

Report on Bachelor Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University

Student:	Filip Rulisek
Advisor:	PhDr. Frantisek Cech, Ph.D.
Title of the thesis:	Impact of Market Uncertainty on Stock-Bong Return Relation

OVERALL ASSESSMENT (provided in English):

Please provide a short summary of the thesis, your assessment of each of the four key categories, and an overall evaluation and suggested questions for the discussion. The minimum length of the report is 300 words.

Short summary

This thesis investigates the relationship between stock and bond returns in the US market from January 2018 to May 2023, focusing on the impact of market uncertainty on this relationship. Using the rolling window correlation method, the study examines the dynamic correlation between the S&P 500 Index and the US 10-Year Treasury Price Index. The results reveal an average negative correlation on both monthly and quarterly bases. The study also finds that market uncertainty, measured by the CBOE Volatility Index, negatively affects the stock-bond return relationship. During times of increased uncertainty, investors tend to move from stocks to bonds; the opposite occurs during periods of low uncertainty. The research also analyzes 11 stock market sectors individually.

Contribution

Overall, it is an interesting topic building up on the existing literature. There is a clear contribution made by the investigation of relationship between stock and bond returns in the US market spanning from January 2018 to May 2023, particularly emphasizing the influence of market uncertainty on this relation. To make the contribution stronger, the author could clearly compare the obtained results with the existing studies and discuss how they differ from other papers.

Methods

Utilizing the rolling window correlation method, the study delves into the dynamic correlation, employing the S&P 500 Index and the US 10-Year Treasury Price Index. However, the Rolling Window Correlation (RWC) method is chosen for investigating the correlation between stock and bond returns. Although acknowledged for its simplicity, the RWC method is not without limitations, notably its slower adaptation to new information. The assertion that it remains highly valuable and extensively used in contemporary research is backed by its application in the work of Hsu et al. (2020). Nevertheless, one might question its efficacy given the aforementioned drawbacks.

Literature

The author uses the relevant existing literature.

Manuscript form

The thesis is well drafted and formatted.

Overall evaluation and suggested questions for the discussion during the defense

The thesis demonstrates a well-written exposition by employing a standard methodology. Notably, the author enhances the transparency and clarity of the study by including attached files containing all the data used and the corresponding R code for analysis. This commendable approach not only bolsters

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the credibility of the research but also facilitates a comprehensive understanding of the procedures undertaken. However, the chosen study timeframe from January 2018 to May 2023 encapsulates a relatively brief span, marked by the ending of a low-yield environment, the global impact of the COVID-19 pandemic, periods characterized by both near-zero and high interest rates, and the recent conflict in Ukraine.

This prompts an inquiry into the reasons behind not considering a longer time series. For instance, why was the interval encompassing the years 2011 to 2022, a period marked by a low-yield environment, omitted from the sample? Additionally, why was the 2008 financial crisis not included? Has the author explored the inclusion of these periods to test the robustness of the findings?

Another query pertains to the influence of quantitative easing during the period of low-yield environment on the observed correlation pattern. Could the author elaborate on how the application of quantitative easing during this time frame could have shaped the dynamics of correlation between stock and bond returns? Such insight could offer valuable clarity on the potential mechanisms driving these correlation shifts.

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	22
<i>Methods</i> (max. 30 points)	26
<i>Literature</i> (max. 20 points)	16
<i>Manuscript Form</i> (max. 20 points)	19
TOTAL POINTS (max. 100 points)	83
GRADE (A – B – C – D – E – F)	B

NAME OF THE REFEREE:

Ing. Saida Teleu, Ph.D.

29.08.2023, Saida Teleu,
digitally signed

DATE OF EVALUATION: 29.8.2023

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F