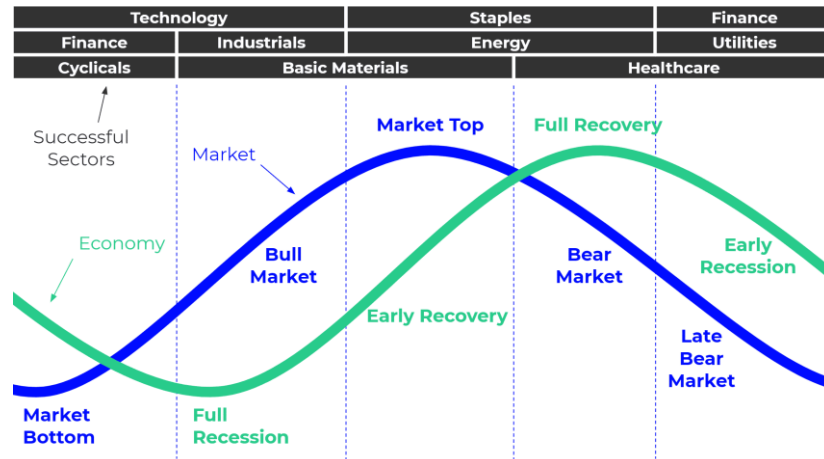


Correlation among asset class prices in US markets – a DBA thesis question

Mordechai Katash

November 2024



Financial markets and asset prices typically experience cycles of growth and contraction, following distinct, dynamic, and cyclical patterns. Understanding the connections and interactions among various asset classes is essential for informed decision-making among institutional investors, funds, retail investors, and policymakers. This research focuses on these relationships to aid in effective capital allocation, helping market participants stay aligned with current market trends and ultimately ensuring they remain on the "right side of the chart."

In a prior article, "Correlation of Asset Classes in NYSE," I provided a comprehensive overview of my thesis. I outlined the primary asset classes under examination and key components of the study, including "The Research Problem," "The Research Objectives," "The Research Methodology," "The Significance of the Study," and "The Research Limitations." Additionally, I introduced "The Research Questions," which I will expand upon in this article.

The Research Questions

1. What are the correlations among asset class prices in U.S. markets?
2. Are these correlations positive, negative, or neutral?

This research delves into the correlations across multiple asset classes within U.S. markets, specifically focusing on the S&P 500 sectors, commodities, Treasury bonds, and cryptocurrencies. Using a combination of quantitative and qualitative analysis, it aims to deliver actionable insights for investors, aiding them in navigating sector rotations and cyclical trends. By grasping the complex interconnections within financial markets, this study aspires to enable more informed decision-making, helping market participants stay in sync with prevailing trends.

Research Impact

The anticipated impact of this research is substantial, with real-world applications for asset price prediction and insights into cycles and correlations within financial markets. By examining the relationships among the S&P 500 sectors, commodities, Treasury bonds, and cryptocurrencies, the study intends to generate insights that will benefit both investors and policymakers. Investors can leverage these findings to refine their strategies, while policymakers may gain a deeper understanding of how various asset classes respond to economic shifts. In summary, this study aims to enhance the understanding of market dynamics, thus improving decision-making processes for a wide range of market participants.

While this study aims to offer valuable insights into asset class correlations, it also recognises certain limitations. One major challenge is accounting for the influence of investor psychology, as market sentiment can drive prices unpredictably. Moreover, unforeseen events—such as geopolitical crises, natural disasters, paradigm shifts and economic shocks—can affect asset prices in the short term, potentially disrupting historical patterns. Systematic risks, such as sudden regulatory changes or technological advancements, may also alter the behaviour of specific asset classes, creating deviations from anticipated correlations. The study will attempt to consider these variables while acknowledging that they may introduce some unpredictability into the analysis.

This research seeks to deepen understanding of asset class correlations within U.S. markets, providing valuable insights for investors and policymakers. By analysing interconnections among sectors, commodities, Treasury bonds, and cryptocurrencies, it aims to enhance decision-making, recognising the influence of unpredictable factors on market dynamics and asset behaviour.

Associate Professor Mordechai Katash is an Associate Program Director of Undergraduate Studies at UBSS.