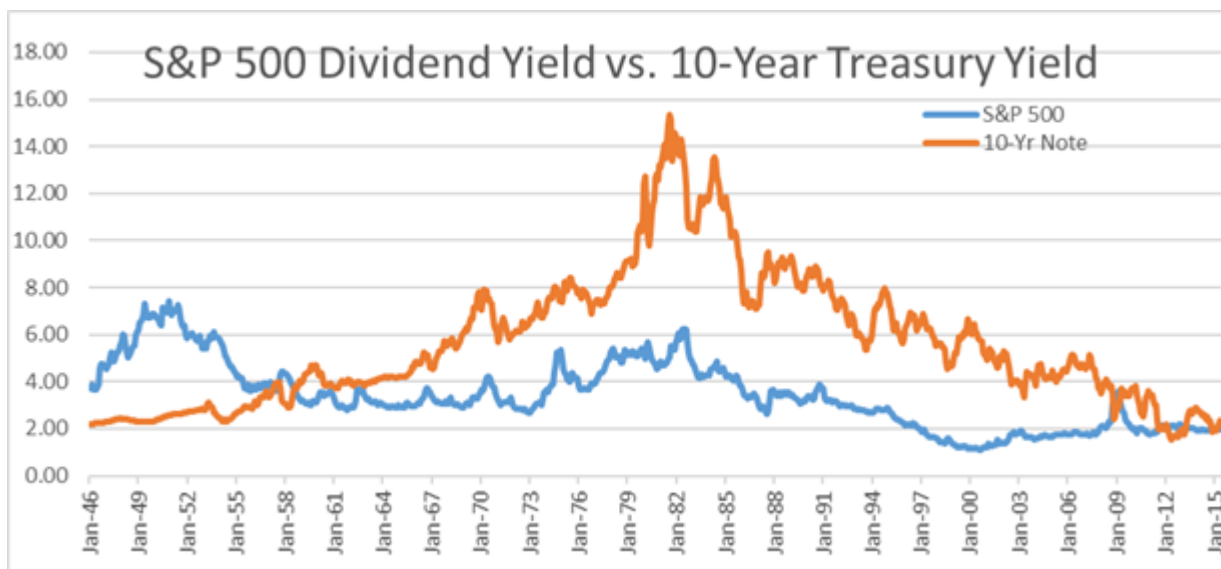


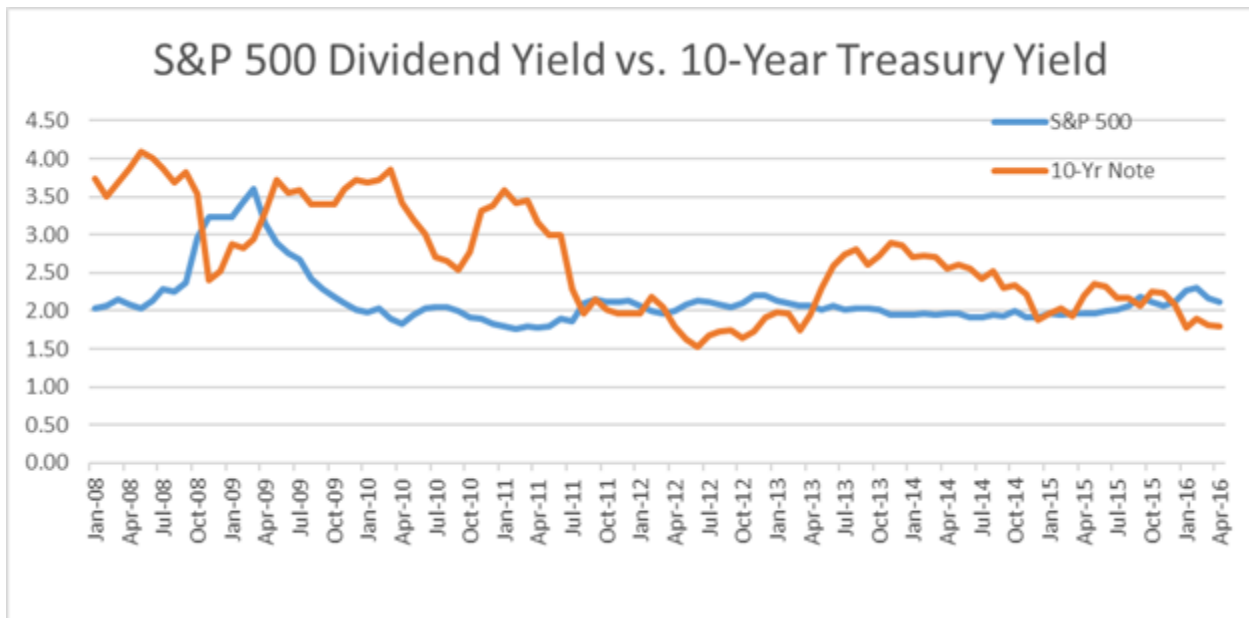
## It's All Relative

### An Analysis of the 10-Year vs. the S&P's Dividend Yield

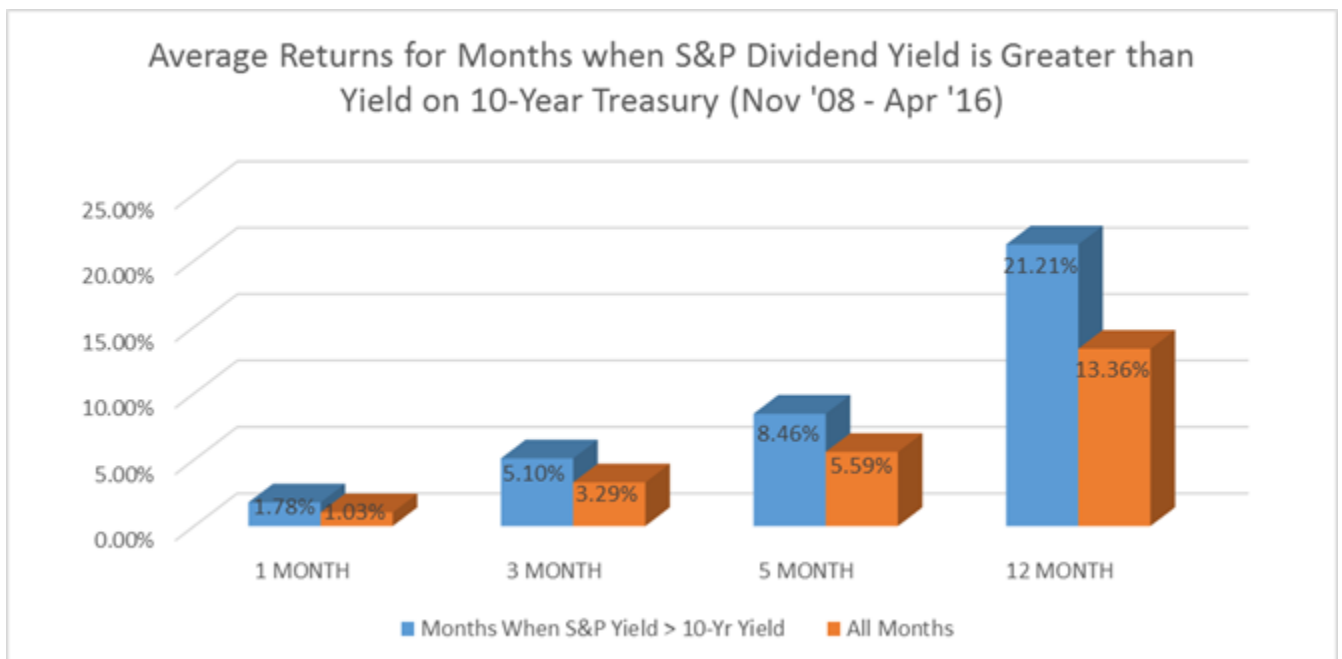
November of 2008 marked the first time in 50 years when the S&P 500's dividend yield surpassed the yield on the 10-year US treasury. After the Great Depression the yield on the 10-yr was lower than the S&P 500 dividend yield for about three decades straight (1929-1957). July of 1958 would be the last time until it occurred again recently. This time in the aftermath of the Great Recession.



For the last seven and a half years, or 90 months spanning from November of '08 until April '16 the yield on the S&P and the 10-yr have remained very close. The 10-yr yield has been higher by an average of 41 basis points during this time. The S&P 500's dividend yield was higher than the yield on the 10-yr about 1/3 of the time. Take a look at the chart below. The yield on the US 10-yr almost acts as a ceiling for the dividend yield on the S&P 500.

