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Economics Weekly

Bonds Protect Against Growth Shocks, Not Inflation Shocks

> *If we went into some very major war, the value of money would go down. … The last thing you'd want to do is hold money during a war. … You're going to be a lot better off owning productive assets … than pieces of paper.*
>
> *– Warren Buffett, [CNBC](#) 2014*

For several years now, we have been arguing that the inflation regime has changed, that we are in the midst of a structural capex upturn, that we are facing increasing geopolitical shocks, and that these changes have important implications for investors and asset allocation. This regime change signifies that investors should move away from the traditional 60-40 portfolios and adopt a more diversified and active portfolio management policy. Portfolios should still include exposure to bonds but also recognize that in this new inflation regime equities become an increasingly important diversifier and risk reducer. This is proving particularly salient in today's stagflation-type environment.

In this new regime, equities may still offer a slightly greater positive correlation to bonds even after this change, but they also offer important protection against upside inflation risks—where bonds do the opposite. This is particularly important at a time when central banks are finding that their normal crisis response playbook no longer fits the unfolding scenario. **In this *Economics Weekly*, we argue that the stock-to-bond correlation has now moved from negative to positive, and we discuss what that means for investors.**

The Inflation Regime Has Changed

We believe investors need to acknowledge that 1) the inflation regime has changed, and 2) we are not likely to return to the pre-COVID disinflationary/deflationary world for many years to come.

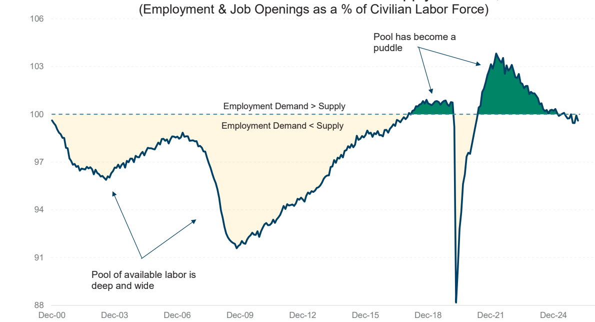
The previous regime—from approximately 2000 to 2019—was defined by a frictionless supply side, with the main downside risks being demand, not supply, which was abundant. As a result, there were only disinflationary or deflationary risks to inflation.

In today's inflation regime, supply-side frictions are once again apparent. While this does not mean a return to the 1970s or 1980s, it does mean a more-volatile inflation environment, with what is likely to be a slightly higher rate of inflation on average (e.g., 2.5%-3.0%).

We attribute this shift in the inflation regime to a combination of factors, as listed below.

1. A structurally tighter labor market – The supply of labor is no longer abundant and is shrinking due to demographics and immigration policies (exhibit 1).

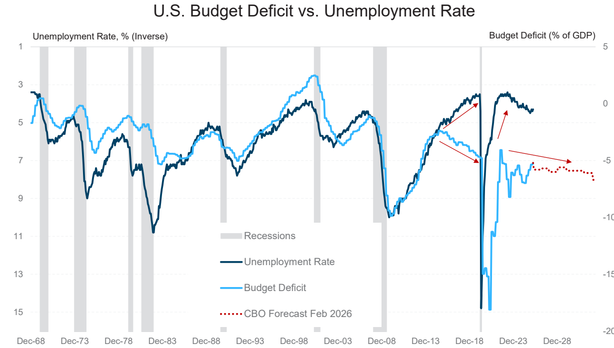
Exhibit 1
Demand for Labor as a Share of Total Supply of Labor, %
(Employment & Job Openings as a % of Civilian Labor Force)



Source: Bureau of Labor Statistics, William Blair Equity Research

2. Loose fiscal policy – The government continues to run loose fiscal policy, with budget deficits hanging around an unsustainable 6% for as far as the eye can see.

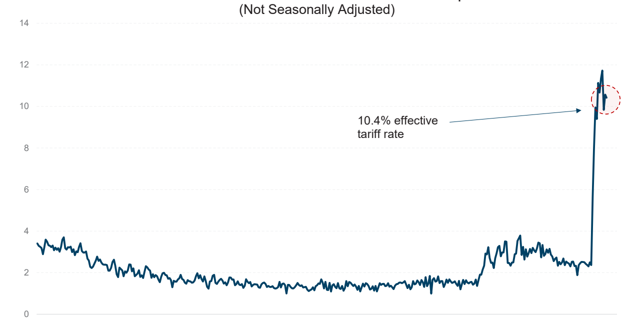
Exhibit 2
U.S. Budget Deficit vs. Unemployment Rate



Sources: Congressional Budget Office, Bureau of Labor Statistics, William Blair Equity Research

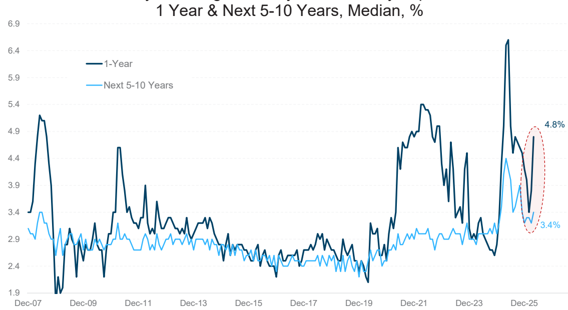
3. Geopolitical shifts – These include an increase in populism, the imposition of tariffs, a breakup of previous trade agreements, and conflicts (exhibit 3).

Exhibit 3
Tariff Revenue as % of Total US Goods Imports
(Not Seasonally Adjusted)



4. Less stable inflationary expectations – Inflationary expectations have been more volatile due to a combination of one-off price shocks, starting with the pandemic, then the Russian invasion of Ukraine, immigration restrictions, and tariffs. These are in addition to the odd boat being stuck in a canal (or hitting a bridge), adverse weather, and now a commodity price shock due to the war with Iran (exhibit 4). While economists see temporary supply shocks, consumers just see persistently higher prices.

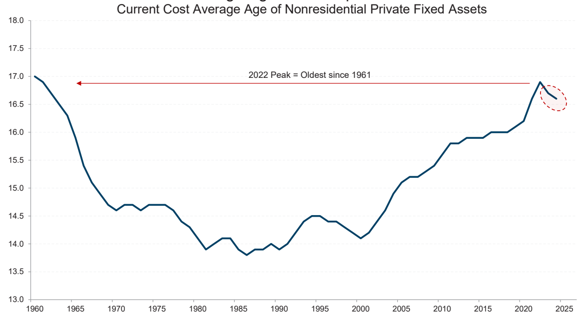
Exhibit 4
University of Michigan Survey of Inflationary Expectations:
1 Year & Next 5-10 Years, Median, %



Sources: University of Michigan, Bloomberg, William Blair Equity Research

5. Old capital stock – The capital stock in the U.S. is old and needs to be renewed. Both efficiency and productivity deteriorate as infrastructure ages, reducing companies' ability to absorb price increases (exhibit 5).

Exhibit 5
Average Age of the Capital Stock
Current Cost Average Age of Nonresidential Private Fixed Assets



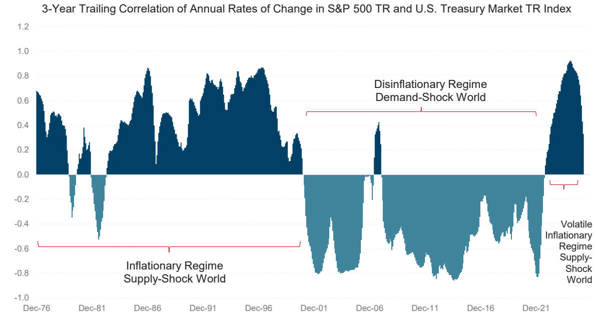
Sources: Bureau of Economic Analysis, William Blair Equity Research

6. Weather – While it may be more anecdotal, weather seems to have become increasingly more volatile, with a major weather event causing supply-chain disruptions much more frequently—whether it be fires, droughts, floods, or ice or snow storms (also in conjunction with aging infrastructure).

For monetary policymakers, this means that interest rate decisions can no longer be as preemptive as they were in the two decades pre-COVID. As we are seeing with today's stagflationary episode, as well as with tariffs, the impact of immigration restrictions, and Russia's invasion of Ukraine, the Fed is increasingly being forced to take a wait-and-see stance. The result is that interest rates need to remain higher for longer. In this environment, the risks around previously plausible "run-it-hot" type policies increase dramatically.

For investors, the return of a positive stock-to-bond correlation reflects this regime shift; it signals a shift from purely growth-driven shocks to one that also incorporates inflation-driven shocks. And when inflation risks dominate, returns for stocks and bonds become more concentrated, with bonds often underperforming equities. In a low-inflation, growth-led environment, bonds diversify equity risk and provide greater downside protection to growth shocks (exhibit 6).

Exhibit 6
Correlation Between Stocks and Bonds
3-Year Trailing Correlation of Annual Rates of Change in S&P 500 TR and U.S. Treasury Market TR Index



Sources: Bloomberg, William Blair Equity Research

Return Protection Is Shock Dependent

With the resumption of the positive stock-to-bond correlation, investors should no longer rely solely on bonds to provide all-weather insurance policies for their portfolios. Rather, we think investors should add bonds for yield (as opposed to purely portfolio insurance) and protection against downside growth risks. In addition, portfolios should increasingly include greater diversification across assets and across the equity market.

