

How Do Multi-Asset Volatility-Controlled Indices Respond When Rates Fall?

Contributor

Sara Pollock
Director
Multi-Asset Indices
sara.pollock@spglobal.com

Volatility-controlled indices continue to gain popularity in the index-linked insurance product space, with underlying asset class components and index mechanisms increasingly expanding.¹ One mainstay offering, however, has been the multi-asset volatility-controlled index, combining equity, fixed income and an alternative asset class such as gold. With a more diversified asset class mix than a pure equity index, what is this type of strategy's potential response when interest rates decrease?

Due to the inverse relationship between bond yields and prices, when rates drop, market participants with a weight in fixed income may benefit from price appreciation in the asset class. Additionally, gold also exhibits this relationship with interest rates, meaning prices typically increase with falling rates.

One index that tracks both 10-year U.S. Treasuries and gold is the [S&P MARC 5% Index](#).

¹ For more education on volatility-controlled indices, please see [Demystifying Volatility-Controlled Indices](#).

What Is the S&P MARC 5% Index?

The S&P MARC 5% Index tracks equities, fixed income and gold via a single index solution. The underlying components are as follows:

- Equity: [S&P 500® \(ER\)](#);
- Fixed Income: [S&P 10-Year U.S. Treasury Note Futures Index \(ER\)](#); and
- Gold: [S&P GSCI Gold \(ER\)](#).²

The index weights each component based on the inverse of its volatility and has a target volatility level of 5%. While the weights to each asset class are dynamically adjusted, historically the index makeup has been 60% in fixed income and 20% each in equity and gold.

With a potentially significant weight in fixed income and gold, we will review how it has responded in historical periods in which 10-year Treasury yields dropped, using both back-tested and live data.

S&P MARC 5% Index Performance in Falling Rate Environments

The S&P MARC 5% Index was launched on March 27, 2017, with back-tested data beginning in late 1989. This back-tested period began roughly 10 years into a 40-year fixed income bull market, which includes several trending decreases in the 10-Year Treasury yield.³

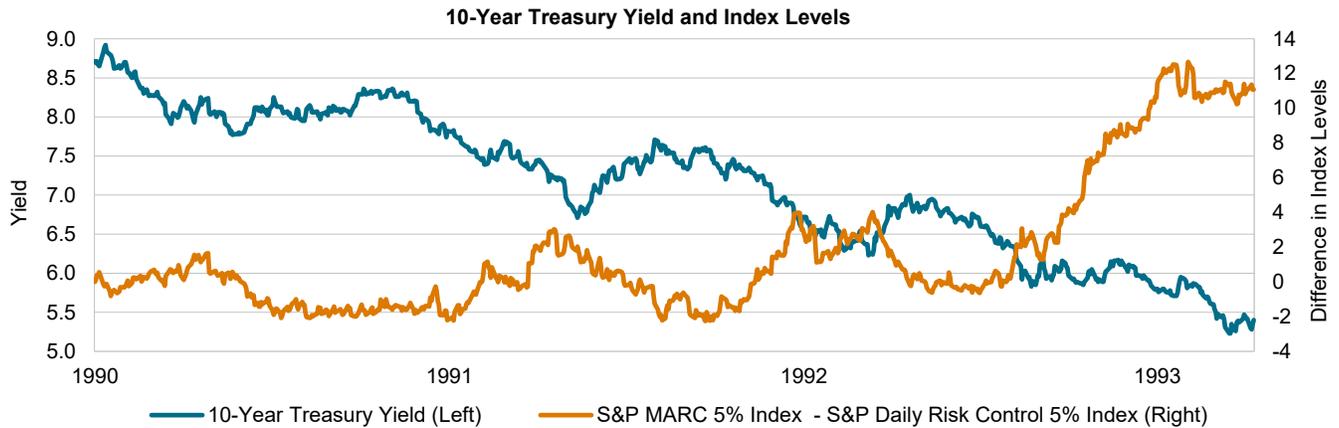
These four periods represent a drop in this yield between 200 bps and 300 bps, ranging from one and a half to slightly more than three years. In each case, the S&P MARC 5% Index (ER) noticeably outperformed a risk control index with equity-only exposure at the same volatility target, for example the S&P 500 Daily Risk Control 5% Index (ER).

² For more information, please see the [S&P MARC 5% Index methodology](#).

³ The 10-year Treasury yield is defined as Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis (DGS10) and is published by the [Federal Reserve Bank of St. Louis](#).

