Verus Market Note

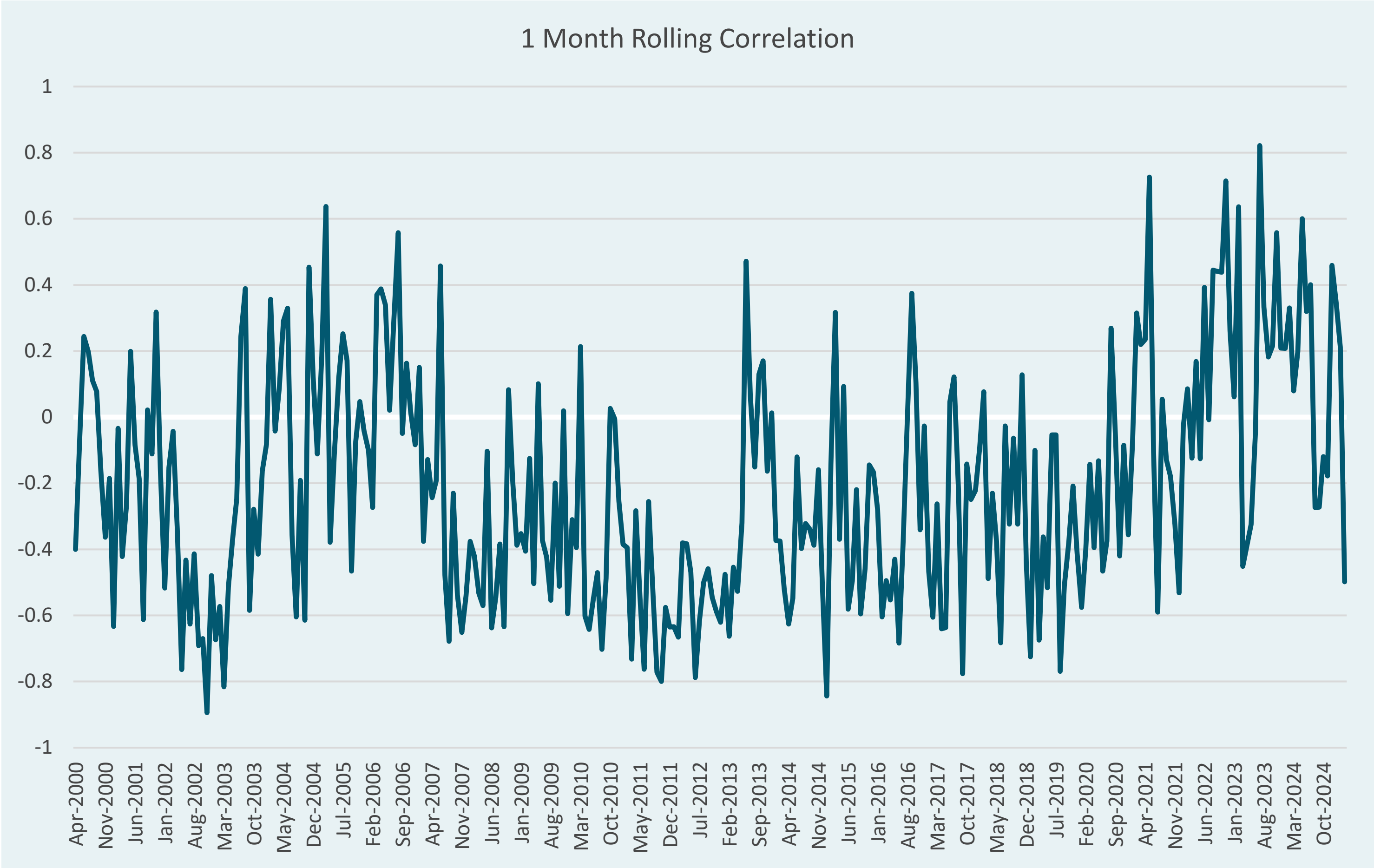
Do bonds always provide diversification to equities?

In this week's Market Note, we illustrate how bonds have continued to offer some diversification benefits to equities, but the relationship has been weaker than some investors expected during recent market turbulence.

The S&P 500 experienced volatility as investors reacted to ongoing concerns about inflation persistence, shifting Federal Reserve expectations, and geopolitical tensions. At the same time, yields on U.S. Treasuries moved higher as bond prices fell. As a result, both equities and bonds posted negative returns at the same time at various points during the month – a dynamic that challenges the traditional diversification role of bonds.

This market behavior highlights the importance of understanding the variability of effectiveness of diversification strategies. No diversifier is perfect, and sometimes even well-diversified portfolios suffer losses across multiple asset classes.

CORRELATION BETWEEN S&P 500 AND BLOOMBERG U.S. AGGREGATE BOND INDEX



Source: Verus, Bloomberg, and the St. Louis Federal Reserve, correlations are based on rolling monthly measures of daily returns between the S&P 500 and Bloomberg U.S. Aggregate Bond Index, shown in relation to one-year forward inflation expectations.