Indeed, this seems to be exactly what bond investors are doing; they are once again demanding a positive term premium to reflect the added downside risk of taking on duration.

Some investors have argued that even though stocks are no longer negatively correlated with bonds, they are still less correlated than other equities (exhibits 7 and 8). As such, equities are still not a suitable form of diversification and do little to improve portfolio protection.

The correlation of stocks to bonds (30% from 2019 to 2026) is still lower than the correlation of all other sectors to the aggregate index (exhibit 8). From this perspective, purchasing Treasurys purely to achieve the lowest unconditional correlation to the S&P 500 could work. Yet, we also think this misses an important point about the diversification exercise; bonds offer protection against growth shocks, but they compound the adverse impact on portfolios during inflation shocks. Conversely, many equity sectors benefit from inflation shocks due to diverse nominal revenue and earnings models, flexible pricing power, and industry and geographical dispersion, which bonds do not.

Exhibits 7 and 8 show the correlation of monthly returns for the large, mid-, and small caps by sectors and against bonds during the lower-inflation period from 2000 to 2019 and during the higher-inflation period from 2019 to 2026. The sector correlations have increased from the low-inflation period to the higher-inflation one, and most significantly so for bonds. However, correlations between the large-cap equities and the small and midcaps rose much less, suggesting that where there is greater diversity in revenues and growth models, there is also less co-movement and greater return dispersion.

Exhibit 7

Correlation of Monthly changes in S&P Sectors* & US Treasurys 2000-2019

S&P 500

	Energy	Mtls	Inds	Cons Disc	Cons Stpls	Hlth Care	Finls	Info Tech	Real Estate	Comm Svcs	Utls
S&P 500	0.65	0.83	0.91	0.90	0.59	0.67	0.83	0.84	0.69	0.62	0.42
Energy		0.68	0.63	0.52	0.39	0.41	0.50	0.40	0.38	0.38	0.43
Materials			0.84	0.78	0.53	0.53	0.71	0.59	0.61	0.44	0.32
Industrials				0.85	0.58	0.61	0.82	0.66	0.67	0.51	0.38
Consumer Discretionary					0.53	0.56	0.77	0.74	0.68	0.55	0.29
Consumer Staples						0.63	0.54	0.26	0.56	0.40	0.47
Health Care							0.58	0.37	0.52	0.40	0.40
Financials								0.53	0.71	0.41	0.34
Information Technology									0.52	0.53	0.21
Real Estate										0.36	0.46
Telecoms											0.31

S&P 400 Midcaps

	S&P 400	Energy	Mtls	Inds	Cons Disc	Cons Stpls	Hlth Care	Finls	Info Tech	Real Estate	Comm Svcs	Utls
S&P 500	0.92	0.59	0.82	0.85	0.81	0.60	0.71	0.79	0.82	0.66	0.61	0.55
Energy	0.68	0.85	0.72	0.65	0.49	0.45	0.46	0.53	0.48	0.40	0.46	0.55
Materials	0.81	0.63	0.91	0.84	0.74	0.61	0.55	0.71	0.63	0.59	0.54	0.43
Industrials	0.87	0.56	0.85	0.89	0.78	0.59	0.67	0.79	0.70	0.64	0.52	0.52
Consumer Discretionary	0.86	0.50	0.78	0.83	0.89	0.63	0.62	0.77	0.74	0.66	0.55	0.44
Consumer Staples	0.49	0.25	0.49	0.49	0.47	0.65	0.46	0.57	0.27	0.54	0.29	0.47
Health Care	0.56	0.31	0.54	0.51	0.49	0.50	0.66	0.55	0.40	0.52	0.34	0.47
Financials	0.78	0.46	0.71	0.74	0.74	0.57	0.58	0.89	0.56	0.68	0.43	0.46
Information Technology	0.74	0.41	0.58	0.65	0.64	0.33	0.55	0.46	0.90	0.48	0.53	0.30
Real Estate	0.71	0.40	0.64	0.62	0.62	0.55	0.60	0.78	0.55	0.95	0.34	0.56
Telecoms	0.46	0.25	0.42	0.42	0.44	0.33	0.25	0.41	0.47	0.32	0.56	0.36
Utilities	0.43	0.32	0.39	0.33	0.29	0.29	0.37	0.39	0.29	0.45	0.34	0.86
S&P 400 Midcap		0.71	0.87	0.93	0.87	0.64	0.80	0.82	0.86	0.72	0.59	0.60
Energy			0.70	0.65	0.53	0.41	0.48	0.48	0.53	0.41	0.40	0.46
Materials				0.90	0.77	0.63	0.63	0.72	0.65	0.64	0.56	0.52
Industrials					0.84	0.63	0.70	0.77	0.74	0.62	0.56	0.51
Consumer Discretionary						0.65	0.65	0.78	0.70	0.64	0.51	0.45
Consumer Staples							0.50	0.64	0.39	0.59	0.40	0.44
Health Care								0.63	0.66	0.62	0.41	0.47
Financials									0.55	0.81	0.47	0.56
Information Technology										0.53	0.53	0.39
Real Estate											0.34	0.59
Telecoms												0.39

S&P 600 Smallcaps / Treasurys

	S&P 600	Energy	Mtls	Inds	Cons Disc	Cons Stpls	Hlth Care	Finls	Info Tech	Real Estate	Comm Svcs	Utls	U.S. Treasury Market Index
S&P 500	0.84	0.55	0.78	0.83	0.78	0.64	0.54	0.69	0.79	0.67	0.51	0.42	-0.33
Energy	0.60	0.86	0.70	0.60	0.48	0.46	0.35	0.45	0.45	0.39	0.28	0.44	-0.28
Materials	0.74	0.60	0.83	0.77	0.72	0.59	0.38	0.61	0.62	0.59	0.36	0.37	-0.33
Industrials	0.80	0.54	0.81	0.84	0.77	0.61	0.48	0.71	0.67	0.66	0.42	0.41	-0.31
Consumer Discretionary	0.81	0.45	0.76	0.82	0.86	0.68	0.45	0.70	0.73	0.68	0.44	0.37	-0.30
Consumer Staples	0.44	0.27	0.44	0.44	0.45	0.54	0.30	0.48	0.26	0.54	0.10	0.52	-0.06
Health Care	0.48	0.32	0.46	0.47	0.42	0.42	0.50	0.47	0.34	0.52	0.19	0.38	-0.16
Financials	0.73	0.47	0.72	0.74	0.74	0.59	0.41	0.84	0.55	0.71	0.38	0.36	-0.30
Information Technology	0.69	0.32	0.54	0.66	0.62	0.45	0.45	0.39	0.86	0.48	0.53	0.17	-0.32
Real Estate	0.69	0.39	0.61	0.62	0.67	0.53	0.54	0.72	0.58	0.93	0.57	0.48	-0.06
Telecoms	0.40	0.22	0.37	0.41	0.38	0.39	0.21	0.30	0.44	0.31	0.35	0.25	-0.18
Utilities	0.34	0.32	0.35	0.29	0.23	0.32	0.24	0.30	0.25	0.43	0.27	0.74	0.05
S&P 400 Midcap	0.94	0.66	0.87	0.91	0.87	0.71	0.66	0.76	0.84	0.74	0.55	0.48	-0.32
Energy	0.65	0.93	0.70	0.61	0.54	0.45	0.42	0.45	0.50	0.42	0.32	0.31	-0.26
Materials	0.80	0.68	0.88	0.85	0.77	0.64	0.47	0.64	0.65	0.64	0.37	0.43	-0.30
Industrials	0.88	0.62	0.87	0.92	0.83	0.68	0.56	0.71	0.75	0.66	0.41	0.42	-0.37
Consumer Discretionary	0.82	0.47	0.76	0.82	0.92	0.71	0.45	0.72	0.70	0.67	0.39	0.38	-0.30
Consumer Staples	0.57	0.42	0.61	0.58	0.66	0.65	0.32	0.57	0.38	0.58	0.18	0.39	-0.12
Health Care	0.77	0.47	0.63	0.69	0.65	0.55	0.79	0.60	0.65	0.65	0.48	0.39	-0.24
Financials	0.78	0.49	0.76	0.77	0.77	0.67	0.46	0.93	0.56	0.83	0.39	0.51	-0.21
Information Technology	0.83	0.46	0.67	0.76	0.70	0.55	0.63	0.50	0.94	0.55	0.59	0.26	-0.34
Real Estate	0.70	0.40	0.64	0.64	0.68	0.56	0.57	0.75	0.57	0.96	0.55	0.52	0.01
Telecoms	0.52	0.36	0.50	0.53	0.48	0.44	0.29	0.37	0.53	0.34	0.42	0.28	-0.25
Utilities	0.49	0.47	0.48	0.45	0.39	0.46	0.31	0.48	0.35	0.58	0.31	0.82	0.00
S&P 600 Small Cap		0.63	0.89	0.94	0.89	0.77	0.77	0.80	0.89	0.75	0.59	0.47	-0.34
Energy			0.70	0.60	0.50	0.47	0.42	0.47	0.44	0.42	0.30	0.34	-0.27
Materials				0.89	0.81	0.69	0.59	0.74	0.70	0.67	0.46	0.44	-0.31
Industrials					0.88	0.74	0.62	0.78	0.81	0.70	0.50	0.45	-0.36
Consumer Discretionary						0.78	0.53	0.77	0.75	0.72	0.44	0.38	-0.30
Consumer Staples							0.50	0.68	0.60	0.60	0.38	0.52	-0.32
Health Care								0.52	0.68	0.61	0.53	0.31	-0.23
Financials									0.55	0.81	0.43	0.49	-0.17
Information Technology										0.60	0.62	0.29	-0.35
Real Estate											0.56	0.54	-0.03
Telecoms												0.27	-0.16
Utilities													0.03