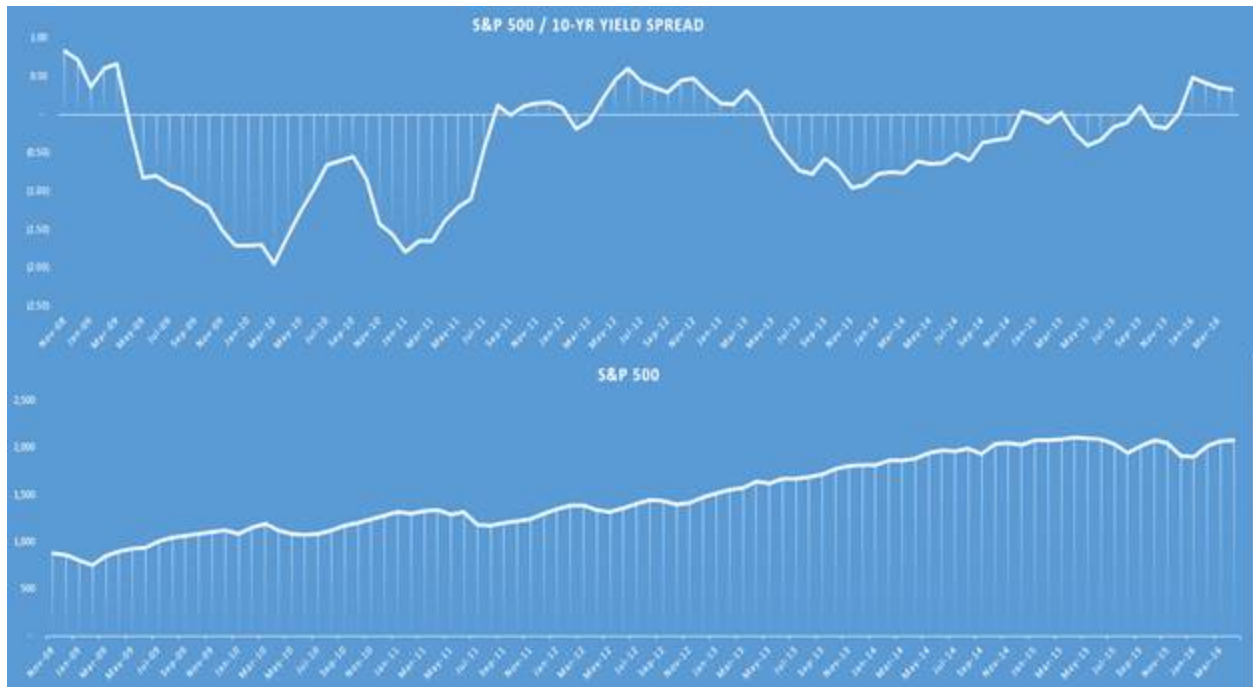


The S&P 500 appears to get bought-up quickly whenever its yield surpasses the 10-yr. This has been an effective indicator of value during the recent bull run. The S&P's returns have significantly outperformed during periods when its own dividend yield was greater than the 10-yr yield. I analyzed the returns on the S&P 500 to see just how much better you would have made out if you purchased the S&P during these special months. Here is what I found.



The average 1-month, 3-month, 5-month and 12-month returns for those months when the S&P yield was greater than the 10 year were all significantly higher than the returns for all 90 months on average from November 2008 - April 2016.

The dividend yield for the S&P has been higher than the yield on the 10-yr for the last 5 straight months. Based on history, if you are a buyer of the market right now the odds are in your favor. The yield spread is charted against the S&P below (Nov '08 – Current).

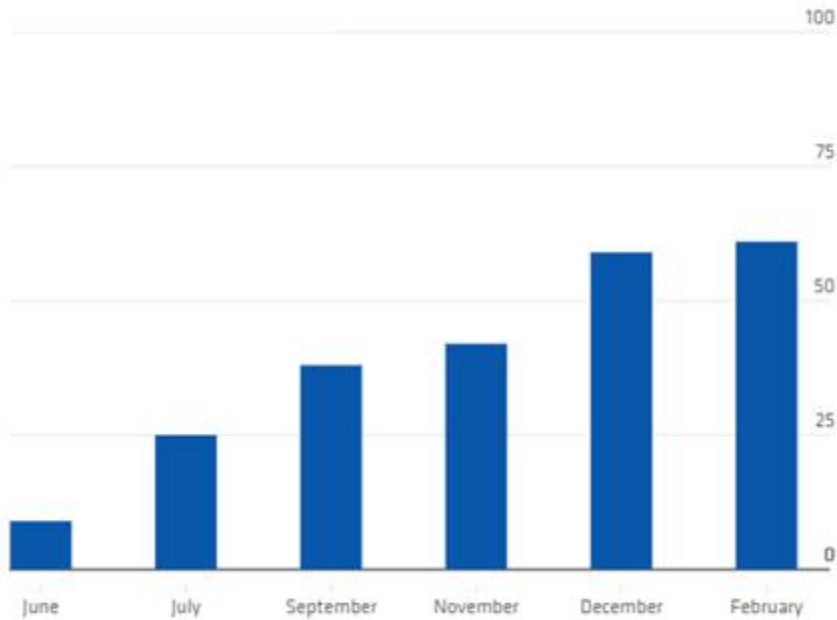


The average spread in yields since the 2008 financial crisis has been -0.41% in favor of the treasury yield. Right now the spread is at 0.32% in favor of the S&P, and it has been roughly that way for all of 2016. The last time the S&P yield had led for 5 straight months was August of 2012. The S&P was at 1,440 then. It was 17% higher 12 months later and is about 43% higher today.

