Abstract

In this thesis, we investigate the relationship between stock and bond returns in the US market from January 2018 to May 2023, with a specific focus on the impact of market uncertainty on this relation. Employing the rolling window correlation method, we examine the dynamic correlation between these two assets, using the S&P 500 Index and the US 10-Year Treasury Price Index. The results show, on average, a negative correlation on both monthly and quarterly basis. On a monthly basis we also observed highly fluctuating patterns. Additionally, the findings presented herein demonstrate that both the level and changes in stock market uncertainty, measured by the CBOE Volatility Index, negatively affect the relationship between stock and bond returns. On average, during times of increasing market uncertainty, investors tend to shift their funds from risky stocks toward safer bonds, while periods of low market uncertainty are usually characterized by the opposite trend. We carried out the same analysis for 11 stock market sectors separately. Interestingly, this analysis revealed that the relationship between the returns of these sectors and government bond returns varies. While the majority of sectors exhibit the same negative correlation as the overall market, few sectors, such as Utilities and Real Estate, show a positive correlation. We have also found out that market uncertainty has a substantial negative impact on the returns of these sectors, with Technology and Energy sectors being the most significantly affected. In summary, the empirical evidence analyzed in this thesis clearly demonstrates that in recent years, the correlation between stock and bond returns was predominantly negative, with stock market uncertainty exerting a negative influence on this relationship. This suggests, that diversifying portfolios between these two assets might be very effective, especially during periods of high market uncertainty.