verification

Tech to Treasury correlation: Morningstar, "Busting the Tech-Stock, Bond-Yield Connection Myth"; DataTrek Research, "Does Tech Really Trade on Treasury Yields?", both report weak inverse correlation (-0.32 to -0.33) over long horizons, with true divergence in acute risk-off.

Oil and Iran: Reuters, BBC, and The Motley Fool have documented oil surges of 40%+ in Iran-related supply episodes; Strait of Hormuz handles ~20% of global petroleum (BBC, IEA). Benzinga and financial press reported tech sector selloffs exceeding \$600B in market cap during energy-driven shocks.

Asset performance (Feb 27 to Mar 13): Crude Oil +42.1%, VIX +37.4%, Silver +15.8%, Bitcoin +6.5%, DXY +2.2%, Gold +0.8%, S&P 500 -3.0%, TLT -4.2%, Tech (XLK) -4.8%, per AVANTAS Research analysis and Bloomberg. Figures may vary by data vendor and exact window.





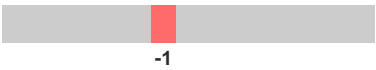

Conclusion

The joint decline in Tech and Treasuries during the Iran tensions period is unusual and signals a regime where inflation and oil premiums outweigh pure flight-to-safety. Investors should favor gold and real assets as hedges, be cautious on long duration when oil spikes, and maintain quality and defensives in equity allocation. The regime favors selectivity and balance over reliance on traditional risk-off playbooks.

Asset Class Impact

Gold and real assets benefit from inflation and supply risk. Short-duration bonds reduce oil-driven repricing risk. Quality equities with pricing power are preferred over rate-sensitive growth. Long-duration Treasuries are vulnerable when oil and inflation expectations rise.

Asset Class Impact

Asset	View	Commentary
Gold	 +1	Overweight. Benefits from inflation and supply risk; hedge when oil spikes.
Real Assets	 +1	Overweight. Inflation hedges favored over nominal bonds in oil-driven regimes.
Short-Duration Bonds	 +1	Overweight. Reduces oil-driven repricing risk; income with lower duration exposure.
Quality Equities	 +1	Overweight. Pricing power and defensives hold up better than rate-sensitive growth.
Long-Duration Treasuries	 -1	Underweight. Vulnerable when oil and inflation expectations rise.
Tech / Rate-Sensitive Growth	 -1	Underweight. Hit by both risk-off sentiment and duration repricing.
Broad Equities	 Neutral	Neutral. Selectivity essential; quality over growth.

Source: AVANTAS Research Analysis