

## ABSTRACT

Choosing between stock and bond as the optimum alternative is the important financial decision faced by the investor and issuing firm. Nevertheless, the co-movement between stock and bond return is not stable overtime. This study aims to examine the impact of expected inflation, one of the major economic factors, on the relationship between bond and stock return in the Thai capital market during January 2005 to December 2011. It is found that expected inflation does not have an impact on the relationship between stock and bond returns. The Thai bond market is primarily limited to institutional investors and lack of automated trading systems, so the liquidity in the bond market is very low. Therefore, this study cannot find the relationship between stock and bond returns. Investors should be aware of investment because it is less likely to reap possible abnormal return when applying diversification strategy by investing in both bond and stock markets.