



## High Yield Bonds and Treasuries:

### Dancing to the Beat of a Different Drum

Historical Correlation Analysis: Understanding Positive, Negative and Zero Correlation as it Relates to Treasury Rate Movements

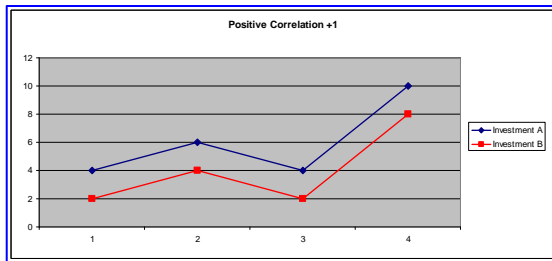
Correlation is the extent to which the values of different types of investments move in tandem with one another in response to changing economic and market conditions.

Correlation is measured on a scale of -1.0 to +1.0      What is the difference in....

#### Positive Correlation?

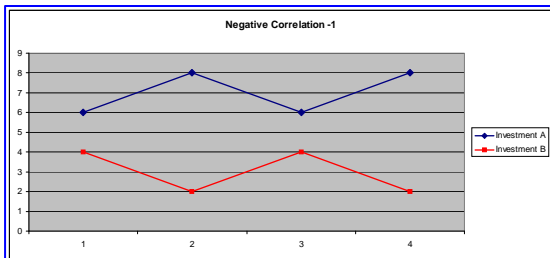
#### Negative Correlation?

#### Zero Correlation?



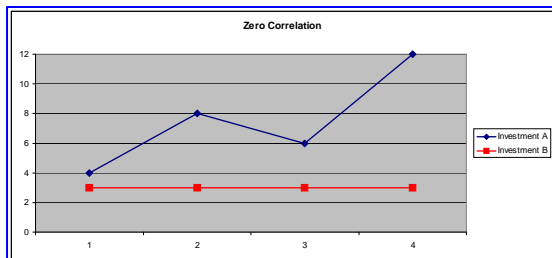
**Positive Correlation** is when the relationship between two investments is such that when one investment's values tend to increase, the other investment's values also tend to increase.

**Investments with a correlation of +0.50 or more tend to rise and fall in value at the same time.**



**Negative Correlation** is when the relationship between two variables is such that when one investment's values tend to increase, the other investment's value tend to decrease.

**Investments with a negative correlation of -0.50 to -1.0 are more likely to gain or lose value in opposing cycles.**



**Zero Correlation** is when the relationship between two investments is such that one investment's value act independently and vary separately to the other investment. **The more random the two investments movements with one another the closer the correlation will be to zero.**


## Correlation Analysis: High Yield, Investment Grade and Aggregate Bond Indices

As the perception that interest rates will be moving higher increases, it is important to understand the correlation between high yield bonds and treasuries. Historically, the correlation between the two has been **VERY LOW, OR NONEXISTENT**.

Investment grade and aggregate bond indices have historically had strong positive correlation to treasuries. **In contrast, the movement in High Yield is ultimately paired with the underlying issuer's overall credit risk.**

The table below displays the correlation coefficient from 1/1/1985 to 12/31/2010

Index	Barclays Capital US Investment Grade	Barclays Capital US Aggregate	BofA Merrill Lynch High Yield Master
BofA Merrill Lynch Treasuries 1-3yr	.65	.87	-.04
BofA Merrill Lynch Treasuries 1-10yr	.70	.93	-.10
BofA Merrill Lynch Treasuries 10+yr	.70	.89	-.09



Strong Positive Correlation      Strong Positive Correlation      Zero Correlation

High yield tends to dance to the beat of a different drum when compared to other bond asset classes. The table emphasizes high yield bonds low sensitivity to the movement of treasuries versus the strong positive correlation between treasuries, investment grade and aggregate bond indices.

Remember, the more random the two variables movements with one another the closer the co-efficient will be to zero. The closer the co-efficient value is to +1.0 the more likely the two variables tend to rise and fall in value at the same time. The closer the co-efficient value is to -1.0, the two variables are more likely to gain or lose value in opposing cycles.

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