Exhibit 1: 1990-1993 – Gulf War and Oil Price Shocks

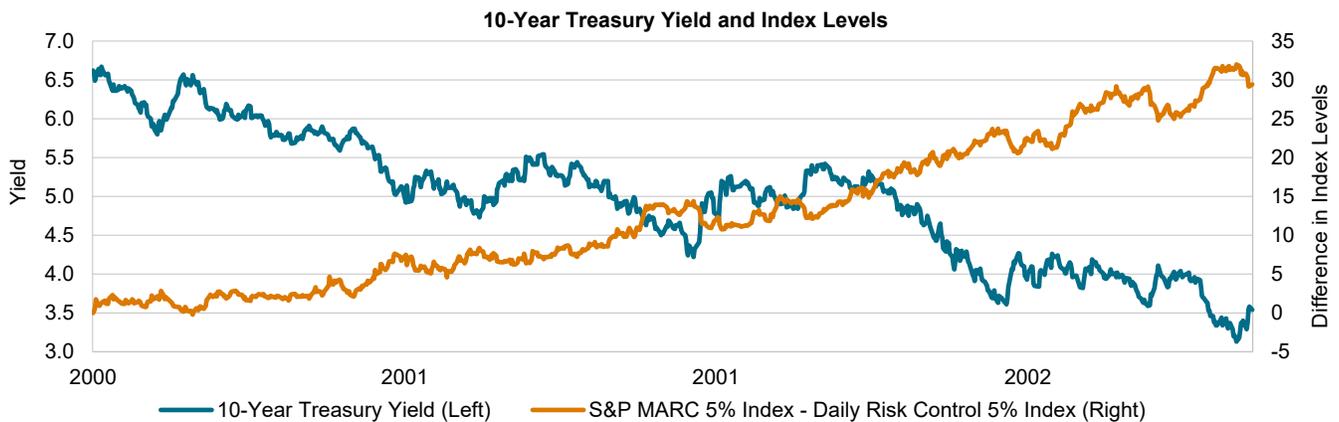
| Index | Annualized Performance (%) |
|--|----------------------------|
| S&P MARC 5% Index (ER) | 7.73 |
| S&P 500 Daily Risk Control 5% Index (ER) | 4.67 |
| S&P MARC 5% Index (ER) Outperformance | 3.06 |
| Total Change in 10-Year Treasury Yield | -2.00% |



Source: S&P Dow Jones Indices LLC. Data from Oct. 1, 1990, to Sept. 30, 1993. The S&P 500 Daily Risk Control 5% Index was launched Sept. 10, 2009. The S&P MARC 5% Index was launched March 27, 2017. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Table and chart are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 2: 2000-2003 – Dot Com Bubble Crash

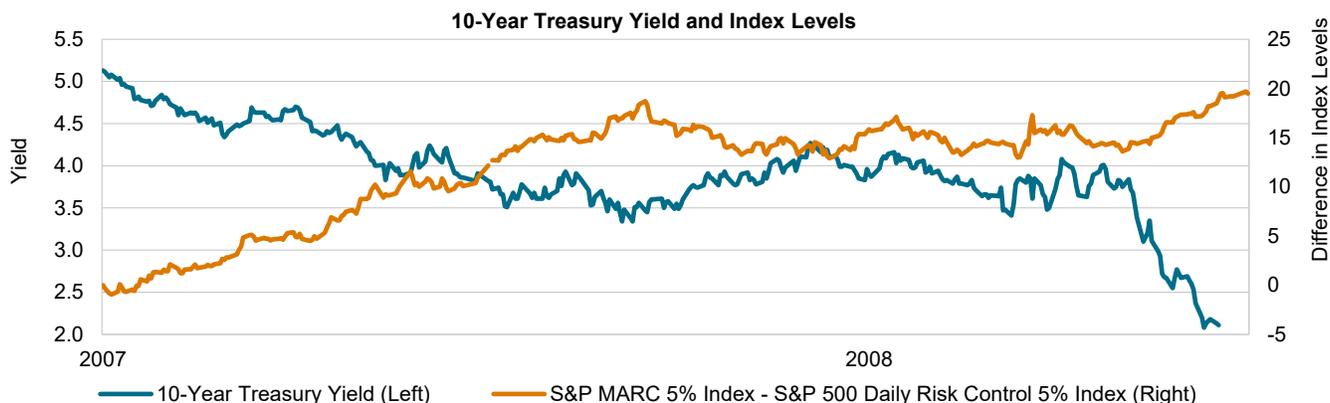
| Index | Annualized Performance (%) |
|--|----------------------------|
| S&P MARC 5% Index (ER) | 4.70 |
| S&P 500 Daily Risk Control 5% Index (ER) | -4.05 |
| S&P MARC 5% Index (ER) Outperformance | 8.75 |
| Total Change in 10-Year Treasury Yield | -3.06% |



Source: S&P Dow Jones Indices LLC. Data from Feb. 1, 2000, to June 30, 2003. The S&P 500 Daily Risk Control 5% Index was launched Sept. 10, 2009. The S&P MARC 5% Index was launched March 27, 2017. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Table and chart are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 3: 2007-2008 Global Financial Crisis

