Appian
Asset Management

Monthly Monitor

September 2019

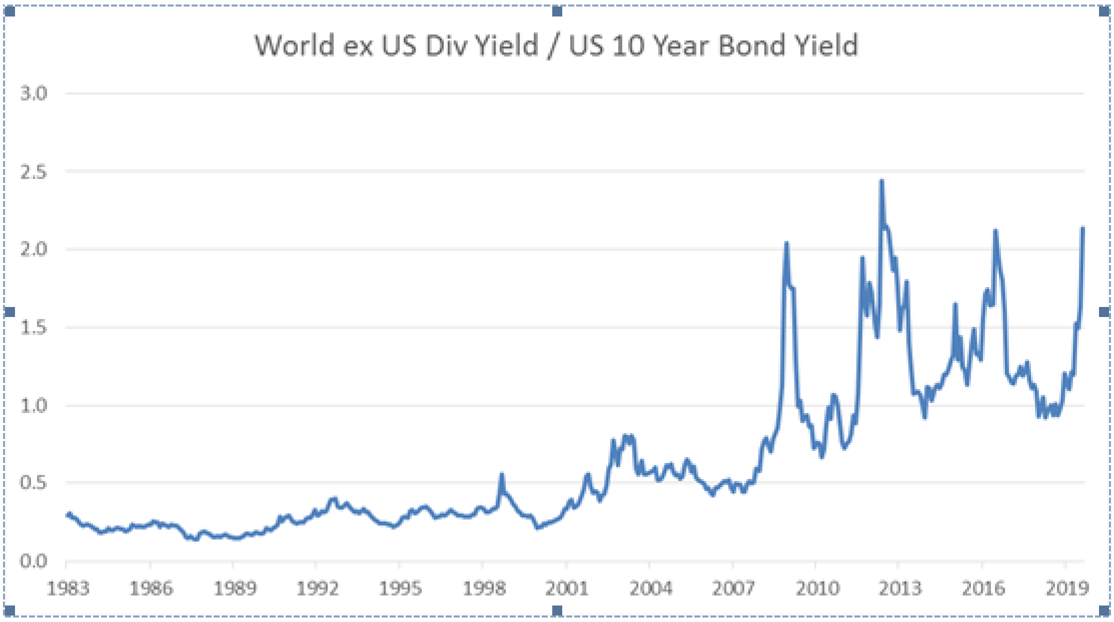
Dividend Yield to Bond Yield Extremes - An Opportunity for Equities

An intriguing feature of recent market movements has been the spike in the multiple of equity dividend yields relative to bond yields. While bond yields have fallen over the summer, weaker equity markets have lifted dividend yields. This combination has allowed the dividend yield on non-US equities to rise above two times the yield on 10 year US government bonds, an extreme level that historically has been a buy signal for non-US equities.

For most of the last forty years the dividend yield of World ex-US equities was less than the US 10 year bond yield. However, at times of market stress it went higher than the bond yield, and at times of extreme market stress it has exceeded twice the level of the bond yield.

This happened three times in the past forty years – with each occasion also in the past eleven years. The first time was the end of 2008, the depths of the Great Financial Crisis, the next was in 2012 during the Sovereign Debt Crisis, and the most recent occurrence was mid-2016 during Chinese economic uncertainty and the immediate aftermath of the Brexit referendum.

Each of these three occasions proved to be a good buying opportunity for non-US equities. The average gain in the MSCI World ex-US Index in the 12 months following this dividend yield to bond yield multiple breaking above 2x was +24% (+30% in 2008/09, +26% in 2012/13 and +16% in 2016/17).



Source: Refinitiv Datastream

The three previous times this multiple broke above 2x was a point when investor fears reached extreme levels. While US equities remain close to all-time highs (and with valuations that remain elevated) fears that a trade war will cause a global recession have hit non-US equities. The ex-US dividend yield breaking 2x the bond yield suggests these fears may be approaching extreme levels again. While timing the end of such extremes is never certain, the current dividend yield multiple of 2.1x the bond yield suggests that the risk / reward balance in non-US equities is now very favourable (particularly relative to bonds) and this presents a medium-term opportunity for patient investors.

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This investment may be affected by changes in currency exchange rates.

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Appian Unit Fund Prices

1 September 2019

Appian Value Fund	**147.1163**
Appian Equity Fund	**185.9152**
Appian SCOF	**161.5205**
Appian Liquidity Fund	**104.2169**
Appian Ethical Value Fund	**102.6139**
Appian Burlington Property Fund	**125.55**

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

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