Sources: Bloomberg, William Blair Equity Research; *Sector performance not total return indices

Exhibit 8

Correlation of Monthly changes in S&P Sectors* & US Treasurys 2019 - March 2026

S&P 500

	Energy	Mtls	Inds	Cons Disc	Cons Stpls	Hlth Care	Finls	Info Tech	Real Estate	Comm Svcs	Utls
S&P 500	0.54	0.82	0.89	0.88	0.67	0.71	0.83	0.90	0.83	0.86	0.58
Energy		0.59	0.61	0.35	0.41	0.40	0.69	0.29	0.44	0.34	0.30
Materials			0.89	0.65	0.77	0.73	0.79	0.56	0.85	0.62	0.63
Industrials				0.72	0.76	0.65	0.85	0.68	0.81	0.68	0.63
Consumer Discretionary					0.43	0.49	0.65	0.84	0.70	0.79	0.39
Consumer Staples						0.73	0.58	0.46	0.75	0.46	0.67
Health Care							0.59	0.50	0.71	0.54	0.54
Financials								0.59	0.73	0.65	0.47
Information Technology									0.65	0.81	0.39
Real Estate										0.62	0.70
Telecoms											0.43

S&P 400 Midcaps

	S&P 400	Energy	Mtls	Inds	Cons Disc	Cons Stpls	Hlth Care	Finls	Info Tech	Real Estate	Comm Svcs	Utls
S&P 500	0.90	0.62	0.79	0.89	0.86	0.72	0.77	0.72	0.87	0.83	0.74	0.66
Energy	0.66	0.91	0.59	0.58	0.60	0.49	0.40	0.68	0.48	0.64	0.55	0.50
Materials	0.89	0.64	0.93	0.87	0.84	0.79	0.69	0.73	0.73	0.83	0.70	0.71
Industrials	0.93	0.64	0.88	0.94	0.86	0.77	0.68	0.78	0.81	0.85	0.71	0.72
Consumer Discretionary	0.78	0.51	0.64	0.79	0.77	0.60	0.69	0.59	0.81	0.68	0.63	0.43
Consumer Staples	0.65	0.42	0.71	0.63	0.60	0.69	0.54	0.49	0.49	0.67	0.49	0.72
Health Care	0.66	0.43	0.65	0.62	0.58	0.60	0.78	0.50	0.56	0.65	0.57	0.60
Financials	0.89	0.70	0.80	0.83	0.84	0.65	0.64	0.93	0.72	0.84	0.77	0.66
Information Technology	0.69	0.39	0.54	0.70	0.67	0.51	0.59	0.45	0.79	0.63	0.55	0.43
Real Estate	0.83	0.50	0.81	0.79	0.78	0.68	0.71	0.66	0.69	0.91	0.65	0.73
Telecoms	0.71	0.45	0.58	0.69	0.69	0.56	0.67	0.54	0.76	0.62	0.59	0.49
Utilities	0.58	0.35	0.62	0.55	0.48	0.54	0.54	0.42	0.46	0.57	0.41	0.83
S&P 400 Midcap		0.73	0.91	0.96	0.95	0.80	0.80	0.88	0.88	0.90	0.79	0.71
Energy			0.65	0.63	0.69	0.56	0.50	0.70	0.58	0.67	0.56	0.49
Materials				0.88	0.83	0.81	0.69	0.79	0.74	0.82	0.73	0.72
Industrials					0.90	0.78	0.74	0.82	0.87	0.84	0.72	0.65
Consumer Discretionary						0.76	0.73	0.82	0.82	0.86	0.75	0.59
Consumer Staples							0.69	0.63	0.69	0.61	0.53	0.63
Health Care								0.62	0.76	0.68	0.65	0.58
Financials									0.66	0.79	0.72	0.63
Information Technology										0.73	0.69	0.55
Real Estate											0.76	0.69
Telecoms												0.53

S&P 600 Smallcaps / Treasurys

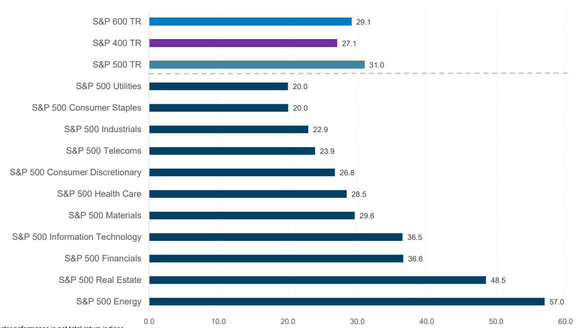
	S&P 600	Energy	Mtls	Inds	Cons Disc	Cons Stpls	Hlth Care	Finls	Info Tech	Real Estate	Comm Svcs	Utls	U.S. Treasury Market Index
S&P 500	0.84	0.57	0.74	0.85	0.78	0.60	0.74	0.68	0.80	0.81	0.65	0.49	0.30
Energy	0.67	0.93	0.67	0.61	0.57	0.44	0.42	0.64	0.48	0.66	0.53	0.34	-0.18
Materials	0.82	0.60	0.85	0.83	0.78	0.69	0.68	0.69	0.65	0.81	0.55	0.54	0.25
Industrials	0.87	0.62	0.82	0.91	0.79	0.67	0.70	0.75	0.74	0.85	0.61	0.55	0.19
Consumer Discretionary	0.74	0.45	0.60	0.75	0.74	0.48	0.69	0.56	0.75	0.67	0.64	0.28	0.26
Consumer Staples	0.57	0.34	0.59	0.59	0.53	0.65	0.53	0.45	0.42	0.62	0.29	0.58	0.28
Health Care	0.61	0.38	0.55	0.57	0.54	0.55	0.71	0.45	0.54	0.62	0.38	0.58	0.35
Financials	0.87	0.70	0.81	0.84	0.76	0.58	0.71	0.88	0.67	0.85	0.68	0.48	0.09
Information Technology	0.63	0.34	0.51	0.67	0.59	0.41	0.56	0.44	0.74	0.60	0.53	0.32	0.35
Real Estate	0.77	0.45	0.70	0.75	0.73	0.63	0.73	0.65	0.66	0.85	0.60	0.60	0.45
Telecoms	0.65	0.39	0.55	0.66	0.63	0.42	0.61	0.50	0.68	0.63	0.51	0.33	0.32
Utilities	0.49	0.28	0.50	0.49	0.46	0.38	0.45	0.38	0.40	0.51	0.31	0.64	0.29
S&P 400 Midcap	0.97	0.72	0.90	0.96	0.90	0.72	0.83	0.85	0.83	0.90	0.72	0.55	0.20
Energy	0.73	0.95	0.69	0.67	0.69	0.48	0.50	0.66	0.57	0.68	0.50	0.30	-0.23
Materials	0.86	0.63	0.88	0.87	0.80	0.73	0.70	0.76	0.68	0.82	0.60	0.61	0.20
Industrials	0.92	0.63	0.86	0.96	0.85	0.71	0.77	0.78	0.82	0.85	0.67	0.52	0.20
Consumer Discretionary	0.91	0.69	0.82	0.90	0.94	0.68	0.78	0.77	0.75	0.85	0.65	0.39	0.19
Consumer Staples	0.73	0.52	0.73	0.76	0.71	0.75	0.65	0.57	0.59	0.61	0.50	0.50	0.16
Health Care	0.76	0.49	0.67	0.72	0.70	0.60	0.85	0.59	0.73	0.68	0.63	0.53	0.34
Financials	0.90	0.72	0.85	0.86	0.79	0.63	0.72	0.96	0.66	0.84	0.68	0.50	0.02
Information Technology	0.85	0.58	0.77	0.85	0.77	0.58	0.74	0.65	0.91	0.75	0.64	0.40	0.24
Real Estate	0.88	0.66	0.79	0.84	0.81	0.62	0.77	0.80	0.74	0.97	0.67	0.57	0.28
Telecoms	0.80	0.59	0.74	0.75	0.73	0.54	0.74	0.72	0.67	0.78	0.70	0.43	0.25
Utilities	0.67	0.43	0.69	0.66	0.54	0.55	0.60	0.62	0.53	0.66	0.45	0.81	0.25
S&P 600 Small Cap		0.76	0.92	0.96	0.91	0.76	0.86	0.90	0.87	0.92	0.78	0.57	0.18
Energy			0.71	0.68	0.70	0.50	0.52	0.70	0.58	0.69	0.58	0.26	-0.23
Materials				0.90	0.81	0.76	0.73	0.84	0.75	0.82	0.68	0.59	0.13
Industrials					0.86	0.74	0.79	0.85	0.85	0.87	0.73	0.56	0.16
Consumer Discretionary						0.73	0.78	0.76	0.74	0.81	0.66	0.37	0.15
Consumer Staples							0.67	0.63	0.60	0.63	0.55	0.57	0.19
Health Care								0.73	0.79	0.79	0.69	0.60	0.35
Financials									0.68	0.85	0.70	0.53	0.09
Information Technology										0.76	0.71	0.53	0.27
Real Estate											0.71	0.57	0.24
Telecoms												0.43	0.30
Utilities													0.33

Sources: Bloomberg, William Blair Equity Research; *Sector performance not total return indices

This inability of bonds to be the asset for all seasons and to provide downside protection during unexpected bouts of inflation shocked many investors during the high-inflation period of 2021-2022, given the precedent of the previous two decades. Exhibit 9, for example, shows the relative performance of the S&P 500 and its sectors as inflation jumped from 1.4% to 7.0% by the end of 2021. Exhibit 10 shows the performance when inflation peaked at 9.1% in June 2022, before subsiding to 6.5% by the end of that year.

