

# Market Volatility

## Take advantage of asset class correlations when diversifying your investments

Historically, stocks and bonds have acted as natural hedges against each other. While diversifying a portfolio within those major asset classes can't eliminate risk, it can help reduce volatility and may improve risk-adjusted returns over the long term.

The matrix below shows how different assets are correlated to each other. Sometimes, the correlation between equity asset classes and fixed-income asset classes is low. In some cases, they are negatively correlated—when one asset falls, the other often rises (i.e., U.S. Large Cap Stocks vs. Long-Term Treasury Bonds). This shows the benefits of also diversifying within asset classes. Different sectors, market caps, styles or regions can have different return characteristics.

### Correlation matrix

Source: Morningstar (Jan. 2013 – Dec. 2022)

|                        |                       |                       |                   |                        |                  |                        |                        |                     |  |
|------------------------|-----------------------|-----------------------|-------------------|------------------------|------------------|------------------------|------------------------|---------------------|--|
| U.S. Large Cap Stocks  | 1.00                  |                       |                   |                        |                  |                        |                        |                     |  |
| U.S. Small Cap Stocks  | 0.87                  | 1.00                  |                   |                        |                  |                        |                        |                     |  |
| Total Bond Market      | 0.26                  | 0.12                  | 1.00              |                        |                  |                        |                        |                     |  |
| Inv. Grade Corp. Bonds | 0.51                  | 0.39                  | 0.89              | 1.00                   |                  |                        |                        |                     |  |
| High Yield Bonds       | 0.79                  | 0.75                  | 0.43              | 0.71                   | 1.00             |                        |                        |                     |  |
| Long-Term Treas. Bonds | -0.04                 | -0.20                 | 0.87              | 0.66                   | 0.07             | 1.00                   |                        |                     |  |
| Developed Int'l Stocks | 0.86                  | 0.75                  | 0.29              | 0.53                   | 0.79             | -0.04                  | 1.00                   |                     |  |
| Emerging Mkt Stocks    | 0.67                  | 0.60                  | 0.33              | 0.55                   | 0.70             | 0.03                   | 0.79                   | 1.00                |  |
|                        | U.S. Large Cap Stocks | U.S. Small Cap Stocks | Total Bond Market | Inv. Grade Corp. Bonds | High Yield Bonds | Long-Term Treas. Bonds | Developed Int'l Stocks | Emerging Mkt Stocks |  |

<sup>1</sup> **Standard deviation** is a statistical measure of volatility. The higher the standard deviation, the riskier an investment is considered to be.

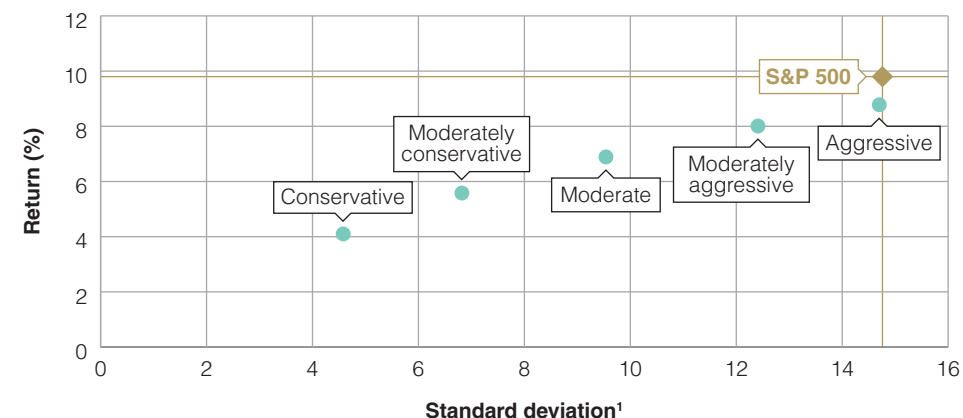
**U.S. Large Cap Stocks** are represented by the S&P 500® Index, a market-cap weighted index that represents the average performance of a group of 500 large-capitalization stocks. **U.S. Small Cap Stocks** are represented by the S&P SmallCap 600® Index, which measures performance of small-cap stocks. **Developed International Stocks** are represented by the MSCI EAFE Index, which measures developed-economy stocks in Europe, Australasia and the Far East. **Emerging Markets Stocks** are represented by the MSCI Emerging Markets Index, which measures developing-economy stocks. **High Yield Bonds** are represented by the Bloomberg High Yield Index, which measures performance of the high yield bond sector. **Investment Grade Corporate Bonds** are represented by the Bloomberg U.S. Corporate Investment Grade Index, which measures performance of the investment grade bond sector. **Total Bond Market** is represented by the Bloomberg U.S. Aggregate Bond Index, which measures performance of a wide variety of publicly traded bonds. **Long-Term Treasury Bonds** are represented by the

The graph below shows the return and the risk (standard deviation<sup>1</sup>) of the broadly diversified Morningstar Target Risk indexes. By combining numerous asset classes with different correlations to each other, the indexes have been able to produce varying risk-reward profiles.

Talk with your financial professional about building, balancing and diversifying your portfolio with Thrivent mutual funds. You can also learn about your options by visiting [thriventfunds.com](http://thriventfunds.com) or by calling 800-847-4836.

### Risk and return

Source: Morningstar (Jan. 2003 – Dec. 2022)



Bloomberg 20+ Year Treasury Index, which measures performance of longer maturity Treasury bonds. The Morningstar Target Risk Index family consists of five indexes covering risk preferences ranging from aggressive to conservative. The indexes utilize asset allocation methodologies developed and maintained by Ibbotson Associates to determine underlying index weighting. Results shown assume reinvestment of dividends or interest. Any indexes shown are unmanaged and do not reflect the typical costs of investing. Investors cannot invest directly in an index. Index performance is not indicative of the performance of any Thrivent product.

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