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PEAK CAPITAL MANAGEMENT

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BLOG POST

Dividends vs. Bonds

11/12/2020

In previous commentaries we've highlighted the challenges that dividend-paying stocks have faced this year, particularly with declines in the energy and financial sectors, and value biased stocks overall. The chart to the left plots the dividend yield of both the S&P Dividend Aristocrats Index and the Barclay's Aggregate Bond Index on a daily basis going back to 2015. The S&P Dividend Aristocrats Index measures the performance of stocks in the U.S. that have a history of paying steady dividends, while the Barclay's Aggregate Bond Index measures the performance of investment-grade fixed income securities in the U.S.

- The current yield for dividend-paying stocks is roughly 3%, compared to a current yield of approximately 2.2% for investment-grade bonds. The spread of roughly 0.8% is at the highest level since 2015, as dividend-paying stocks have taken the brunt of the pandemic and bond yields have fallen for the year.

- On a risk-adjusted basis, picking up an additional 0.8% yield with dividend-paying stocks might not seem that attractive now. However, if the yield gap continues to widen, there will likely come a point where investors consider the added volatility of divided stocks worth the additional yield and begin rotating out of bonds.