New Study Shows Oil Investments May Protect Against Bond Declines

A new study released this week by Sharath Sury (Executive Director of SIFIRM and Adjunct Professor of Economics at the University of California) and Manda Sury (CEO of Chicago Analytic Trading Co. and Adjunct Professor of Finance at DePaul University) shows that investments in the energy related oil and gas exploration sector may provide a strong hedge against bond losses in a rising interest rate environment.

Los Angeles, CA, April 15, 2014 --(PR.com)-- For decades, investors have considered bonds to be the “safe haven” of their investment portfolios. However, that may all soon change. Over the past 20 years, a generally benign interest rate environment has helped bonds be a source of both income and capital gains for investors. But with interest rates in the US at historically low levels, it is likely that rates will rise if the economy strengthens in CY 2014/2015. In turn, that could have a substantially negative impact on long term bonds.

This week, Sharath Sury, Executive Director of the Institute for Financial Innovation & Risk Management (SIFIRM) and an adjunct Professor of Economics at the University of California, and his father, Manda Sury, CEO of Chicago Analytic Trading Co. and Adjunct Professor of Finance at DePaul University, released new findings that show that investors with significant exposure to long term bonds may be able to protect themselves through allocations to commodities—in particular, via exposure to the oil-related energy sector.

In the new study, “The Impact of Crude Oil Investments in Bond Portfolios: Can oil serve as a hedge against long term bonds?” the father-and-son economists examine exchange-traded fund (ETF) data over the past five years and find a surprisingly significant negative correlation between long term bonds and certain oil-related instruments. Their findings imply that the inclusion of oil-related investments in a growing economic environment may provide strong diversification benefits to bond-only portfolios.

“We have known for some time that an allocation to commodities in general may provide useful diversification to a bond or equity portfolio,” said SIFIRM’s Sury. “What is surprising is how strong the inverse correlation has been between long duration bonds and investments in the oil and gas sector.” According to Messrs. Sury and Sury, the results of the study are an important finding for those investors who are looking to diversify substantial bond holdings.

In an environment where institutional and private investors are exposed to the possibility of rising interest rates, finding ways to mitigate the downside that could await long term bonds is of prime concern.

“Allocations to the oil and gas sector may provide just the kind of hedge that investors need,” said the senior Sury.
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