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Appian
Asset Management

Monthly Monitor

July 2019

The Yield Conundrum

Last week, the yield conundrum in markets created new levels of bewilderment. Austria managed to raise €1.25 billion through the sale of a 98-year bond, yielding 1.17%. At the same time, Wells Fargo announced its intention to return 15% of its market capitalization to shareholders, whilst Royal Dutch Shell held an investor day detailing plans to return over 70% of its market capitalization to shareholders by 2025.

The Austrian debt sale was a tap of an existing bond that they issued two years ago. At that time they raised €3.5bn of the then 100-year bond at a yield of 2.1%. The questions that flow from this are numerous but the most interesting one is why are investors buying this long-dated debt. With Austrian inflation rates currently at 1.7%, it looks like investors are locking in negative real returns. In addition, does anybody have the foresight to forecast inflation over the next 100 years? There is a theory that investors are buying long dated paper for liability matching, but it’s hard to see who has a 100-year liability to match. If this particular bond saw its yield move back to 3%, the price would fall 55%. When the risk/reward of investing in long dated paper is assessed, it’s difficult to argue that it is anything but pure speculation that is driving the current valuations.

In contrast to the Austrian government, spare a thought for US banks such as Wells Fargo. Whilst the Austrians were enjoying their almost free money, the Federal Reserve was approving how much US banks could return to shareholders this year. For Wells Fargo, they are set to return 15% of their market capitalization to shareholders. This reflects a combination of 4.5% in the form of a dividend and 10.5% in the form of a share buyback. It’s not just banks that are returning extraordinary amounts of capital to shareholders. Over the next six years, Royal Dutch Shell has a target of returning over 70% of its current market cap to shareholders though dividends and buybacks.

The level of dividends available in the equity market relative to the bond market today is more perplexing when you consider that equities have the ability to grow over time. It is for this reason that that bond yields have typically traded above equity dividend yields. There are many statistics out there that summarise the strange dichotomy in markets today. Firstly, there is $13 trillion of negatively yielding debt in the world today. Secondly' there are now more bonds held by investors in the US than equities for the first time ever. The overall conclusion has to be that the world has either completely lost faith in dividend paying equities or has become overly attracted to the perceived safety of fixed income.

This loss of faith in companies such as Wells Fargo and Royal Dutch Shell may represent one of the greatest investment opportunities to have arisen in a long time, if one is prepared to accept that the cash these corporates are paying to their shareholders is a good thing. On the other hand, the perceived safety of long dated bonds looks like it has created one of greatest asset bubbles of all time. At Appian, we continue to be attracted to the return's companies like Wells Fargo and Royal Dutch Shell are providing and fail to understand the rationale behind investments like the Austrian 100-year bond (which could be suffering from the Greater Fool Theory).

Appian Market Update Call

Please join Chief Investment Officer Niall Dineen, Senior Fund Manager Pat Kilduff and Senior Relationship Manager John Flavin by telephone on **Thursday**, **July 11th at 10 am** for a discussion on: *"The Yield Conundrum – why is it possible to find attractive yields in equities today and not in fixed income?"*

Dial in details

To listen in to the conference please use the dial in details below.

Ireland (national) : 0818 270 298
Ireland, Dublin: +353 (0)1 428 9999

Code: 457522#

Calls are charged at standard rates. Calls from mobiles will vary and may cost more.

Submit questions

If you would like to submit a question for the team, please forward it by email to anna.hadfield@appianasset.ie

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Appian Unit Fund Prices

4 July 2019

Appian Value Fund	**148.95**
Appian Equity Fund	**194.65**
Appian SCOF	**177.81**
Appian Liquidity Fund	**104.41**
Appian Ethical Value Fund	**104.52**
Appian Burlington Property Fund	**124.04**

For more detailed information on each of our funds click **here**

Investment Team

Niall Dineen
Chief Investment Officer

John Mattimoe
Senior Fund Manager

Pat Kilduff
Senior Fund Manager

Derek Heffernan
Senior Fund Manager

Click here for more information about our Investment Team

Contact our **Client Relationship** Team

John Flavin
Senior Relationship Manager
Tel: (01) 662 4053 direct
Click here to email John

Ian Naughton
Client Relationship Manager
Tel: (01) 662 3986
Click here to email Ian

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