

Macro Roundup Article

Headline: [An Update on the Stock-Bond Correlation](#)

Article

Link: <https://mailchi.mp/verdadcap/an-update-on-the-stock-bond-correlation?e=7b209e1099>

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Tweet: Stock-bond correlation is positive when core inflation averages above 4%. @GregObenshain notes that, in high inflation environments, inflation shocks tend to suggest a policy response that sends stock and bond prices in the same direction.

Summary: When the core inflation rate averages above 4%, the stock-bond correlation has been positive with few exceptions. Core inflation has averaged 4.5% for the past three years and is currently 4.7%. Even in periods of high stock-bond correlations, stocks and bonds can be negatively correlated over shorter periods. In fact, over the first eight months of this year, stocks and bonds moved opposite one another in May, June, and July. This also helps explain how in the 1970s during a period of sustained positive stock-bond correlations, Treasuries still had positive returns in recessions. The stock-bond correlation can be seen as an indicator of what is the dominant risk—inflation or growth—and how it is changing. Related: Stock-Bond Correlations and Do Stocks Always Outperform Bonds?

Primary Topic: Business Cycle

Topics: Business Cycle, Financial Markets, GDP, Inflation, Op-Ed/Blog Post, Weekly

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