One of two things can happen in order for the spread to move back towards the average or "equilibrium" of -0.41%. Either rates must rise or the dividend yield on the S&P must contract.

Rates rising this year seems increasingly unlikely as central banks around the world race to see who can set them lowest. Goldman Sach's economist Daan Struyven called a June hike "unlikely" in a note to clients this week. He even went on to say "it would be a unique outcome in modern Fed history." He was referring to Goldman Sachs research released this week which suggested that about 90% of rate hikes in the last quarter century had at least a 70% chance already discounted in. As of yesterday markets are pricing in an 8% chance of a June rate hike. As for the remainder of the year, the CME's Fed Watch Tool does not forecast a better than 50% chance of hiking until the December FOMC meeting.

## CHANCE OF RATE HIKE ACCORDING TO CME'S FED WATCH TOOL

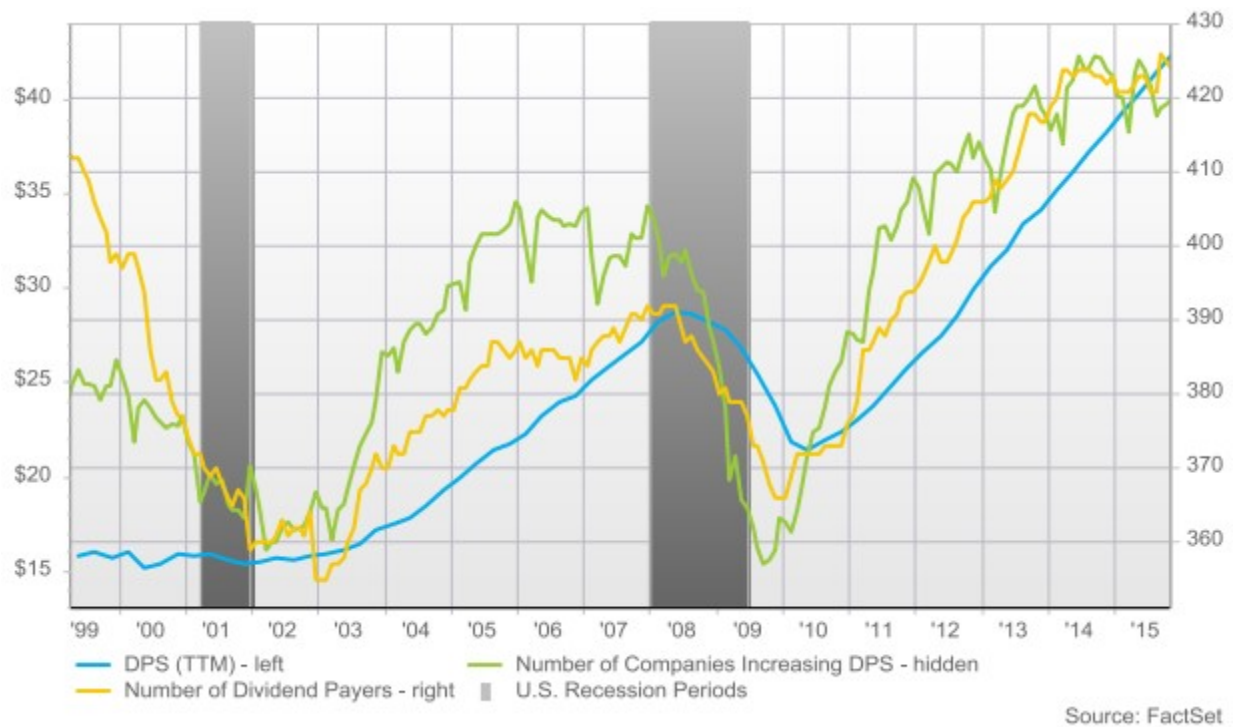


Source: CME

Also, as far as political risk goes, both candidates are huge doves. And market uncertainty surrounding Trump will only continue to ease as he appeals more to the masses. The Republican candidate was on CNBC's Squawk Box just last week calling himself a "low interest rate person."

