MARKETS AND ECONOMY

Rethinking risk parity and the diversification benefit of bonds

By: Brian Shaw | October 20, 2020

Boston - A new analysis by Brian Shaw, vice president and portfolio manager at Eaton Vance, shows that the role of bonds in portfolio diversification, including strategies based on risk parity, must change going forward, as interest rates have hit their effective lower bounds.

Other key conclusions are:

- The ability of bonds to hedge equity volatility - i.e., their "hedging efficiency" - has been declining steadily in the U.S., Europe and Japan since the dot-com bust of 2000
- The same loss in hedging efficiency may be seen in corporate debt, whose performance is affected by both credit spreads and interest-rate movements
- The well-diversified portfolio of the future will need to include assets drawn from a much wider spectrum than the traditional equity, rates and credit markets of the most commonly considered investment regions

Here is the full copy of the report: Rethinking risk parity and the diversification benefit of bonds.

Picture of Brian Shaw

Brian Shaw
Portfolio Manager
Eaton Vance Management

"The ability of bonds to hedge equity volatility - i.e., their "hedging efficiency" - has been declining steadily in the U.S., Europe and Japan since the dot-com bust of 2000."

The views expressed in these posts are those of the authors and are current only through the date stated. These views are subject to change at any time based upon market or other conditions, and Eaton Vance disclaims any responsibility to update such views. These views may not be relied upon as investment advice and, because investment decisions for Eaton Vance are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Eaton Vance strategy. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness.