Treasury Bonds

True diversification.

ONE DAY IN JULY

FINANCIAL ADVISORS

United States Treasury Bonds provide diversification relative to the stock market. When fear has reigned, Treasuries have risen. The graphs inside show how the S&P 500 stock market (green) has been less correlated with long-term Treasuries (blue) than corporate high-yield bonds (red).

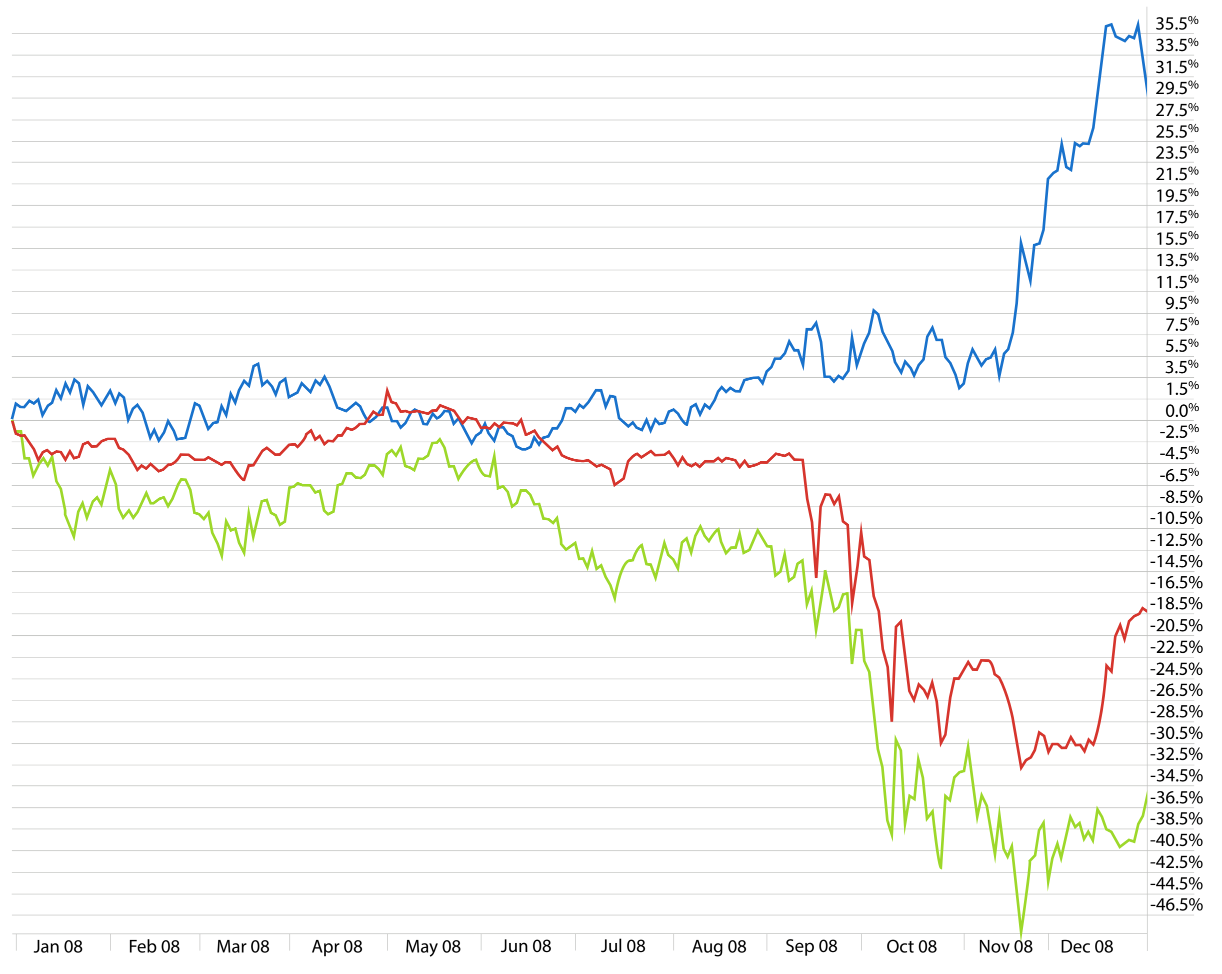
Enlarged views of the 2008 and 2020 crises are shown. A longer-term view is also shown. In the long view, observe that Treasuries do not always outperform high-yield corporate bonds. That is not the point we are trying to make. The point is that when fear infiltrates markets, Treasuries have provided safe diversification, while corporate bonds more closely have reflected the behavior of stocks.

This is particularly important in the context of rebalancing a portfolio.