The other way for the 10-yr / S&P yield spread to see some mean reversion is by a decrease in the dividend yield. This can happen by decreasing dividends per share (DPS) or by price appreciation of the index itself. If the former were to take place in any significant form it would be a market anomaly. Despite all the rhetoric in financial media about companies cutting dividends, the broader trend is still close to double digit growth per annum. Dividends paid out in 2015 were \$43.30, this was the largest aggregate DPS in over ten years and represents a 9.5% YoY growth rate. Most analysts are predicting mid-single digit growth in DPS this year.

**S&P 500 DIVIDENDS PER SHARE CONTINUE TO INCREASE**



Many analysts have also been suggesting that the S&P will be ultimately flat this year. If that is the case, and we assume no rate hikes as discussed, the S&P yield will only become more and more favorable compared to the 10-year (due to dividend growth).

The moral here is to be careful amid all the negative sentiment surrounding markets. I understand that the investment environment is not great right now with pressures like declining earnings, the election cycle and a thawing commodity crisis. But you don't always have to be great to win. Sometimes you just have to be better than the rest. And right now, with political or economic turmoil all around the world and a 10-yr yield stuck under 2% here at home, US equities are simply blowing away the competition. As long as they continue to be the best of a bad lot the S&P 500 will have plenty of room to rise despite the ongoing pessimism.

The table below details the returns for those months when the S&P yield was higher than the yield on the 10-yr US treasury note over the last 7.5 years.

**Months where S&P 500 Dividend Yield was Greater than 10-Year Treasury Yield (November 2008 - April 2016)**

Date	PRICE	1 MONTH	3 MONTH	5 MONTH	12 MONTH
November-08	878	-1.4%	-13.7%	2.8%	26.5%
December-08	866	-7.0%	-2.0%	7.0%	29.8%
January-09	805	-6.0%	12.1%	16.2%	35.3%
February-09	757	12.0%	22.3%	33.4%	52.2%
March-09	848	6.4%	10.3%	23.2%	41.2%
August-11	1174	2.8%	5.9%	15.2%	23.0%
October-11	1226	1.4%	10.3%	13.0%	13.7%
November-11	1243	4.6%	11.7%	7.9%	14.4%
December-11	1301	4.0%	6.6%	1.8%	13.8%
January-12	1352	2.7%	-0.8%	0.5%	11.8%
April-12	1341	-1.3%	4.6%	7.2%	22.3%
May-12	1323	2.7%	9.1%	5.4%	22.3%
June-12	1360	3.2%	5.7%	4.6%	22.7%
July-12	1403	2.8%	-0.6%	5.5%	19.0%
August-12	1443	-0.4%	-1.5%	4.8%	16.9%
September-12	1438	-3.0%	3.0%	7.9%	19.6%
October-12	1395	2.0%	8.4%	12.6%	27.9%
November-12	1422	4.1%	9.0%	15.3%	27.1%
December-12	1480	2.2%	6.1%	9.3%	23.1%
January-13	1512	2.5%	8.4%	10.3%	20.1%
February-13	1551	1.3%	4.4%	7.7%	20.2%
March-13	1571	4.4%	6.2%	7.4%	18.7%
April-13	1640	-1.3%	1.8%	4.9%	15.2%
December-14	2028	2.7%	3.3%	3.5%	-5.4%
March-15	2095	0.8%	0.0%	-7.2%	-1.1%
September-15	2025	2.8%	-5.2%	-0.1%	???
December-15	1919	-0.7%	8.0%	???	???
January-16	1904	6.2%	9.3%	???	???
February-16	2022	2.5%	???	???	???
March-16	2073	0.4%	???	???	???
April-16	2082	???	???	???	???
<b>Avg S&amp;P Yield &gt; 10-Yr</b>	<b>1467</b>	<b>1.8%</b>	<b>5.1%</b>	<b>8.5%</b>	<b>21.2%</b>
<b>Avg All Months</b>	<b>1503</b>	<b>1.0%</b>	<b>3.3%</b>	<b>5.6%</b>	<b>13.4%</b>

**Sources**

MULTPL | S&P 500 Dividend Yield by Month

[https://www.quandl.com/data/MULTPL/SP500\\_DIV\\_YIELD\\_MONTH-S-P-500-Dividend-Yield-by-Month](https://www.quandl.com/data/MULTPL/SP500_DIV_YIELD_MONTH-S-P-500-Dividend-Yield-by-Month)

MULTPL | S&P 500 Real Price by Month

[https://www.quandl.com/data/MULTPL/SP500\\_REAL\\_PRICE\\_MONTH-S-P-500-Real-Price-by-Month](https://www.quandl.com/data/MULTPL/SP500_REAL_PRICE_MONTH-S-P-500-Real-Price-by-Month)

10 Year Treasury Rate by Month

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