

## STOCKS AND BONDS AT ODDS OVER THE ECONOMY

What's ahead for the U.S. economy? Stocks and bonds offer a different assessment

Financial-market participants like to screen for correlations between asset classes not just to diversify their portfolios, but also in order to find unusual behavior. A sudden divergence of typically highly correlated indicators might contain a message.

Most of the time, one such correlation tends to exist when comparing U.S. Treasury yields with the relative performance of highly cyclical transportation stocks versus the interest-rate sensitive utilities sector. Since October, a gap has opened up: Treasury yields have risen over the year, in the case of 10-year maturities from below 2.5% to about 3.25% in November. For most of the time, the relative movement of the transportation versus utilities stocks matched the path of yields. That correlation started to deteriorate in November, as our "Chart of the Week" shows. Transportation-sector stocks suffered much more substantial losses than utility stocks. Such a behavior typically reflects a de-rating in growth expectations. Bond yields, however, remained in a sideways range until late November, and only then dropped below 3%, albeit not nearly as sharp-

ly as the previously described stock-market indicator. Put differently, the stock market is currently painting a much gloomier picture about the U.S. economy than the bond market. A look at real yields, which are commonly deemed to be an even better gauge for financial markets' growth expectations, confirms that impression: Despite declining by 17 basis points recently, 10-year real yields have doubled from 0.42% to 0.97% this year. The future will tell which market may be more accurate in anticipating the direction of the U.S. economy.



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 12/6/18

\* Dow Jones Transportation Average Index tracks the performance of the price-weighted average of 20 U.S. transportation stocks

\*\* Dow Jones Utility Average Index tracks the performance of the price-weighted average of 15 U.S. utility stocks

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## GLOSSARY

### Correlation

**Correlation** is a measure of how closely two variables move together over time.

### Diversification

**Diversification** refers to the dispersal of investments across asset types, geographies and so on with the aim of reducing risk or boosting risk-adjusted returns.

### Treasuries

**Treasuries** are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

### Real

In economics, a **real** value is adjusted for inflation.

### Yield

**Yield** is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

### Basis point

One **basis point** equals 1/100 of a percentage point.

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