

Importance of Asset Class Diversification

Every asset class has its own risk/reward characteristics, and absolute returns and market leadership can vary drastically from year to year. The below table ranks select asset classes from highest to lowest by absolute return for the last 15 years.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Emerging Markets 79.02	US Smallcap 26.85	10-year US Treasuries 29.02	Emerging Markets 18.63	US Smallcap 38.82	10-year US Treasuries 24.41	Municipal Bonds 3.30	Dividend Payers 21.98	Emerging Markets 37.75	Municipal Bonds 1.28	S&P 500 31.49	US Smallcap 19.96	Dividend Payers 32.24	Dividend Payers 2.31	S&P 500 26.29
US High Yield Bonds 58.21	Emerging Markets 19.20	Dividend Payers 12.42	Int'l Dev Markets 17.90	S&P 500 32.39	Dividend Payers 15.36	S&P 500 1.38	US Smallcap 21.31	DJIA 28.11	10-year US Treasuries -1.64	US Smallcap 25.52	Emerging Markets 18.69	S&P 500 28.71	DJIA -6.86	Int'l Dev Markets 18.85
Int'l Dev Markets 32.46	Dividend Payers 18.32	Municipal Bonds 10.70	US Smallcap 16.35	DJIA 29.65	S&P 500 13.69	DJIA 0.21	US High Yield Bonds 17.13	Int'l Dev Markets 25.62	US High Yield Bonds -2.08	DJIA 25.34	S&P 500 18.40	DJIA 20.95	Municipal Bonds -8.53	US Smallcap 16.93
US Smallcap 27.17	US High Yield Bonds 15.12	DJIA 8.38	S&P 500 16.00	Dividend Payers 29.06	DJIA 10.04	Int'l Dev Markets -0.39	DJIA 16.50	S&P 500 21.83	Inv. Grade Corp. Bonds -2.51	Dividend Payers 23.11	10-year US Treasuries 17.40	US Smallcap 14.82	US High Yield Bonds -11.19	DJIA 16.18
S&P 500 26.46	S&P 500 15.06	Inv. Grade Corp. Bonds 8.15	US High Yield Bonds 15.81	Int'l Dev Markets 23.29	Municipal Bonds 9.05	Inv. Grade Corp. Bonds -0.68	S&P 500 11.96	Dividend Payers 15.44	DJIA -3.48	Int'l Dev Markets 22.66	Inv. Grade Corp. Bonds 9.89	Int'l Dev Markets 11.78	Int'l Dev Markets -14.01	US High Yield Bonds 13.44
DJIA 22.68	DJIA 14.06	US High Yield Bonds 4.98	Dividend Payers 10.84	US High Yield Bonds 7.44	Inv. Grade Corp. Bonds 7.46	10-year US Treasuries -0.97	Emerging Markets 11.60	US Smallcap 14.65	S&P 500 -4.38	Emerging Markets 18.90	DJIA 9.72	US High Yield Bonds 5.28	Inv. Grade Corp. Bonds -15.76	Emerging Markets 10.27
Inv. Grade Corp. Bonds 18.68	10-year US Treasuries 9.36	S&P 500 2.11	DJIA 10.24	Inv. Grade Corp. Bonds -1.53	US Smallcap 4.89	Dividend Payers -1.64	Inv. Grade Corp. Bonds 6.11	10-year US Treasuries 8.18	Dividend Payers -5.94	Inv. Grade Corp. Bonds 14.54	Int'l Dev Markets 8.28	Municipal Bonds 1.52	S&P 500 -18.11	Inv. Grade Corp. Bonds 8.52
Municipal Bonds 12.91	Inv. Grade Corp. Bonds 9.00	US Smallcap -4.18	Inv. Grade Corp. Bonds 9.82	Emerging Markets -2.27	US High Yield Bonds 2.45	US Smallcap -4.41	Int'l Dev Markets 1.51	US High Yield Bonds 7.50	US Smallcap -11.01	10-year US Treasuries 14.34	US High Yield Bonds 7.11	Inv. Grade Corp. Bonds -1.04	Emerging Markets -19.74	Municipal Bonds 6.40
Dividend Payers 11.13	Int'l Dev Markets 8.21	Int'l Dev Markets -11.73	Municipal Bonds 6.78	Municipal Bonds -2.55	Emerging Markets -1.82	US High Yield Bonds -4.47	10-year US Treasuries 1.27	Inv. Grade Corp. Bonds 6.42	Int'l Dev Markets -13.36	US High Yield Bonds 14.32	Municipal Bonds 5.21	Emerging Markets -2.22	US Smallcap -20.44	10-year US Treasuries 3.17
10-year US Treasuries -12.98	Municipal Bonds 2.38	Emerging Markets -18.17	10-year US Treasuries 3.59	10-year US Treasuries -12.40	Int'l Dev Markets -4.48	Emerging Markets -14.60	Municipal Bonds 0.25	Municipal Bonds 5.45	Emerging Markets -14.25	Municipal Bonds 7.54	Dividend Payers -4.56	10-year US Treasuries -4.61	10-year US Treasuries -28.14	Dividend Payers 1.53

