Stocks remain highly relevant

As the economic recovery gains stronger footing in the aftermath of the COVID-19 bear market, the relationship between stocks and bonds provides ample historical evidence of what may come next. Although the possibility for short-term equity market volatility is always present, the long-term approach to participating across capital markets is one that favors stocks. The relationship is quite simple: yields gain upside during times of recovery and economic strength. As yields rise, bond prices fall, which is a testament to their negatively correlated relationship. Amidst such a simple relationship, however, historical data also reveals the benefits of investing in stocks during periods where the 10 year-yield makes its way to higher levels. This becomes dominantly more important when the 10-year-yield remains in very low territory, as is the case right now (as of September 2020). It may be difficult to envision a yield above 3%, but that is not something we should discount over the next 5 years. Stocks may stand to benefit.

When yields are below 5%, rising yields have been associated with rising equity prices

CORRELATION TO WEEKLY S&P 500 RETURNS

0.80
0.60
0.40
0.20
0.00
-0.20
-0.40
-0.60
-0.80

0% 2% 4% 6% 8% 10% 12% 14% 16% 18%

U.S 10-YEAR YIELD – 1963 THROUGH SEPTEMBER 2020

Source: Credent Wealth. Bloomberg. The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. All information is historical and there is no guarantee of future results. All indices are unmanaged and may not be invested into directly. No strategy assures success or protects against loss. Stock investing involves risk including loss of principal. The economic forecasts set forth may not develop as predicted. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. Investment advice offered through CX Institutional, a Registered Investment Advisor.

UPDATED SEPTEMBER 2020