Weekly Commentary

It Was the Best of Times, It Was the Worst of Times…

November 2023 was one of the best months in the last 40 years for investors holding balanced portfolios of stocks and bonds (Fig. 1). Declining interest rates pushed bond prices up, resulting in the best monthly return for the Bloomberg Municipal Bond Index since 1982 and the best monthly return for the Bloomberg US Aggregate Bond Index since 1985. Lower interest rates also contributed to a significant loosening of financial conditions, which led to a jump in equity prices.

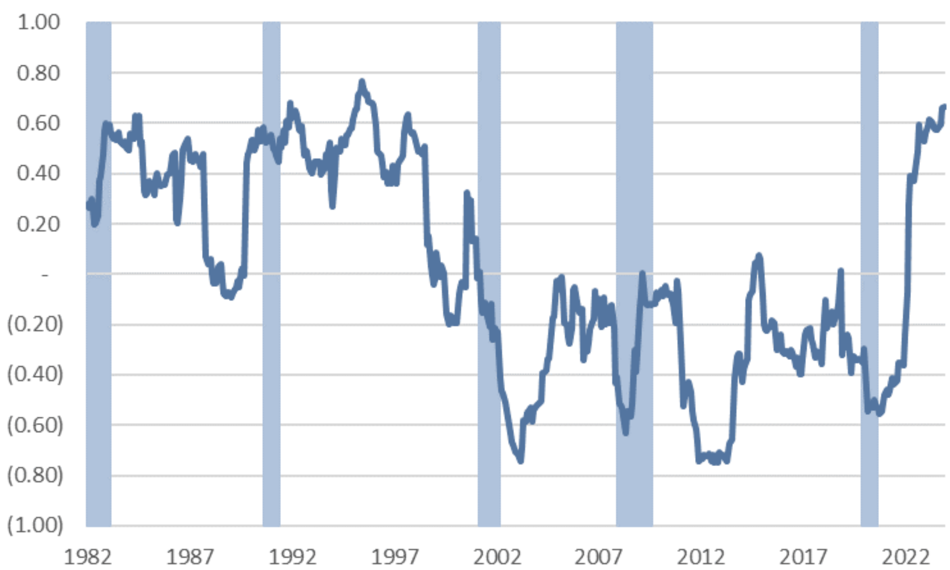
Fig. 1: Best and Worst Performance Months for Balanced Stock and Bond Portfolios

Best Months		Worst Months	
Aug-82	9.5%	Oct-87	-11.5%
Oct-82	9.0%	Oct-08	-11.0%
Jan-87	8.6%	Aug-98	-8.0%
Apr-20	8.4%	Mar-20	-7.6%
Dec-91	8.0%	Sep-22	-7.3%
Apr-80	7.3%	Apr-22	-6.7%
Aug-84	7.3%	Feb-09	-6.5%
Nov-23	7.3%	Aug-90	-6.0%
May-90	7.0%	Sep-08	-5.9%
Nov-20	7.0%	Sep-02	-5.9%

Source: Bloomberg, Mill Creek. Historical performance for a portfolio consisting of 60% S&P 500 and 40% Bloomberg Aggregate Bond Index.

However, the other side of the "best single month return since the 1980s" coin is a stark reminder of how correlated stocks and bonds are right now (Fig. 2). Investors typically hold a balanced portfolio of stocks and bonds on the premise that they will provide some level of diversification to each other. They expect that bonds will go up when stocks go down and vice versa.

Fig. 2: 24-Month Rolling Correlation, S&P/Treasury Bonds



Source: Bloomberg, Mill Creek. Shaded areas represent recessions.

Stock/bond diversification worked well for investors between 2000 and 2022, but stocks and bonds didn't provide much diversification benefit in the 1980s or 1990s. While the 1980s comprised less than a quarter of the 43-year period we're discussing, 75% of the best and worst months came during that decade. Today, stocks and bonds are once again trading together rather than providing the intended diversification within a portfolio. In recent months, they are starting to show up in both the best and worst columns for stock/bond portfolios.

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