Blue = Long-Term Treasury Bond ETF (TLT)
Red = High-Yield Bond ETF (HYG)
Green = S&P 500 ETF (VOO)

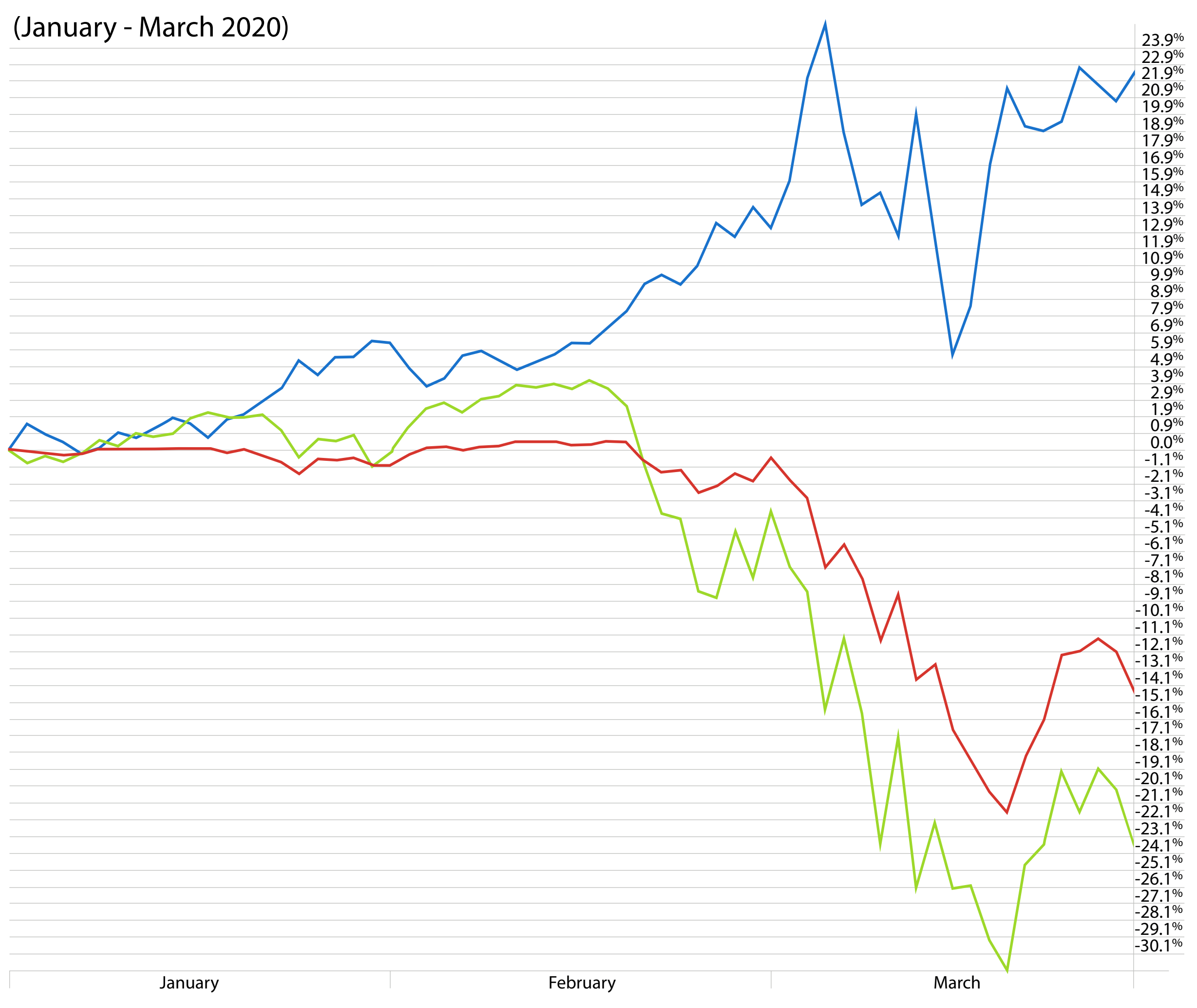
2008 Financial Crisis

(1/1/2008 - 12/31/2008)



