

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

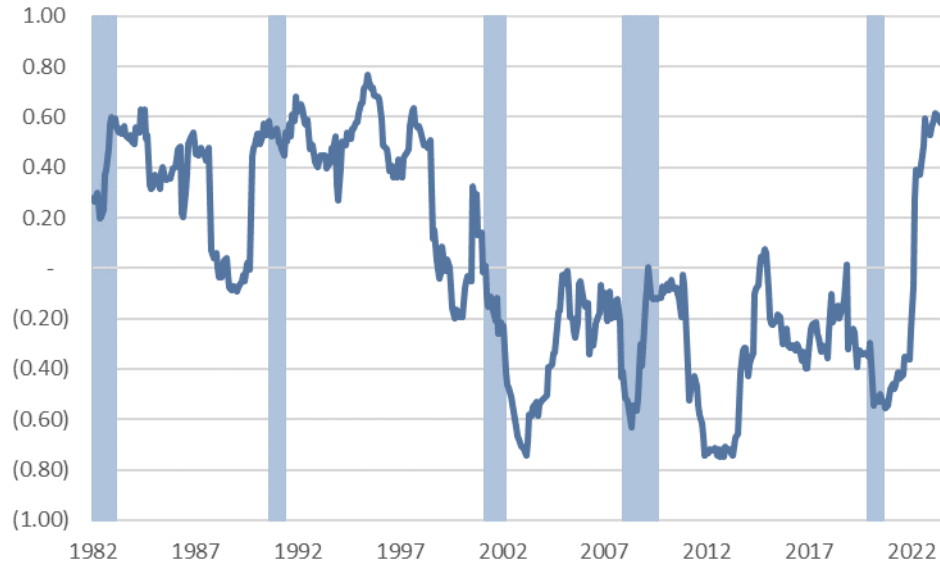
Best Months		Worst Months	
Aug-82	9.5%	Oct-87	-11.5%
Oct-82	9.0%	Oct-08	-11.0%
Jan-87	8.6%	Aug-98	-8.0%
Apr-20	8.4%	Mar-20	-7.6%
Dec-91	8.0%	Sep-22	-7.3%
Apr-80	7.3%	Apr-22	-6.7%
Aug-84	7.3%	Feb-09	-6.5%
Nov-23	7.3%	Aug-90	-6.0%
May-90	7.0%	Sep-08	-5.9%
Nov-20	7.0%	Sep-02	-5.9%

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.

Our values appreciate yours

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.

This week's contributor: Michael Crook, CAIA

Disclosures & Important Information

Any views expressed above represent the opinions of Mill Creek Capital Advisers ("MCCA") and are not intended as a forecast or guarantee of future results. This information is for educational purposes only. It is not intended to provide, and should not be relied upon for, particular investment advice. This publication has been prepared by MCCA. The publication is provided for information purposes only. The information contained in this publication has been obtained from sources that MCCA believes to be reliable, but MCCA does not represent or warrant that it is accurate or complete. The views in this publication are those of MCCA and are subject to change, and MCCA has no obligation to update its opinions or the information in this publication. While MCCA has obtained information believed to be reliable, MCCA, nor any of their respective officers, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this publication or its contents.

Our values appreciate yours

© 2023 All rights reserved. Trademarks “Mill Creek,” “Mill Creek Capital” and “Mill Creek Capital Advisors” are the exclusive property of Mill Creek Capital Advisors, LLC, are registered in the U.S. Patent and Trademark Office, and may not be used without written permission.