

Return to Normal: Negative Stock-Bond Correlations

We have seen a notable shift in stock-bond correlations this year as inflation declines. Historically, high inflation leads to positive correlations, meaning stocks and bonds move in the same direction, occasionally resulting in simultaneous declines. Now, with inflation easing, the market has returned to negative correlations.

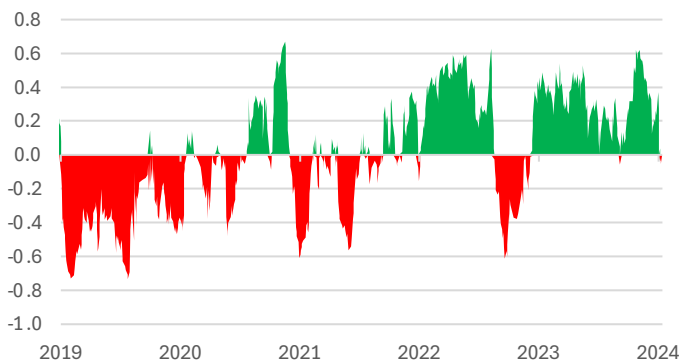
This shift offers significant benefits for balanced portfolios by enhancing diversification. Negative correlations mean that when stocks decline, bonds can rise and help offset those losses, thereby stabilizing the overall portfolio value. This added stability is particularly valuable during periods of market uncertainty or economic shifts, helping investors remain in the market rather than moving their funds to cash.

Rebalancing is now more effective as well. By periodically rebalancing, investors can lock in gains from high-performing stocks and rotate into more affordable bonds, or vice versa. This ensures the portfolio remains well-aligned with investment goals and adapts to changing market conditions.

A return to negative stock-bond correlations would provide more opportunities for strategic rebalancing and offer greater portfolio stability in today's market.

CHART OF THE WEEK

Historic Stock & Bond Correlations
(30-day Correlation)



Source: Bloomberg



Index Returns (%)

Equities	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.
S&P 500	5344	3.08	-2.00	12.98	21.49	8.07
Russell 1000 Growth	3488	4.28	-4.92	14.76	27.85	8.33
Russell 1000 Value	1741	1.76	1.54	8.26	12.61	5.11
FTSE High Dividend Yield*	420	1.67	1.05	8.96	13.43	6.81
S&P Small and Mid Cap	16288	1.49	0.33	4.36	10.40	2.92
MSCI EAFE	2280	3.40	-1.35	4.35	10.56	1.91
MSCI EM	1069	5.26	-0.97	6.60	10.27	-2.92

* Bloomberg U.S. Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

Index Characteristics

	NTM P/E	NTM P/E (20Y med)	NTM P/S	NTM P/S (20Y med)	Div. Yld
S&P 500	22.3	16.8	2.8	1.7	1.4
Russell 1000 Growth	29.8	19.8	5.1	2.0	0.6
Russell 1000 Value	17.4	14.9	1.8	1.4	2.1
FTSE High Dividend Yield*	13.4	14.3	1.6	1.6	4.1
S&P Small and Mid Cap	17.4	19.0	1.2	1.2	1.7
MSCI EAFE	14.2	14.7	1.4	1.1	3.2
MSCI EM	12.8	12.6	1.4	1.3	2.7

Fixed Income	Yield	1 Week	QTD	YTD	1 Year	3-Year Ann.
U.S. Aggregate	4.48	-0.58	3.31	2.57	7.55	-2.22
U.S. Int. Gov/Credit	4.22	-0.29	2.64	3.13	7.17	-0.48
U.S. Corporates	5.05	-0.31	3.04	2.54	9.29	-2.34
High Yield	7.67	0.91	1.94	4.57	11.32	2.28
Municipals (1-10)	3.09	-0.47	1.49	0.71	3.99	-0.03

Levels

Currencies	Last	1 Wk Ago	Prev YE	3 Yrs Ago
DXY	102.89	102.97	101.33	93.04
\$ per €	1.10	1.09	1.10	1.17
\$ per £	1.28	1.27	1.27	1.38
¥ per \$	147.01	144.34	141.04	110.41

Key Rates	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago
2-yr Treasury	4.02	3.98	4.76	4.25	4.97	0.22
10-yr Treasury	3.91	3.89	4.40	3.88	4.19	1.36
30-yr Treasury	4.20	4.18	4.56	4.03	4.29	2.00
3-mo. LIBOR	5.37	5.32	5.59	5.59	5.63	0.12
6-mo. CD rate	4.96	4.87	5.42	5.28	5.74	0.20
Prime Rate	8.50	8.50	8.50	8.50	8.50	3.25
30-yr fixed mortgage	6.99	7.02	7.26	6.99	7.51	3.04

Levels (%)

Commodities	Last	1 Wk Ago	Prev YE	3 Yrs Ago
Oil (WTI)	78.96	73.20	71.34	57.17
Gasoline	3.44	3.46	3.12	3.19
Natural Gas	2.19	2.01	2.51	3.93
Gold	2470	2391	2063	1753
Copper	8908	8804	8464	9436
Wheat	530	543	628	754
BBG Index	227.34	223.23	226.43	202.81

LAST WEEK IN REVIEW

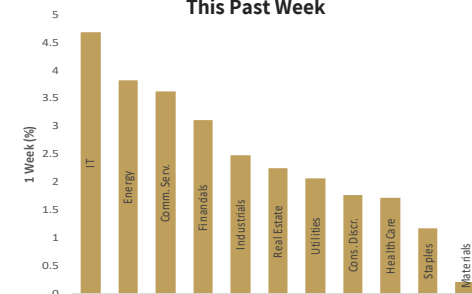
- **ISM Services (July):** 51.4, beating expectations and accelerating from June. A positive report that allayed recession fears.
- **Senior Loan Officer Opinion Survey:** A smaller share of bank officers report tightening lending standards relative to one year ago.
- **Trade Balance (June):** Trade deficit narrowed slightly to \$73.1 bln as U.S. exports grew faster than imports.
- **Initial & Continuing Jobless Claims (Aug. 2 & July 27):** Initial claims of 233K, lower than expected and lower than week prior. Continuing claims effectively unchanged at 1.9 million.

THIS WEEK

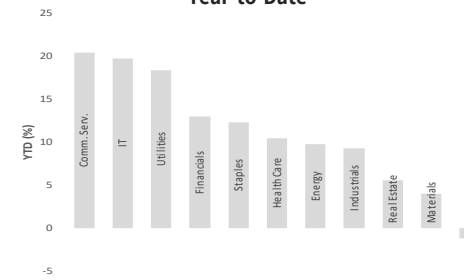
- **Producer Price Index (July):** 8/13
- **Consumer Price Index (July):** 8/14
- **Retail Sales (July):** 8/15
- **Housing Starts & Permits (July):** 8/16

S & P SECTOR RETURNS

This Past Week



Year-to-Date



Cons. Discr.