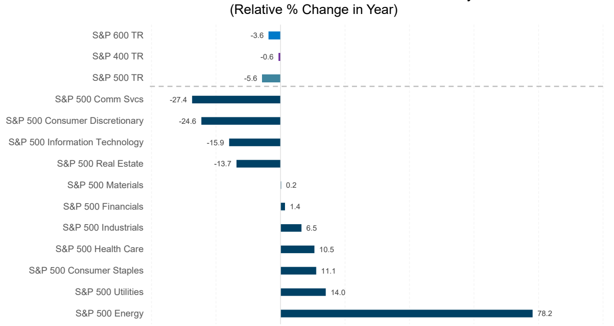
In 2021, the total return for Treasurys was -2.3%, against the S&P 500's return of 28.7%, with every sector tangibly outperforming Treasurys. In 2022, Treasurys fell by 12.5% and the S&P 500 fell by a greater 18.1%; this time, though, there was much greater dispersion across sector performance. Seven sectors still outperformed Treasurys (energy, utilities, consumer staples, healthcare, industrials, financials, and materials) and four sectors underperformed, highlighting the decline in cross-sector correlations when Treasury market returns converged.

Exhibit 9
S&P Size & Sector* Performance in 2021 Relative to U.S. Treasury Total Return Index
(Relative % Change in Year)



*Sector peformance is not total return indices
Sources: Bloomberg, William Blair Equity Research;

Exhibit 10
S&P Size & Sector* Performance in 2022 Relative to U.S. Treasury Total Return Index
(Relative % Change in Year)



*Sector peformance is not total return indices
Sources: Bloomberg, William Blair Equity Research

Conclusion

We again are making the point that the inflation regime has changed, the regime shift is structural, and the economy is unlikely to return to the pre-COVID regime anytime soon. This regime change has important implications for market performance and asset allocation.

The regime change has been associated with a return of the positive correlation of stocks to bonds and the diminished ability of bonds to provide portfolio insurance to equity investments. It is true that equity sector correlations have also increased and their correlations are still greater than the correlation of stocks to bonds. Nevertheless, this misses the important point that bonds provide downside protection against growth shocks but not against inflationary and geopolitical shocks—and this is the scenario we are seeing at the moment. A diversified portfolio of equities across both market caps and sectors helped reduce the adverse impact of the inflation shock in 2021-2022, and it is doing so again today.

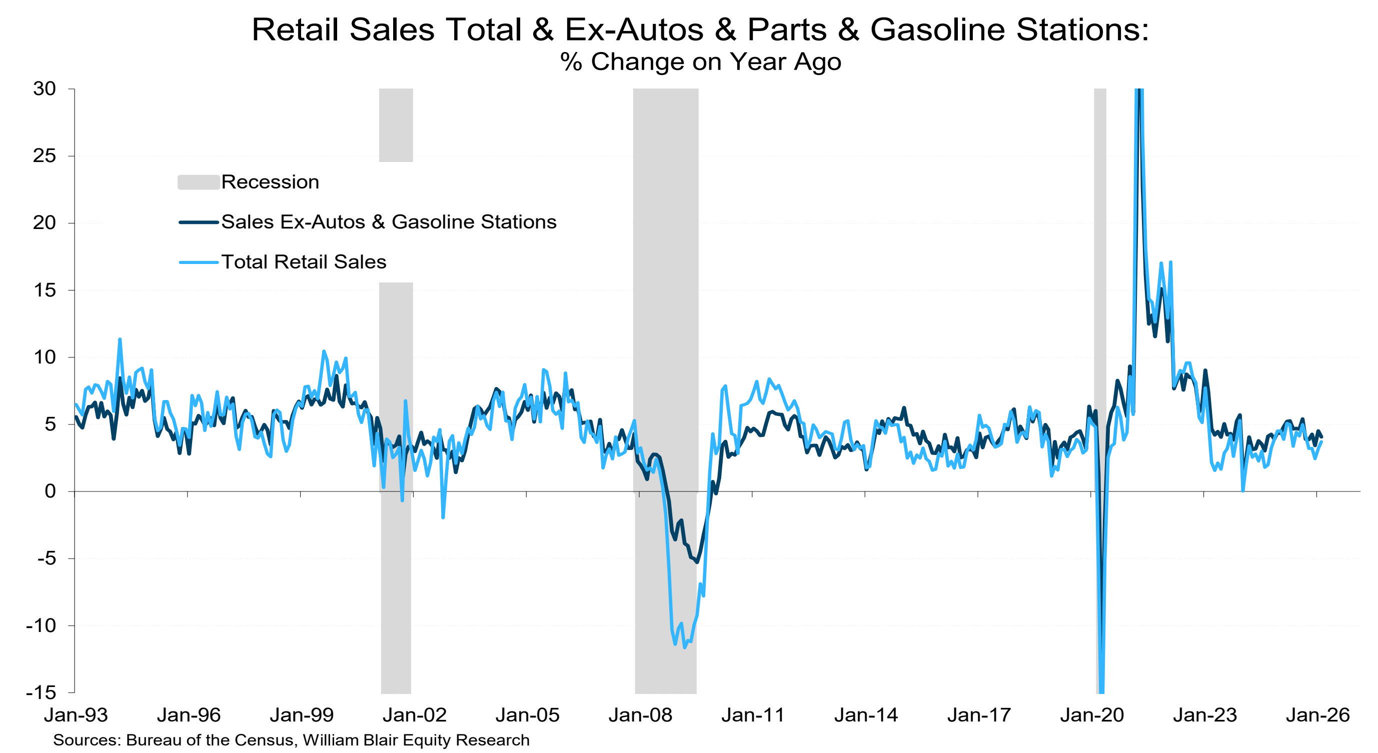
17 April 2026

Highlights in the Week Ahead

Date	Time (ET)	Indicator	Last	Consensus	WB Estimate	Actual
21 Apr	13:30 a.m.	Advance Retail Sales (Mar)	0.6%	1.2%	1.4%	
		Sales Less-autos	0.5%	1.3%	1.5%	

Sources: Bloomberg, William Blair Equity Research

Indicator of the Week: Advance Retail Sales



Economic Scorecard

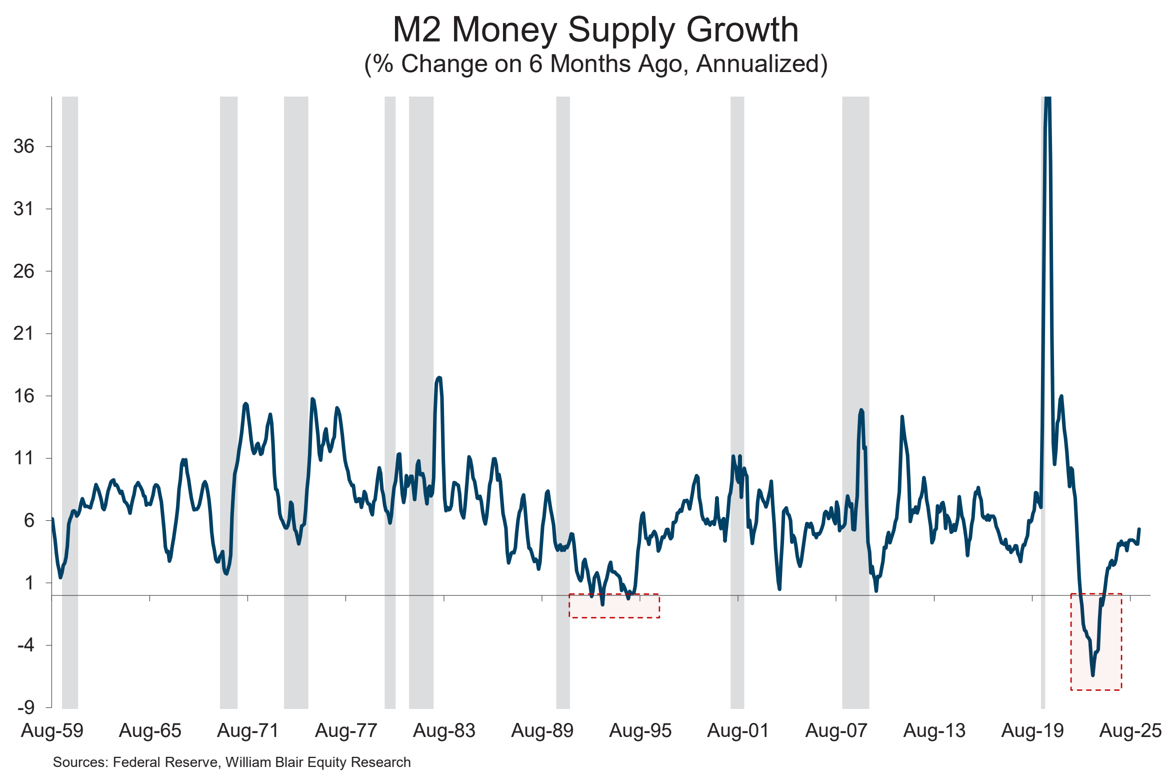
Rolling monthly heat map, % Change on Year Ago (unless otherwise noted)