Source: Morningstar. **Past performance does not guarantee future results.** It is not possible to invest directly in an index. Diversification does not assure a profit or protect against loss. This table is not indicative of the performance of any AAM product. See reverse for Indexes used, index definitions and additional important information.

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Asset Class Correlations (1/1/09–12/31/23)

	DJIA	Dividend Payers	US Smallcap	Int'l Dev Markets	Emerging Markets	Inv Grade Corp. Bonds	10-year US Treasuries	US High Yield Bonds	Municipal Bonds	S&P 500
DJIA	1.00									
Dividend Payers	0.89	1.00								
US Smallcap	0.86	0.83	1.00							
Int'l Dev Markets	0.86	0.79	0.79	1.00						
Emerging Markets	0.69	0.67	0.69	0.84	1.00					
Inv Grade Corp. Bonds	0.42	0.43	0.40	0.51	0.52	1.00				
10-year US Treasuries	-0.12	-0.05	-0.16	-0.09	-0.07	0.59	1.00			
US High Yield Bonds	0.67	0.64	0.71	0.76	0.74	0.69	-0.05	1.00		
Municipal Bonds	0.17	0.19	0.17	0.28	0.30	0.76	0.60	0.45	1.00	
S&P 500	0.96	0.86	0.89	0.88	0.74	0.48	-0.07	0.72	0.22	1.00

Source: Morningstar. **Past performance does not guarantee future results.** It is not possible to invest directly in an index. Correlation is a statistical measure of how two variables move in relation to each other with coefficients ranging from +1 to -1. A correlation coefficient of +1 implies that as one variable moves, the other will move in exact lockstep. Alternatively, a correlation coefficient of -1 implies that if one variable moves, the other moves in the same amount in the opposite direction. If the correlation is 0, the movements of the variables are completely random.

Key Takeaway: Every asset class has its own risk/reward characteristics. Absolute returns and market leadership can vary drastically from year to year. The correlations between several indexes shown above have been low or negative, which indicates that an investor may potentially **smooth portfolio volatility by investing across several asset classes.**

Speak with a financial professional or visit www.aamlive.com for more information about how diversification may benefit your portfolio.

Index Definitions

- DJIA represented by the Dow Jones Industrial Average, which is a price weighted average of 30 actively traded blue-chip stocks. DJIA covers all industries with the exception of transportation and utilities.
- Dividend Payers represented by the Dow Jones US Select Dividend Index, which is an unmanaged index of 100 stocks used to measure performance of dividend-paying US equities.
- US Smallcap represented by the Russell 2000 Index, which is an unmanaged, capitalization weighted index comprised of the 2,000 smallest companies in the Russell 3000 Index. It serves as a benchmark for US smallcap stocks.
- Int'l Dev Markets represented by the MSCI EAFE (Europe, Australasia, Far East) Index GR USD, which is a free float-adjusted market capitalization index designed to measure the equity market performance of developed markets, excluding the US & Canada.
- Emerging Markets represented by the MSCI Emerging Markets Index GR USD, which is a free float-adjusted market capitalization index that is designed to measure the performance of large- and mid-cap securities in emerging countries.
- Inv Grade Corp. Bonds represented by the Bloomberg US Corporate Bond Index, which is an unmanaged market-value-weighted index of investment-grade corporate fixed-rate debt issues with maturities of one year or more.
- 10-year US Treasuries represented by the Bloomberg US Treasury 10+ Year Index, which is an unmanaged, market capitalization weighted index of all Treasuries in the Bloomberg US Aggregate Bond Index with a maturity of 10 years or more.
- US High Yield Bonds represented by the Bloomberg US Corporate High Yield Index that consists of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of is Ba1/BB+/BB+ or below. The index excludes Emerging Markets debt.
- Municipal Bonds represented by the Bloomberg Municipal Bond Index, which is a market value weighted index of investment grade municipal bonds with maturities of one year or more.
- S&P 500 Index is an unmanaged market capitalization weighted index used to measure the performance of 500 companies chosen for market size, liquidity and industry grouping, among other factors.

All investments involve risk; principal loss is possible. It is not possible to invest directly in an index. **Past performance does not guarantee future results.** Diversification does not assure a profit or protect against loss.

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