Types of Assets classes - Task 1

1. Low-Risk Assets

- **Government Bonds**: Indian Treasury bonds and savings bonds, these are backed by the government, making them one of the safest investments.
- **Stable Deposits**: This includes savings accounts, PO fund and Fixed Deposit (FD). These are highly stable but generally offer low returns.

2. Moderate-Risk Assets

- **Corporate Bonds**: Bonds issued by corporations offer higher returns than government bonds but come with higher risk, depending on the issuer's creditworthiness.
- **Real Estate**: Investing in property—either directly or via real estate investment trusts (REITs)
- **Commodities (Gold/Silver)**: Commonly used for investing purposes include physical goods like gold and silver.
- **Large Cap/Dividend Stocks**: These are stocks of large stable companies that regularly pay dividends. Large-Cap companies are generally stable compared to mid and small stocks.

3. High-Risk Assets

- **Mid-Cap and Small-Cap Equities (Stocks)**: They carry a high potential for growth, but they are volatile and can suffer from significant price swings.
- **Cryptocurrencies**: These digital assets are extremely volatile and speculative.

Summary table showing how different asset classes typically correlate with market conditions

Asset Class	Booming Economy	Recession	Slowing Economy	Recovering Economy	Correlation with Other Assets
Stocks (Nifty 50)	High growth, driven by corporate profits and consumer demand	Decline due to lower consumer spending and corporate earnings	Volatile, may show some defensive performance in sectors	Moderate growth as investor confidence returns	Positively correlated with economic indicators; often inversely correlated with bonds
Indian Gov Bonds	Lower demand due to risk appetite for equities	High demand as investors seek safety	Higher demand as a safe-haven asset	May see moderate demand; yields may fall if rates drop	Generally inverse correlation with equities; high correlation with interest rates
Corporate Bonds	Moderate returns, influenced by corporate creditworthiness	Higher risk of default; investors shift to safer assets	Riskier corporate bonds may face declines, but top-rated bonds hold better	Moderate returns, with demand for high-quality bonds	Correlates with credit ratings and interest rate policy; more stable than stocks
Gold ETF (INR)	Stable, sometimes less attractive as risk assets rise	Increases as a safe-haven asset	High demand as a hedge against economic uncertainty	Moderate demand as a safety asset	Negatively correlated with stocks; inversely correlated with currency strength
Silver ETF (INR)	Moderate demand, influenced by industrial and investor demand	Mixed performance, partial safe-haven appeal	Lower volatility than gold, may perform well	Grows as industrial demand increases	Correlated with industrial production; lower inverse correlation with stocks
Indian REITs	High demand due to confidence in real estate sector growth	Decline as property values and demand decrease	Slow growth as real estate stagnates	Increases with improving economic conditions	Positively correlated with consumer confidence; moderate correlation with equities
Bitcoin (USD)	High volatility, often seen as speculative asset	Mixed, depends on market sentiment	Volatile, often used as an alternative asset	Grows with renewed risk appetite	Weak correlation with traditional assets; often moves independently, highly speculative

Key points from analysing correlation:

Inversely related:

- **Stocks and Bonds**: Typically exhibit an inverse relationship due to the risk-return trade-off. When stocks rise, bonds tend to underperform and vice versa, especially during major economic shifts.
- **Stocks and Commodities (Gold)**: Gold, often inversely correlates with stocks. However, other commodities like construction metals, crude oils, etc., exhibit a positive correlation in a booming economy, with both rising due to increased demand and economic expansion.
- **Bonds and Commodities**: Bonds often underperform when commodities like oil and metals rise due to inflation, as inflation erodes the fixed returns on bonds.

Directly related:

- **Stocks and Commodities (Iron, Oil)**: Other commodities like construction metals, crude oils, etc., exhibit a positive correlation in a booming economy, with both rising due to increased demand and economic expansion.
- **Stocks and Real Estate**: Typically, Real Estate market grows when there is economic growth fueled by increased spending by the corporations. Hence, in general stock market and real estate should be directly correlated.
- **Cryptocurrencies and Other Assets**: Cryptocurrencies have shown varying correlations, sometimes behaving as speculative risk-on assets (like stocks) and other times showing inverse trends during volatility.
- **Stocks and Cryptocurrencies**: In recent years, cryptocurrencies have shown some positive correlation with tech stocks, especially during periods of high growth or risk-on sentiment.

These relationships can vary in short time frames and depending on macroeconomic factors. However, they offer a general guideline for asset behavior across different economic cycles.