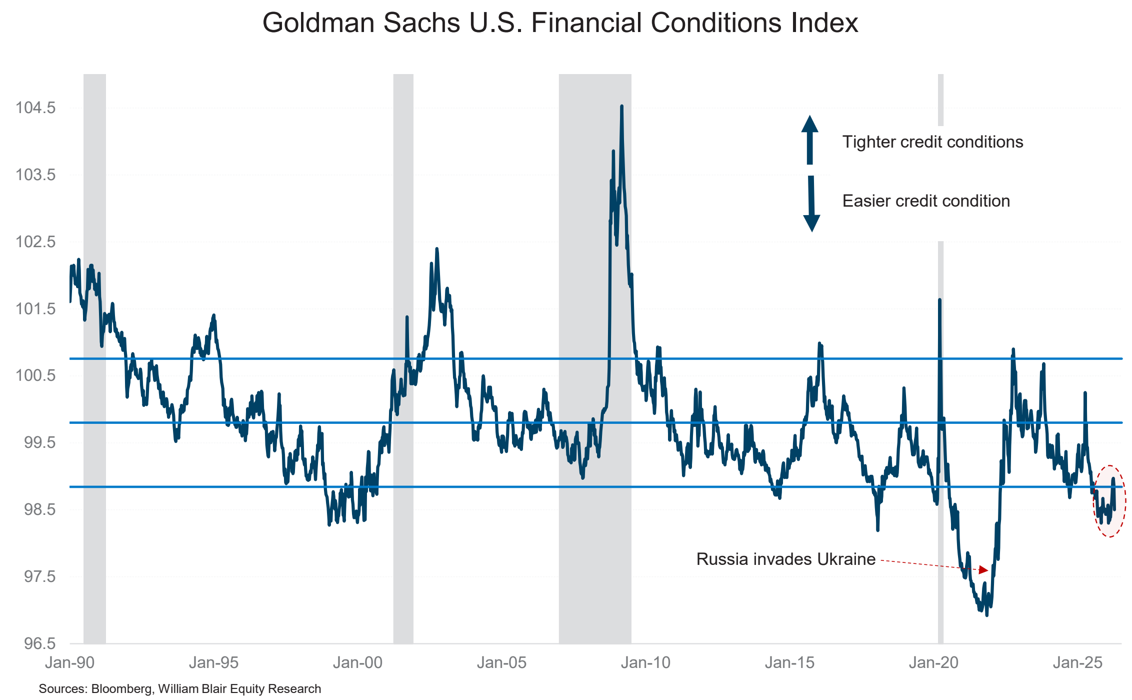
	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26
Growth																			
US Leading Indicators	-3.7	-3.0	-3.0	-2.7	-3.0	-3.6	-4.3	-3.9	-4.0	-3.5	-3.5	-3.3	-3.3	-3.8	-3.9	-3.8			
US Coincident Indicators	1.6	1.3	1.7	1.5	1.5	1.8	2.0	1.4	1.3	1.6	1.4	1.1	1.1	1.1	0.7	1.2			
US Lagging Indicators	0.1	0.0	0.1	-0.1	0.1	-0.1	-0.2	0.7	0.4	0.4	0.4	1.1	1.2	0.9	1.2	1.0			
Consumer																			
Total Retail Sales	3.2	3.9	4.5	4.5	3.9	5.1	5	3.4	4.4	4.1	5	4.1	3.2	3.2	2.4	3.2	3.7		
Personal Income	5.5	5.3	5.3	5	5	5.2	5.6	4.5	4.3	4.8	5.1	5.1	4.7	4.7	4.6	4.4			
Real Disposable Personal Income	2.7	2.4	2.2	1.8	1.8	2.3	2.8	1.5	1.2	1.7	1.8	1.8	1.4	1.3	1.2	1.8			
Real Personal Consumption	3.3	3.2	3.6	3.3	2.7	3.2	3.1	2.5	2.5	2.6	2.8	2.4	2.5	2.3	1.6	2.4			
Personal Saving Rate (%)	5	4.9	4.3	5.1	5.2	5.1	5.5	4.9	4.6	4.5	4.4	4.3	4	4	4	4.5			
Consumer Confidence (Conference Board)**	109.6	112.8	109.5	105.3	100.1	93.9	85.7	98.4	95.2	98.7	97.8	95.6	95.5	92.9	94.2	89	91		
Employment																			
Employment Growth	0.9	0.9	0.9	0.8	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.3	0.2	0.1	0.2	0.1		
ASA Temporary Staffing Index	-9.5	-6.6	-21.0	-8.2	-7.5	-8.7	-6.4	-5.8	-5.3	-0.8	-0.9	0.8	1.5	4.5	7.3	2.3	3.2		
ISM Employment Index Manufacturing*	44.6	48.3	45.4	49.7	47.1	44.4	46.2	46.1	45.1	44.9	44.3	45.4	45.8	44.1	44.8	48.1	48.8		
ISM Employment Index Services*	52.2	50.8	51	51.4	53.4	46	49.2	50.4	47.7	46.9	46.9	47.6	48.1	48.7	51.7	50.3	51.8		
Unemployment Rate, %	4.1	4.2	4.1	4	4.2	4.2	4.2	4.3	4.1	4.3	4.3	4.4		4.5	4.4	4.3	4.4		
Average Hourly Earnings	4	4.2	4.1	4	4.1	4.2	3.9	4	3.9	4	4	3.8	3.9	3.9	3.7	3.7	3.8		
Initial Jobless Claims (avg. wkly. chg. '000s)	236	219	223	219	226	223	226	233	239	222	231	234	226	221	219	213	216		
Jop Openings	-14.0	-12.0	-14.4	-11.3	-14.2	-15.3	-5.7	-6.1	-2.9	-4.5	-8.0	3.3	-2.8	-9.5	-10.2	-2.6	-5.0		
Layoff Announcements	50.9	26.8	11.4	-39.5	103.2	204.8	62.7	47	-1.6	139.8	13.3	-25.8	175.3	23.5	-8.3	117.8	-71.9		
Housing Market																			
Housing Starts	-1.2	-14.5	-0.5	-1.7	-4	3.3	0.9	-2.6	4.1	12.3	-7.2	-2.1	-5.9	2.2	-8.4	9.5			
New Home Sales	-8.8	10.7	11.7	-2.8	-2.4	-4.6	-1.8	-5.7	-1.3	-10	1.9	0.3	4.7	13.2	-0.8	-11.3			
Existing Home Sales	3.1	6.2	8.6	1.7	-1.0	-2.7	-1.5	-0.5	0.5	0.8	2.3	4.4	2.2	-1.2	1.9	-1.7	-1.5		
Median House Price (Existing Homes)	2.1	-7.4	1.1	-0.2	-1.4	-5.4	-0.4	2.5	-1.2	-7.4	3	-1	-5.2	1.8	-0.9	-6.8			
Existing Homes Inventory (Mths' supply)	3.9	3.8	3.8	3.9	4	4.2	4.2	4.3	4.3	4.3	4.3	4.3	4.3	4.2	4	4.2	4.2		
New Homes Inventory (Mths' supply)	9.3	8.7	8.2	9	9.3	9.2	8.5	9.6	9.1	9.3	8.4	8.1	9	7.6	8	9.7			
NAHB Homebuilder Sentiment*	43	46	46	47	42	39	40	34	32	33	32	32	37	38	39	37	37		
Inflation																			
Consumer Price Index	2.6	2.7	2.9	3	2.8	2.4	2.3	2.4	2.7	2.7	2.9	3		2.7	2.7	2.4	2.4		
CPI Less-food & energy	3.3	3.3	3.2	3.3	3.1	2.8	2.8	2.8	2.9	3.1	3.1	3		2.6	2.6	2.5	2.5		
Producer Price Index	2.8	2.9	3.5	3.8	3.4	3.2	2.4	2.7	2.4	3.2	2.7	3	2.8	3	3	2.9	3.4		
PPI Less-food & energy	3.6	3.4	3.7	3.9	3.7	3.8	3.1	3.2	2.7	3.5	2.9	3	3	3	3.3	3.5	3.9		
PCE Price Index	2.5	2.6	2.7	2.6	2.7	2.4	2.3	2.5	2.6	2.6	2.7	2.8	2.7	2.8	2.9	2.8			
PCE Prices Less-food & energy	3.0	3.0	3.0	2.8	3.0	2.7	2.6	2.8	2.8	2.9	2.9	2.8	2.8	2.8	3.0	3.1			
Business Activity - US																			
Industrial Production	-1.0	-1.6	-0.3	0.9	0.8	0.6	0.9	0.1	0.6	1.9	1.2	1.9	1.8	2.1	1.4	2.3	1.4		
New Cap Gds Orders less-aircraft & parts	0.2	-1.1	1.9	3.3	-0.9	2.2	0.5	2.2	4.5	4.4	2.5	5.3	6.2	4.1	8	2.9	5.6		
Business Inventories	1.9	2.2	2.7	1.8	2.5	2.3	2.5	2.2	1.7	1.6	1.4	1	1.3	1.3	1.2	1.5	1		
ISM Manufacturing PMI*	47	48.4	49.2	50.5	50	48.9	48.8	48.6	49	48.4	48.9	48.9	48.8	48	47.9	52.6	52.4		
Markit US Manufacturing PMI*	48.5	49.7	49.4	51.2	52.7	50.2	50.2	52	52.9	49.8	53	52	52.5	52.2	51.8	52.4	51.6		
ISM Services Index*	55.5	52.4	53.5	52.6	53.2	50.8	51.6	50.2	50.8	50.5	51.9	50.3	52	52.4	53.8	53.8	56.1		
Markit US Services PMI*	55	56.1	56.8	52.9	51	54.4	50.8	53.7	52.9	55.7	54.5	54.2	54.8	54.1	52.5	52.7	51.7		
Business Activity - International																			
Germany Manufacturing PMI Markit/BME*	43	43	42.5	45	46.5	48.3	48.4	48.3	49	49.1	49.8	49.5	49.6	48.2	47	49.1	50.9		
Japan Manufacturing PMI Jibun Bank*	49.2	49	49.6	48.7	49	48.4	48.7	49.4	50.1	49	49.7	48.5	48.2	48.7	50	51.5	53		
Caixin China Manufacturing PMI*	50.3	51.5	50.5	50.1	50.8	51.2	50.4	48.3	50.4	49.5	50.5	51.2	50.6	49.9	50.1	50.3	52.1		
China Manufacturing PMI*	50.1	50.3	50.1	49.1	50.2	50.5	49	49.5	49.7	49.3	49.4	49.8	49	49.2	50.1	49.3	49		
UK Manufacturing PMI Markit/CIPS*	49.9	48	47	48.3	46.9	44.9	45.4	46.4	47.7	48	47	46.2	49.7	50.2	50.6	51.8	51.7		
France Manufacturing PMI Markit*	44.5	43.1	41.9	45	45.8	48.5	48.7	49.8	48.1	48.2	50.4	48.2	48.8	47.8	50.7	51.2	50.1		
Currencies* **																			
Euro (EUR/USD)	2.9	-2.9	-6.2	-4.2	-4.0	0.2	6.2	4.6	10.0	5.4	5.8	5.4	6.0	9.7	13.4	14.4	13.9		
Renmimbi (USD/CNY)	-2.7	1.6	2.8	1.1	1.2	0.5	0.4	-0.6	-1.4	-0.4	0.6	1.5	0.0	-2.4	-4.3	-4.0	-5.7		
Yen (USD/Yen)	0.2	1.1	11.5	5.6	0.4	-0.9	-9.3	-8.4	-10.5	0.5	0.6	3.0	1.3	4.3	-0.3	-0.3	3.6		
Sterling (GBP/USD)	6.1	0.9	-1.7	-2.3	-0.4	2.3	6.7	5.6	8.6	2.7	2.9	0.5	2.0	3.9	7.7	10.4	7.2		
Canadian $ (USD/CAD)	0.4	3.3	8.6	8.2	6.5	6.3	0.2	0.8	-0.5	0.3	1.8	2.9	0.5	-0.2	-4.6	-6.4	-5.7		
Mexican Peso (USD/MXN)	11.0	17.2	22.7	20.1	20.5	23.6	14.4	14.3	2.3	1.4	-5.4	-7.0	-7.4	-10.2	-13.5	-15.6	-16.2		
US Equities																			
S&P 500	36.0	32.1	23.3	24.7	16.8	6.8	10.6	12.0	13.6	14.8	14.4	16.1	19.9	13.5	16.4	14.9	15.5		
S&P 400 Midcap	30.9	31.3	12.2	18.6	7.1	-4.2	-0.3	0.6	5.9	1.7	5.3	4.5	4.8	-1.7	5.9	6.1	15.5		
S&P 600 Smallcap	27.6	30.9	6.8	14.5	4.5	-5.0	-3.6	-3.4	2.8	-6.3	1.8	1.9	3.8	-4.0	4.2	7.0	15.9		
Russell 2000	32.1	34.6	10.0	17.5	5.3	-5.3	-0.5	-0.2	6.2	-1.9	6.7	9.3	12.9	2.7	11.3	14.3	21.7		

