

▶ Chart: The bond benchmark and diversification

Bloomberg Barclays U.S. Aggregate Bond Index Components, Correlation (monthly returns)

01/31/06-12/31/18	Treasuries	MBS pass-through	Industrial	Financial institutions	Agency	Utility	Supranational	CMBS	Sovereign	Local authorities	ABS	Covered
Treasuries	1.00											
MBS pass-through	0.83	1.00										
Industrial	0.52	0.64	1.00									
Financial institutions	0.25	0.35	0.72	1.00								
Agency	0.93	0.88	0.64	0.40	1.00							
Utility	0.59	0.67	0.95	0.67	0.66	1.00						
Supranational	0.90	0.83	0.55	0.36	0.92	0.57	1.00					
CMBS	0.05	0.09	0.49	0.45	0.20	0.38	0.15	1.00				
Sovereign	0.58	0.66	0.83	0.62	0.70	0.76	0.63	0.46	1.00			
Local authorities	0.84	0.74	0.67	0.40	0.79	0.75	0.79	0.18	0.65	1.00		
ABS	0.07	0.29	0.54	0.45	0.15	0.59	0.16	0.36	0.35	0.26	1.00	
Covered	0.67	0.61	0.45	0.39	0.67	0.49	0.82	0.13	0.53	0.67	0.20	1.00

Source: Bloomberg, Columbia Threadneedle Investments. Data for the period 01/31/06-12/31/18. Past performance is not a guarantee of future results.

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency). It is not possible to invest directly in an index. Correlation is a statistic that measures the degree to which two asset classes move in relation to each other. The degree of correlation is represented by the correlation coefficient, which has a value that must fall between -1 and 1. A correlation of 1 means the asset classes move in lock-step. A correlation of -1 means the asset classes move in opposite directions. Investment products offered through Columbia Management Investment Distributors, Inc., member FINRA. Advisory services provided by Columbia Management Investment Advisers, LLC. Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies. © 2019 Columbia Management Investment Advisers, LLC. All rights reserved. The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Columbia Management Investment Advisers, LLC (CMIA) associates or affiliates. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Since economic and market conditions change frequently, there can be no assurance that the trends described here will continue or that any forecasts are accurate. Investing involves risk including the risk of loss of principal.

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The 2008 financial crisis and subsequent government intervention changed the complexion of the U.S. bond market. In 2007, U.S. Treasuries comprised 22% of the Bloomberg Barclays U.S. Aggregate Bond Index (the Agg) — that’s increased to 39% today. Factoring in debt issued by government agencies and mortgage-backed securities (MBS), the total government exposure in the Agg is now over 70%.

The bond benchmark makes diversification a challenge. The index weightings do not foster diversification. The correlation of the top two components, U.S. Treasuries and MBS, is 83% with minimal exposure to those components with low cross-correlations.