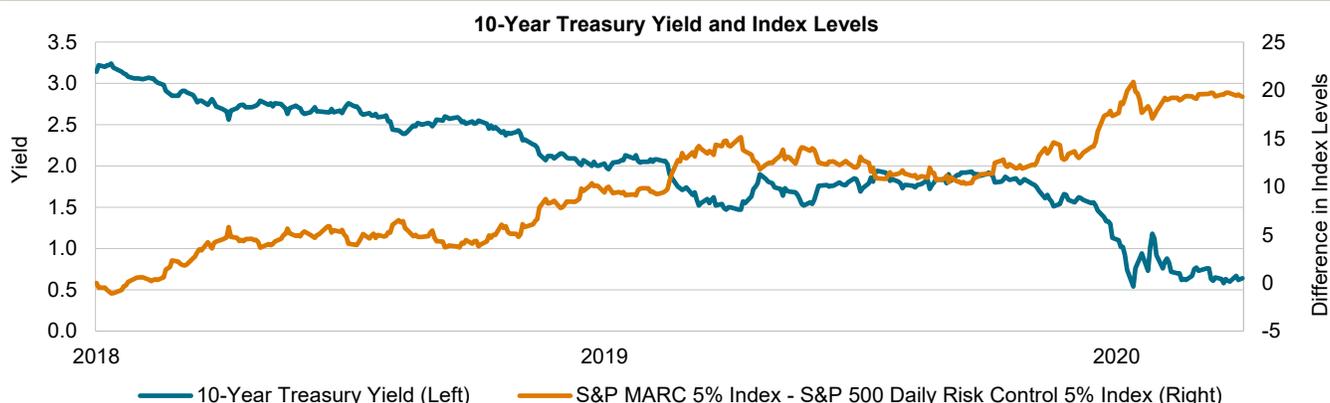
| Index | Annualized Performance (%) |
|--|----------------------------|
| S&P MARC 5% Index (ER) | 7.26 |
| S&P 500 Daily Risk Control 5% Index (ER) | -6.28 |
| S&P MARC 5% Index (ER) Outperformance | 13.54 |
| Total Change in 10-Year Treasury Yield | -2.94% |



Source: S&P Dow Jones Indices LLC. Data from July 2, 2007, to Dec. 30, 2008. The S&P 500 Daily Risk Control 5% Index was launched Sept. 10, 2009. The S&P MARC 5% Index was launched March 27, 2017. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Table and chart are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 4: 2018-2020 – China Trade War and COVID-19 Pandemic

| Index | Annualized Performance (%) |
|--|----------------------------|
| S&P MARC 5% Index (ER) | 14.37 |
| S&P 500 Daily Risk Control 5% Index (ER) | 1.15 |
| S&P MARC 5% Index (ER) Outperformance | 13.22 |
| Total Change in 10-Year Treasury Yield | -2.58% |



Source: S&P Dow Jones Indices LLC. Data from Nov. 1, 2018, to April 30, 2020. Past performance is no guarantee of future results. Table and chart are provided for illustrative purposes.

These examples, presenting an annualized outperformance of 3% to 13%, illustrate the historical benefits of an index with weights in fixed income and gold.

Excess Return Construction

Another historical benefit the S&P MARC 5% Index (ER) has provided in past falling rate environments stems from its construction as an excess return index. Excess return (ER) indices are frequently used in index-linked insurance products and are intended to improve hedging efficiencies, which may potentially benefit the end policyholder.

ER indices remove a hypothetical short-term interest rate from their total return (TR) counterparts. During higher rate environments, this difference is more pronounced, as a higher amount is subtracted. However, as rates fall, the ER version converges with its higher-returning TR version.⁴

Conclusion

In a falling-rate environment, an index with fixed income and gold components may provide protection through their potential underlying price appreciation. As illustrated by multiple periods of decreasing 10-year Treasury yields within its history, the S&P MARC 5% Index (ER) has posted stronger results when compared to an equity-only index with the same volatility target. These results are driven by the historically large weights in fixed income (and gold), as well as the excess return construction of the index—both of which can potentially lead to the index outperforming in this type of environment.

⁴ For more education on excess return and total return indices for insurance products, please see [An Overview of Return Types for Insurance Indices](#).