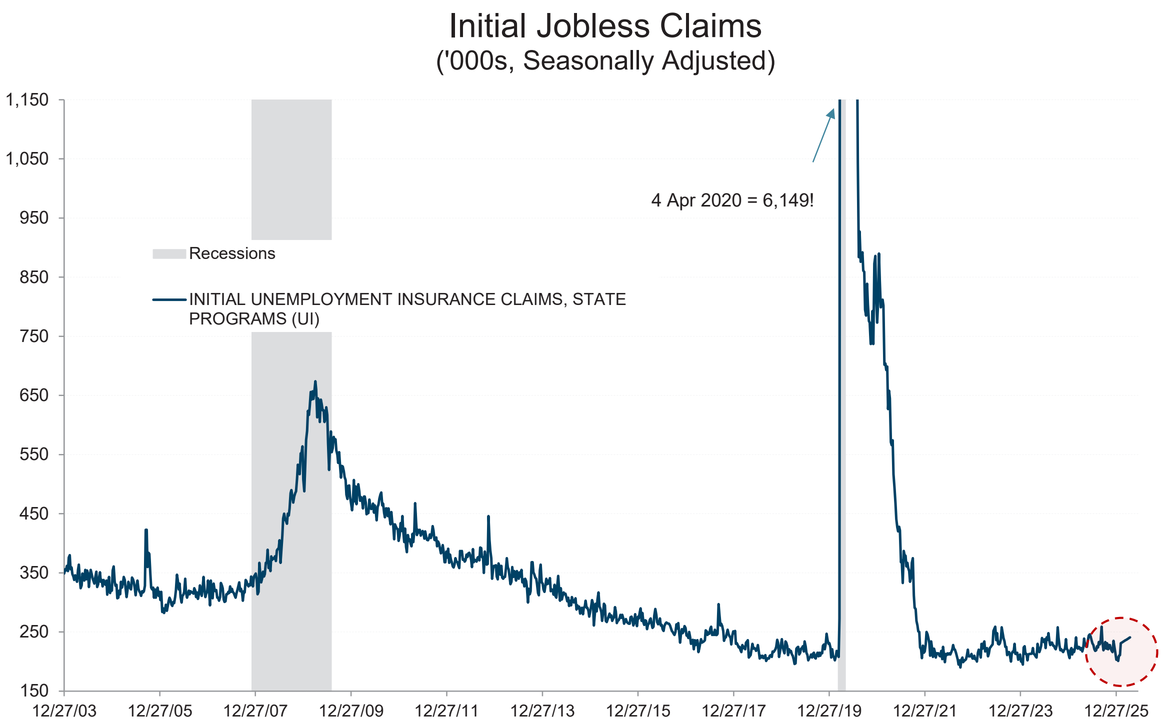
* Diffusion Index, **1985=100, ***Currencies - green/red = strengthening/weakening foreign currency vs dollar

Source: ISM, Federal Reserve, Census Bureau, Bureau of Labor Statistics, Conference Board, Bloomberg, William Blair

