

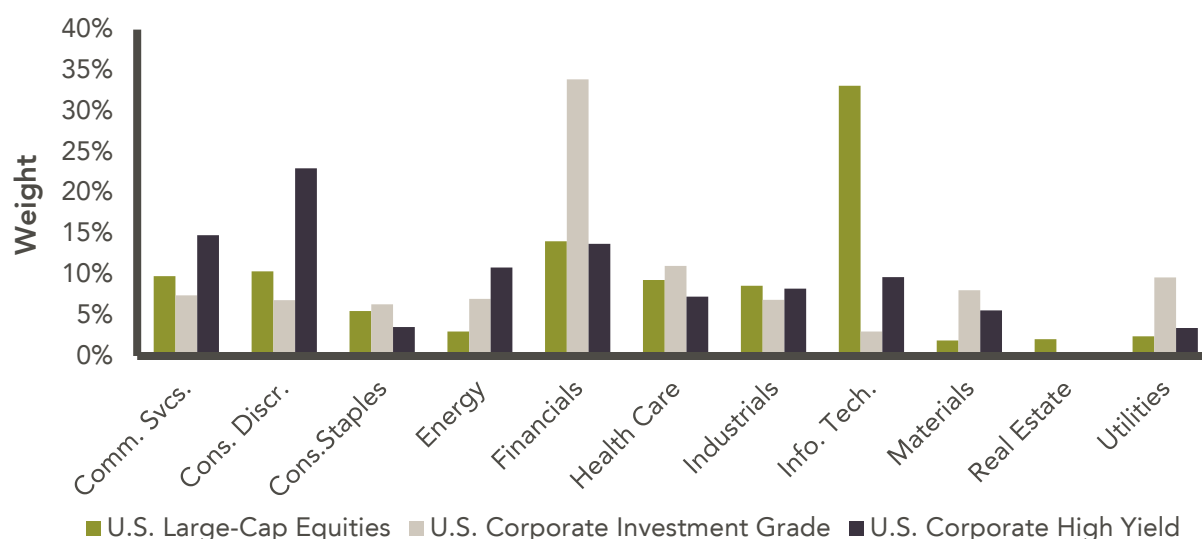
# Chart of the Week

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## Looking Across the Capital Stack

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▾ Varying sector exposures across equities and corporate bond indices can allow investors to achieve diversification benefits



Source: Bloomberg as of June 30, 2025. U.S. Large-Cap Equities: S&P 500 Index. U.S. Corporate Investment Grade: Bloomberg Investment Grade Corporate Bond Index. U.S. Corporate High Yield: Bloomberg High Yield Corporate Bond Index.

Despite allocations to various segments of corporate capital structures, most balanced portfolios have a degree of overlap when it comes to sector exposure across equities and fixed income. Still, key differences across the sector exposures of the U.S. equity and corporate bond markets are worth detailing. The extent to which the S&P 500 Index, which serves as a representation of the domestic large-cap stock market, is exposed to the Information Technology space has been described at length, with that sector comprising roughly one-third of the benchmark. This reflects the growth-oriented nature of the equity landscape, which Information Technology and similar sectors (e.g., Communication Services) have dominated due to higher earnings growth and extremely positive sentiment. In contrast, the Bloomberg Investment Grade Corporate Bond Index maintains a 34% weight to the Financials sector, with relatively balanced exposure to spaces like Health Care (11%), Utilities (10%), and Communication Services (7%). This dynamic reflects the capital-intensive nature of these sectors, which are comprised of companies that tend to issue more debt and are considered safer from a credit perspective. Finally, the Bloomberg High Yield Corporate Bond Index is most exposed to the Consumer Discretionary (23%) and Communication Services (15%) spaces, which are more sensitive to economic cycles and, thus, typically offer higher yields to compensate for higher risk.

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The varied sector exposures for these indices are reflected in historical return correlation data. On a since-inception basis, the S&P 500 Index has exhibited correlations of 0.40 and 0.63 with the Investment Grade Corporate Bond and High Yield Corporate Bond indices, respectively. These figures suggest that while equities and bonds can move together at times, the asset classes often behave differently. Importantly, these correlations are not static. Rather, they tend to rise during periods of market stress when asset classes often move in tandem due to broad risk-off sentiment. Under normal market conditions, however, the differences in the sector compositions of these indices allow for diversification benefits in a balanced portfolio.

By combining equities with both investment grade and high yield corporate bonds, investors gain exposure to a broader mix of U.S. businesses across sectors and asset classes. This dynamic can help market participants mitigate the impact of sector-specific downturns, making a balanced portfolio more resilient in varying economic environments. ■

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