Performance Disclosure/Back-Tested Data

The S&P 500 Daily Risk Control 5% Index was launched September 10, 2009. The S&P MARC 5% Index was launched March 27, 2017. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at www.spglobal.com/spdji. Past performance of the Index is not an indication of future results. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results. Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations. Back-tested performance is for use with institutions only; not for use with retail investors.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the index is set to a fixed value for calculation purposes. The Launch Date designates the date when the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its data feed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

Typically, when S&P DJI creates back-tested index data, S&P DJI uses actual historical constituent-level data (e.g., historical price, market capitalization, and corporate action data) in its calculations. As ESG investing is still in early stages of development, certain datapoints used to calculate S&P DJI's ESG indices may not be available for the entire desired period of back-tested history. The same data availability issue could be true for other indices as well. In cases when actual data is not available for all relevant historical periods, S&P DJI may employ a process of using "Backward Data Assumption" (or pulling back) of ESG data for the calculation of back-tested historical performance. "Backward Data Assumption" is a process that applies the earliest actual live data point available for an index constituent company to all prior historical instances in the index performance. For example, Backward Data Assumption inherently assumes that companies currently not involved in a specific business activity (also known as "product involvement") were never involved historically and similarly also assumes that companies currently involved in a specific business activity were involved historically too. The Backward Data Assumption allows the hypothetical back-test to be extended over more historical years than would be feasible using only actual data. For more information on "Backward Data Assumption" please refer to the [FAQ](#). The methodology and factsheets of any index that employs backward assumption in the back-tested history will explicitly state so. The methodology will include an Appendix with a table setting forth the specific data points and relevant time period for which backward projected data was used.

Index returns shown do not represent the results of actual trading of investable assets/securities. S&P Dow Jones Indices maintains the index and calculates the index levels and performance shown or discussed but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the Index or investment funds that are intended to track the performance of the Index. The imposition of these fees and charges would cause actual and back-tested performance of the securities/fund to be lower than the Index performance shown. As a simple example, if an index returned 10% on a US \$100,000 investment for a 12-month period (or US \$10,000) and an actual asset-based fee of 1.5% was imposed at the end of the period on the investment plus accrued interest (or US \$1,650), the net return would be 8.35% (or US \$8,350) for the year. Over a three-year period, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.10%, a total fee of US \$5,375, and a cumulative net return of 27.2% (or US \$27,200).

General Disclaimer

© 2025 S&P Dow Jones Indices. All rights reserved. S&P, S&P 500, SPX, SPY, The 500, US 500, US 30, S&P 100, S&P COMPOSITE 1500, S&P 400, S&P MIDCAP 400, S&P 600, S&P SMALLCAP 600, S&P GIVI, GLOBAL TITANS, DIVIDEND ARISTOCRATS, DIVIDEND MONARCHS, BUYBACK ARISTOCRATS, SELECT SECTOR, S&P MAESTRO, S&P PRISM, GICS, SPIVA, SPDR, INDEXOLOGY, iTraxx, iBoxx, ABX, ADBI, CDX, CMBX, MBX, MCDX, PRIMEX, HHPI and SOVX are trademarks of S&P Global, Inc. ("S&P Global") or its affiliates. DOW JONES, DJIA, THE DOW and DOW JONES INDUSTRIAL AVERAGE are trademarks of Dow Jones Trademark Holdings LLC ("Dow Jones"). These trademarks together with others have been licensed to S&P Dow Jones Indices LLC. Redistribution or reproduction in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. This document does not constitute an offer of services in jurisdictions where S&P Dow Jones Indices LLC, S&P Global, Dow Jones or their respective affiliates (collectively "S&P Dow Jones Indices") do not have the necessary licenses. Except for certain custom index calculation services, all information provided by S&P Dow Jones Indices is impersonal and not tailored to the needs of any person, entity or group persons. S&P Dow Jones Indices receives compensation in connection with licensing its indices to third parties and providing custom calculation services. Past performance of an index is not an indication or guarantee of future results.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index may be available through investable instruments based on that index. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. S&P Dow Jones Indices makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. Index performance does not reflect trading costs, management fees or expenses. S&P Dow Jones Indices makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. S&P Dow Jones Indices is not an investment adviser, commodity trading advisor, commodity pool operator, broker dealer, fiduciary, promoter" (as defined in the Investment Company Act of 1940, as amended), "expert" as enumerated within 15 U.S.C. § 77k(a) or tax advisor. Inclusion of a security, commodity, crypto currency or other asset within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, commodity, crypto currency or other asset, nor is it considered to be investment advice or commodity trading advice.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, research, valuations, model, software or other application or output therefrom) or any part thereof ("Content") may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P Dow Jones Indices. The Content shall not be used for any unlawful or unauthorized purposes. S&P Dow Jones Indices and its third-party data providers and licensors (collectively "S&P Dow Jones Indices Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Dow Jones Indices Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN "AS IS" BASIS. S&P DOW JONES INDICES PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Dow Jones Indices Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Global keeps certain activities of its various divisions and business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions and business units of S&P Global may have information that is not available to other business units. S&P Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

In addition, S&P Dow Jones Indices provides a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.