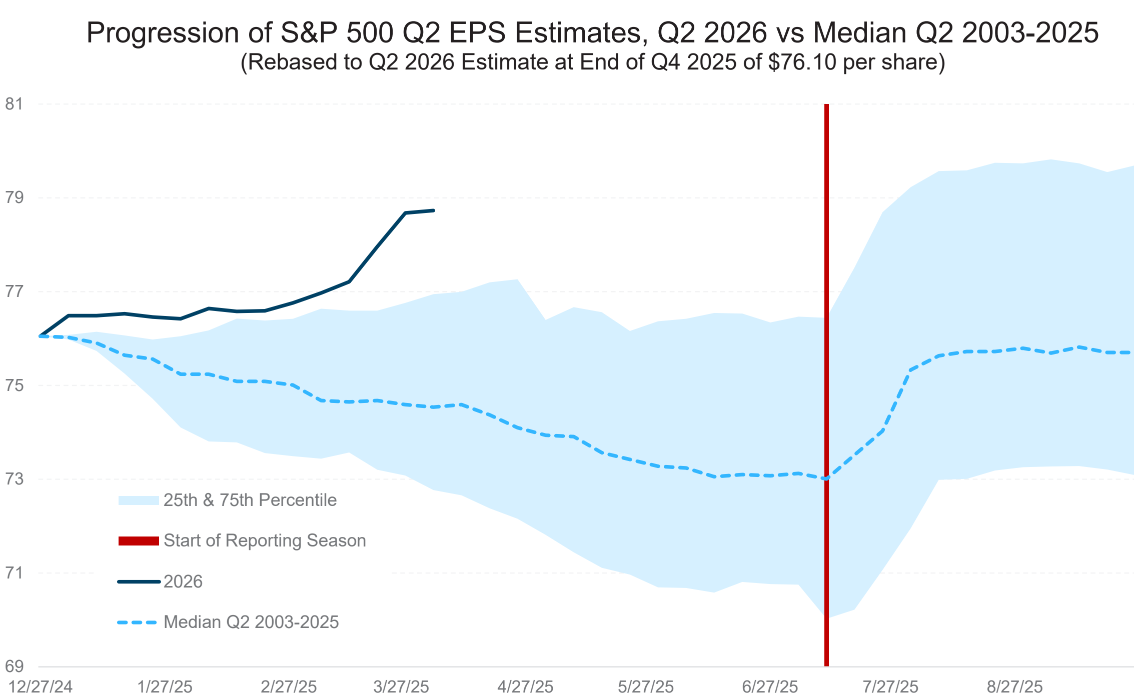
Other Economic Indicators





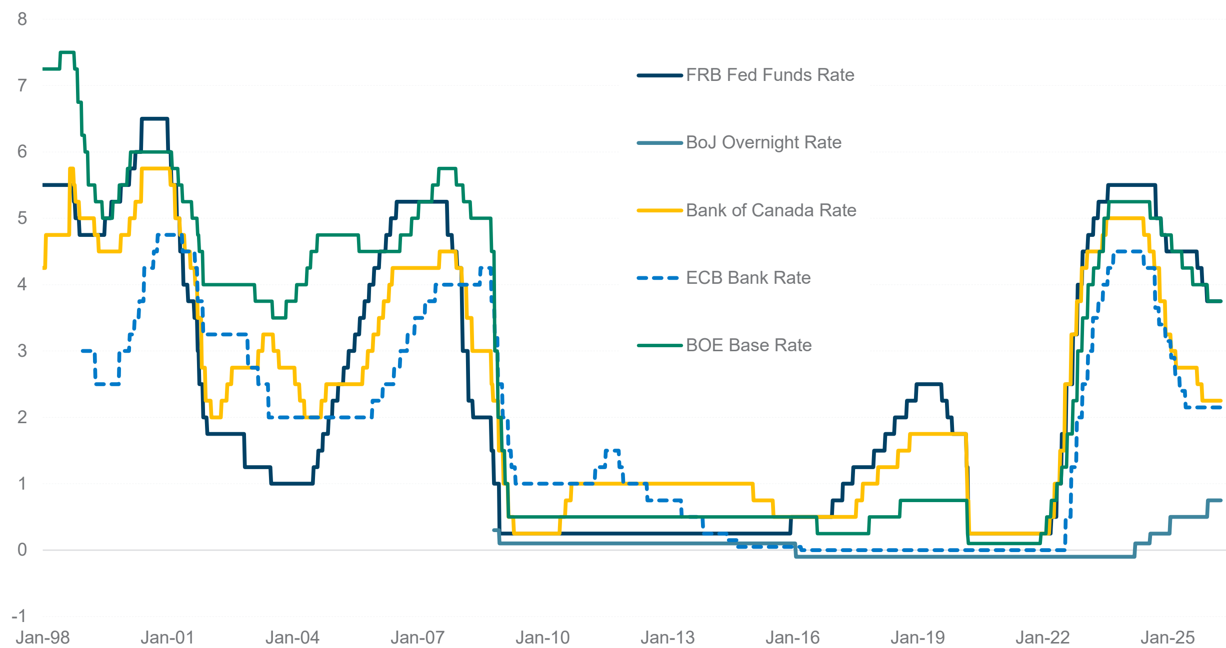


Source: Department of Labor, Bloomberg, William Blair Equity Research



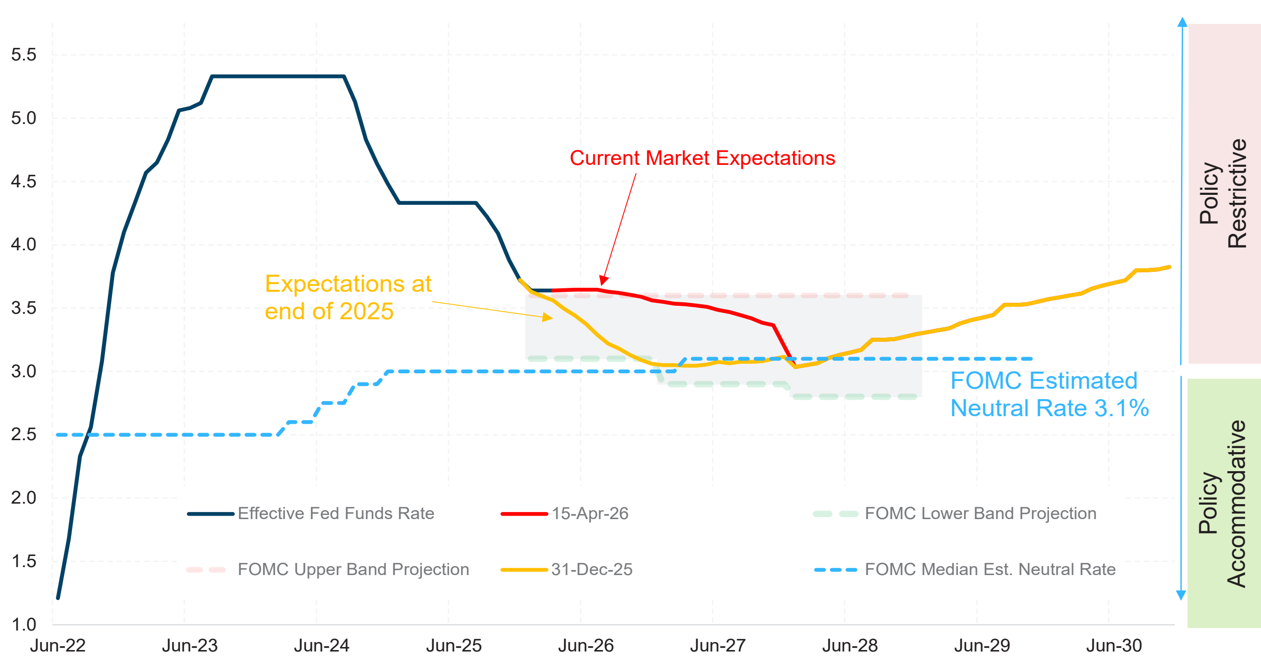
Sources: LSEG, William Blair Equity Research

Central Bank Target Short-Term Interest Rates, %



Sources: Bloomberg, William Blair Equity Research

Fed Funds Rate Futures Market Expectations & FOMC Projections, %



Sources: Bloomberg, William Blair Equity Research

S&P 500 Sector Performance

Global Industry Classification System	Current Weight* 16-Apr-26	Week Ago 09-Apr-26	Month Ago 16-Mar-26	Qtr-to-Date 31-Mar-26	Year-to-Date 31-Dec-25
S&P 500 Index	**100.00**	**3.17**	**5.10**	**7.85**	**2.86**
S&P 400 MidCap Index		**1.19**	**6.26**	**5.91**	**8.19**
S&P 600 SmallCap Index		**1.47**	**7.89**	**6.70**	**10.00**
Dow Jones Industrials		**0.82**	**3.48**	**4.83**	**1.07**
Nasdaq Composite		**5.61**	**7.73**	**11.64**	**3.70**
Communication Services	**10.68**	**5.17**	**7.41**	**13.27**	**5.23**
Advertising	0.05	6.65	-5.13	3.32	-17.28
Broadcasting	0.06	3.77	13.34	12.48	-11.46
Cable & Satellite	0.08	7.82	12.72	11.08	16.46
Integrated Telecommunication Services	0.75	-0.73	-5.89	-5.85	8.88
Interactive Home Entertainment	0.14	3.78	2.21	3.42	-8.33
Interactive Media & Services	8.07	6.05	9.15	17.01	5.49
Movies & Entertainment	1.17	4.18	9.04	9.15	5.58
Publishing & Printing	0.02	4.75	7.06	3.60	-0.90
Wireless Telecommunication Svcs	0.33	-0.21	-8.24	-6.14	-2.92
Consumer Discretionary	**10.37**	**5.15**	**7.03**	**10.00**	**-0.27**
Apparel Retail	0.38	-3.63	2.56	-0.30	7.80
Apparel & Accessories & Luxury Goods	0.10	-2.16	5.61	6.83	0.76
Auto Parts & Equipment	0.02	-4.32	-7.61	-4.78	-13.10
Automobile Manufacturers	2.43	11.35	-0.91	4.75	-12.70
Automobile Retail	0.29	1.41	5.56	5.03	-2.87
Broadline Retail	4.20	6.87	17.80	19.74	8.33
Casinos & Gaming	0.09	3.51	6.05	4.96	-8.78
Computer & Electronics Retail	0.02	0.22	2.83	0.73	-3.38
Consumer Electronics	0.08	3.05	12.58	13.94	30.32
Distributors	0.04	3.45	7.27	7.12	-7.08
Footwear	0.11	2.68	-12.39	-9.48	-22.90
Home Furnishings	0.01	-1.01	-1.39	3.74	-6.55
Home Improvement Retail	0.73	-1.14	-1.10	2.54	-1.30
Homebuilding	0.16	-0.73	-1.14	3.04	-4.06
Hotels, Resorts & Cruise Lines	0.80	2.82	7.11	7.39	-2.44
Leisure Products	0.02	0.31	0.54	-0.27	13.84
Restaurants	0.81	1.90	-1.93	4.75	-0.16
Other Specialty Retail	0.07	-0.50	-2.41	0.83	-10.81
Consumer Staples	**5.35**	**-2.76**	**-3.58**	**-0.80**	**6.16**
Agricultural Products	0.09	-1.58	-2.12	-4.78	25.12
Brewers	0.01	-1.14	4.92	2.58	-5.38
Consumer Staples Merchandise Retail	2.52	-3.35	-1.90	-0.22	11.84
Distillers & Vintners	0.06	0.07	11.72	9.84	17.84
Food Distributors	0.05	-1.25	-12.39	3.81	0.49
Food Retail	0.11	-3.33	-8.36	-5.67	9.25
Household Products	0.72	-2.34	-5.87	-0.80	1.08
Packaged Foods & Meats	0.33	-3.43	-4.39	-2.43	-3.86
Personal Care Products	0.08	1.10	-6.79	2.57	-11.61
Soft Drinks	1.00	-1.89	-2.06	0.43	6.63
Tobacco	0.54	-3.30	-8.62	-4.33	1.66
Energy	**3.27**	**-1.39**	**-1.86**	**-7.93**	**26.36**
Integrated Oil & Gas	1.64	-1.73	-3.61	-10.05	25.73
Oil & Gas Equipment & Services	0.26	-2.09	12.51	-0.38	34.21
Oil & Gas Exploration & Production	0.66	-1.17	-2.56	-8.21	24.30
Oil & Gas Refining & Marketing & Transportation	0.31	1.85	-1.00	-6.57	37.88
Oil & Gas Storage & Transportation	0.40	-2.45	-2.54	-4.28	19.14

