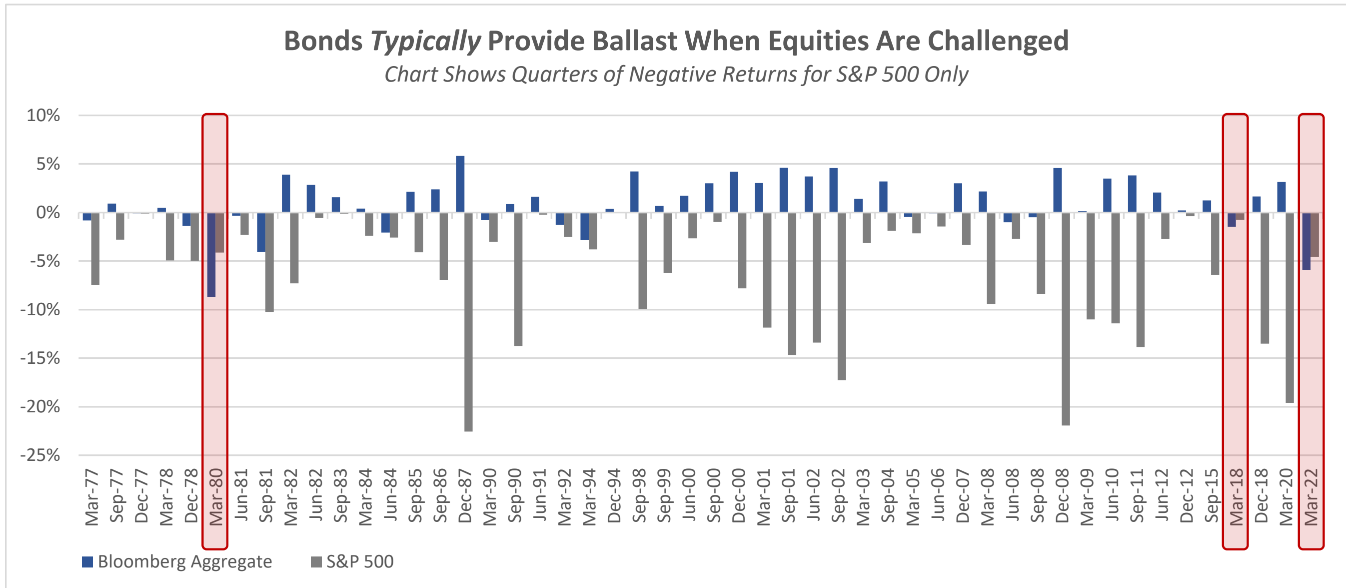
M&N Minute – April 12, 2022
Stocks Were Bad…Bonds Were Worse

Bonds are generally considered to have two primary purposes in a multi-asset class portfolio, providing a steady stream of income to investors and offering diversification benefits, or overall “ballast” to a portfolio, by often generating positive returns when equity markets decline. The first quarter of this year was one of the rare occurrences when the S&P 500 Index declined *and the broad fixed income market declined even more*, resulting in losses for so-called “balanced” portfolios that exceeded those in all-equity portfolios. Over the past 45+ years, this has only occurred three times.



Quarterly Performance of S&P 500 vs. Bloomberg Aggregate (“Agg”)

Since 1976 (Agg inception) = 185 quarters

Environment	S&P <0%	Agg <0%	*Both* S&P and Agg <0%	S&P <0%; Agg <S&P
Frequency of Occurrence	50 (27%)	42 (23%)	16 (9%)	3 (2%)
Average Return *S&P 500* *Bloomberg Agg*	 *-6.6%* *+1.0%*	 +2.1% -1.7%	 -3.8% -2.0%	3 observations: -4.1% | -0.8% | -4.6% -8.7% | -1.5%| -5.9%

Since 1976, the correlation between the S&P 500 and the Bloomberg Aggregate when the S&P 500 was less than 0% was *negative 0.5*, showing how diversification (usually) works! So, what happened in 1Q22? The Fed announced its intent to tighten monetary policy much sooner and at a faster pace than expectations coming into the year as data continued to show it was behind the curve with its policy stance relative to economic conditions. Interest rates increased significantly in response, driving down valuations in both the global equity and bond markets.

Our chief concern entering this year focused on the fact that nearly everything that had been a tailwind to equities early in the cycle has either peaked or is peaking and will soon fade or reverse. While historically this has not meant that returns need to be negative, such an environment has been associated with periods of lower forward returns and greater volatility. We continue to advocate for greater flexibility in countering the challenges that markets, economies, and investors face today.

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Source: Bloomberg
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