2020 Covid Crisis

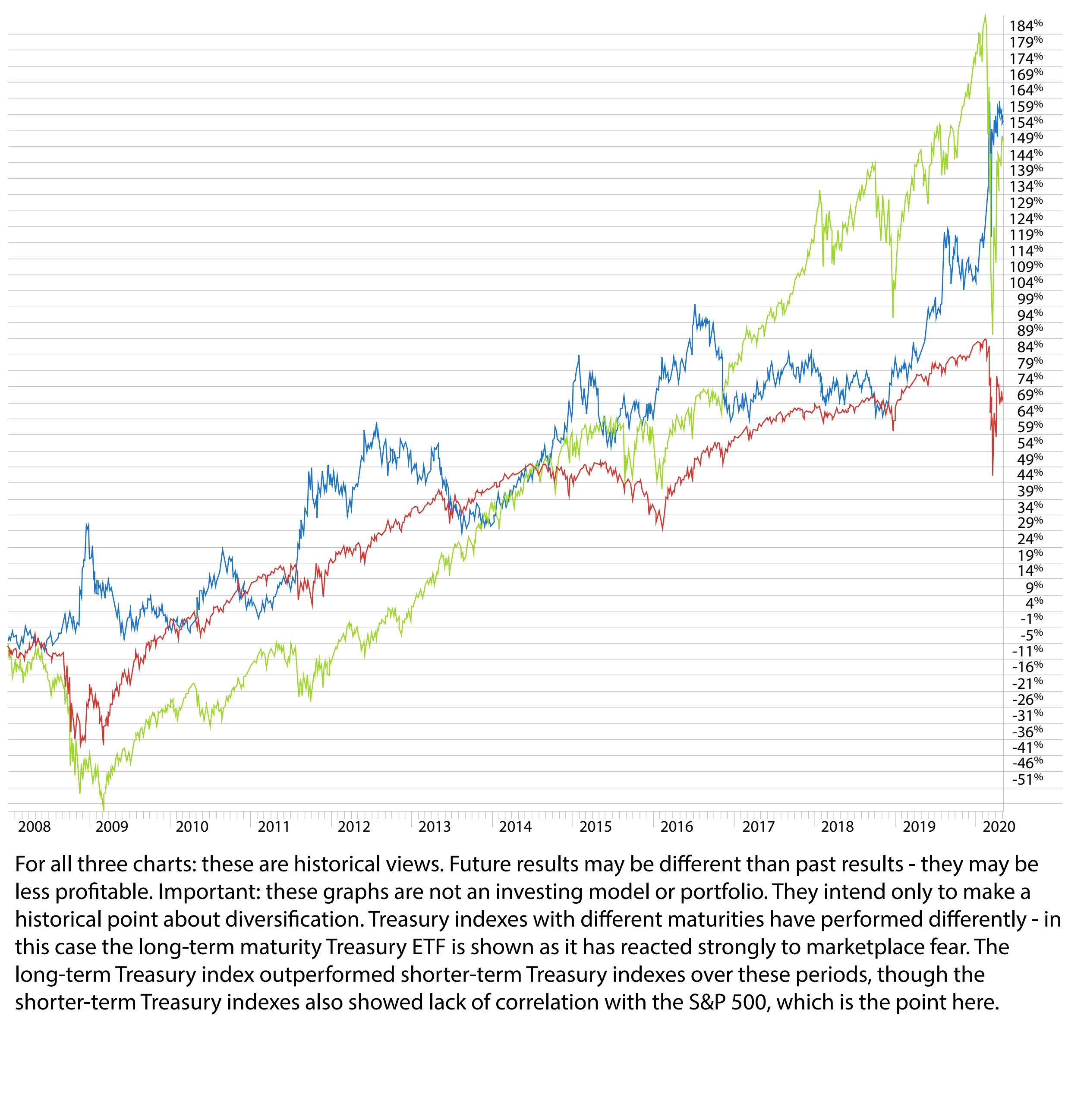
(January - March 2020)



For all three charts: TLT is a 20+ year maturity iShares Treasury bond ETF. HYG is the iShares Corporate High-Yield bond ETF. VOO is the Vanguard S&P 500 ETF. Total returns shown - all returns include dividends reinvested in their respective index. Graph data: stockcharts.com for dates shown. Graphs are shown net of 0.5% advisory fee. Not all clients have U.S. Treasury ETFs in their portfolios. Swensen quote source: Unconventional Success.

Long-term View

(1/1/2008 - 3/31/2020)



For all three charts: these are historical views. Future results may be different than past results - they may be less profitable. Important: these graphs are not an investing model or portfolio. They intend only to make a historical point about diversification. Treasury indexes with different maturities have performed differently - in this case the long-term maturity Treasury ETF is shown as it has reacted strongly to marketplace fear. The long-term Treasury index outperformed shorter-term Treasury indexes over these periods, though the shorter-term Treasury indexes also showed lack of correlation with the S&P 500, which is the point here.

"U.S. Treasury bonds provide a unique form of portfolio diversification, serving as a hedge against financial accidents and unanticipated deflation. No other asset type comes close to matching the diversifying power created by long-term, non-callable, default-free, full-faith-and-credit obligations of the U.S. government."

~ David Swensen, Yale University endowment manager

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