Financials	**11.53**	**1.40**	**5.98**	**5.30**	**-5.02**
Asset Management & Custody Banks	0.95	5.15	13.61	9.20	-5.92
Consumer Finance	0.58	2.82	10.56	8.80	-13.90
Diversified Banks	2.97	-0.31	10.70	6.80	-2.46
Diversified Financial Services	6.70	2.39	4.69	5.09	-6.80
Financial Exchanges & Data	0.91	3.26	0.87	4.05	-5.49
Insurance Brokers	0.41	3.67	3.73	4.14	-7.10
Investment Banking & Brokerage	1.32	2.52	11.94	8.59	-1.23
Life & Health Insurance	0.27	1.96	7.39	5.03	-1.25
Multi-Sector Holdings	1.02	-2.08	-3.47	-0.85	-5.48
Property & Casualty Insurance	0.89	-0.45	0.19	2.13	-1.85
Regional Banks	0.27	-1.49	10.60	6.64	2.65
Reinsurance	0.02	2.62	7.46	5.37	1.49
Transaction & Payment Processing	1.82	3.47	2.54	4.92	-9.60
Health Care	**8.45**	**-1.87**	**-2.61**	**-0.07**	**-5.35**
Biotechnology	1.52	-1.82	-4.73	-2.24	-0.19
Health Care Distributors	0.35	-0.54	-6.07	1.17	2.15
Health Care Equipment	1.46	-1.51	-5.88	-1.06	-16.04
Health Care Facilities	0.18	-4.79	-7.99	1.80	0.46
Health Care Services	0.35	-2.02	1.15	3.87	0.72
Health Care Supplies	0.06	1.95	2.76	2.90	-5.45
Life Sciences Tools & Services	0.76	1.67	6.99	4.00	-12.62
Managed Health Care	0.62	2.43	10.77	15.27	-6.55
Pharmaceuticals	3.15	-3.82	-4.28	-2.84	-1.12
Industrials	**8.37**	**-1.07**	**2.87**	**5.32**	**9.86**
Aerospace & Defense	2.11	-2.52	-3.30	3.31	4.50
Agricultural & Farm Machinery	0.24	-5.47	2.05	3.71	25.48
Air Freight & Logistics	0.32	2.55	7.32	6.70	15.15
Building Products	0.45	-1.77	5.26	6.25	10.62
Cargo Ground Transportation	0.10	3.12	17.21	10.27	31.64
Construction & Engineering	0.28	0.87	6.96	9.87	45.80
Construction Machinery & Heavy Trucks	0.85	-1.96	9.97	8.93	28.22
Data Processing & Outsourced Services	0.03	4.93	-9.05	-0.04	-27.22
Diversified Support Svcs	0.16	1.57	-5.98	3.34	-8.92
Electrical Components & Equipment	0.74	-0.71	9.04	10.67	16.32
Environmental & Facilities Services	0.31	-2.95	-4.66	-1.89	-1.65
Heavy Electrical Equipment	0.40	1.06	18.24	12.08	49.69
Human Resource & Employment Services	0.17	2.93	-3.28	-1.00	-20.42
Industrial Conglomerates	0.34	-1.84	-1.29	2.24	7.99
Industrial Machinery	0.64	-2.48	2.64	4.36	4.29
Passenger Airlines	0.15	0.72	8.56	5.11	-5.30
Passenger Ground Transportation	0.24	6.50	2.44	6.32	-6.40
Railroads	0.46	0.69	4.74	4.08	9.97
Research & Consulting Svcs	0.12	2.82	-5.46	-0.42	-13.89
Trading Companies & Distributors	0.24	-3.90	2.92	2.06	6.12
Information Technology	**32.65**	**7.20**	**9.00**	**13.60**	**3.09**
Application Software	1.91	9.17	-4.35	1.12	-25.05
Communications Equipment	1.17	3.23	11.81	15.66	20.74
Electronic Components	0.60	5.40	16.15	22.26	34.41
Electronic Equipment & Instruments	0.15	0.82	9.54	12.38	38.13
Electronic Manufacturing Services	0.16	4.19	17.48	14.27	12.49
Internet Software & Services	0.08	-2.17	3.76	-0.57	-2.93
IT Consulting & Services	0.62	5.02	-0.68	1.09	-21.53
Semiconductor Equipment	1.46	-0.21	17.35	18.19	51.75
Semiconductors	13.49	9.05	13.83	20.01	13.79
Systems Software	6.23	12.78	4.53	12.65	-13.33
Technology Distributors	0.03	5.18	12.78	10.15	-2.12
Technology Hardware, Storage & Peripherals	6.77	1.81	6.24	6.29	2.62
Materials	**1.89**	**-0.23**	**4.92**	**3.80**	**13.45**
Commodity Chemicals	0.08	4.63	8.83	-5.14	72.03
Construction Materials	0.23	-1.81	8.31	6.44	-4.91
Copper	0.15	2.75	17.87	16.16	34.43

Fertilizers & Agricultural Chemicals	0.13	-1.15	1.07	-3.26	26.36
Gold	0.19	-4.70	2.92	4.77	13.58
Industrial Gases	0.46	-0.67	0.89	1.05	17.78
Metal & Glass Containers	0.03	0.80	2.04	7.21	19.63
Paper Packaging	0.14	-2.33	-1.17	0.28	-2.32
Specialty Chemicals	0.38	1.62	4.82	4.22	8.69
Steel	0.11	3.79	15.71	11.62	16.81
Real Estate	**1.83**	**2.52**	**3.38**	**7.30**	**9.39**
Data Center REITs	0.27	4.55	9.17	9.70	35.33
Health Care REITs	0.33	3.41	0.85	7.29	13.31
Hotel & Resort REITs	0.02	3.31	9.94	7.36	16.02
Industrial REITs	0.20	3.01	6.04	7.55	11.36
Multi-Family Residential REITs	0.00	-0.52	-0.73	2.41	-6.82
Office REITs	0.01	7.03	7.42	8.23	-16.76
Other Specialized REITs	0.10	4.89	4.47	9.70	19.39
Real Estate Service	0.09	4.73	3.78	6.12	-20.30
Retail REITs	0.26	1.87	2.97	6.42	12.21
Self-Storage REITs	0.13	2.44	3.11	10.06	13.25
Single-Family Residential REITs	0.13	2.44	3.11	10.06	13.25
Telecom Tower REITs	0.22	-0.10	0.33	7.82	2.52
Timber REITs	0.03	-1.85	2.66	-0.29	2.84
Utilities	**2.26**	**-1.71**	**-1.28**	**0.98**	**8.58**
Electric Utilities	1.49	-1.72	-1.31	0.90	8.77
Gas Utilities	0.05	-2.25	0.08	1.76	12.14
Independent Power Producers & Energy Traders	0.10	7.01	2.17	8.86	2.35
Water Utilities	0.04	-6.14	-6.05	-3.96	0.16
Multi-Utilities	0.58	-2.69	-1.52	0.26	9.56

*Current Weight is market cap based, based on calculations by William Blair Intl. Ltd.

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S&P 500: 7041.28
NASDAQ: 24102.70

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