

MONTHLY INSIGHT

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	10 Year Canada Bond Yield	S&P TSX Dividend Yield
Average since Dec 2000	3.3%	2.8%
Average pre-June 2011	4.2%	2.5%
Average post-June 2011	1.9%	3.2%
Current	2.4%	3.4%

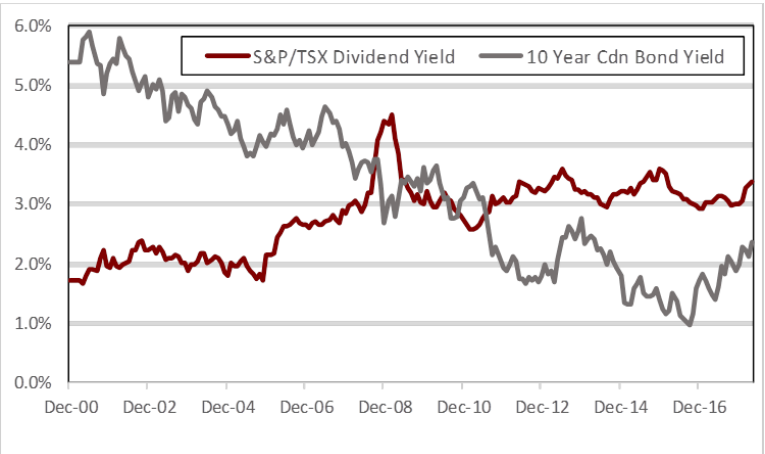
The dividend yield of the S&P / TSX has remained steady around the 3% mark throughout the post-2008 crisis but bond yields declined significantly and have only recently begun to recover.

CLOSING THE GAP

Dividend paying stocks have been very popular with investors in recent years due to weak returns in the bond market. That picture appears to be shifting in Canada for the first time in almost a decade. As the Bank of Canada has slowly tightened monetary policy, bond yields have naturally risen, yet still remain well below the levels seen before the financial crisis. As bond yields rise, investors may cut their exposure to equities. Historically bull markets tend to end once interest rates have risen too much, too fast. The current long-lasting uptrend is beginning to show signs of entering the euphoria stage. If dividend yields drop below bond yields it could be another indication that the high-flying stock market is headed for a correction.

The ‘Yield Gap’ is the difference between the S&P / TSX Stock Index dividend yield and the 10 year Government of Canada bond yield. The yield differential between stocks and bonds has historically been one of the more attractive signals for many investors. It has signaled when equities were good value relative to bonds. However in the last few months that spread is becoming less favorable to equities and is giving many investors pause for thought. Higher bond yields could make stocks look more expensive. Additionally, higher borrowing costs could have an impact on corporate earnings as it becomes more expensive for companies to finance projects. Lower profits could result which would boost the price-to-earnings ratio and raise equity valuation concerns.

Before the 2008 financial crisis the yield on 10 year bonds was markedly higher than equities, before abruptly changing course during the depths of the crisis. In fact, for most of history, dividend yields have stayed below 10 year bond yields. During the 2008 financial crisis bond yields started oscillating around dividend yields for several years but have spent significant time below dividend yields since June 2011, as economic growth recovered and inflation concerns faded. As the



Before the 2008 financial crisis the yield on 10 year bonds was markedly higher than equities. During the 2008 financial crisis bond yields started oscillating around dividend yields for several years but since June 2011 have been below dividend yields. Bond yields are now rising, which may have implications for the stock market.

As the chart above and data to the left illustrates, the dividend yield of the S&P / TSX has remained steady at around the 3% mark throughout the post-2008 crisis recovery period as companies have grown their dividends to keep up with increasing share prices.

For the past decade, investors have flocked to the stock market for higher yields as government bond yields have hovered at historic lows. The increase in asset prices can be partly attributed to low yielding debt instruments. Still dividend paying stocks tend to be a poor defense when rates are rising and stocks could be facing yield competition from bonds for the first time since the financial crisis. If and when the S&P / TSX yield falls below bonds it will not necessarily be bad news as most equity investors generally buy stocks for capital appreciation and not for steady income.

At this juncture, the case for stocks still appears to be favourable compared to owning bonds so yield seekers currently invested in stocks do not necessarily need to jump ship yet. As with all market measures, the consequences of the narrowing yield gap are hard to predict. While some risk averse investors might switch to bonds, for most investors dividend yield is simply one factor contributing to the total performance of owning stocks.

MARKET DATA

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Index Total Returns (%) (C\$)

	1 Month	1 Year	5 Years
S&P TSX	1.8	3.1	7.8
S&P TSX High Dividend	1.3	-0.8	5.4
S&P TSX Small Cap	5.0	0.2	5.5
S&P TSX Preferred Shares	-0.4	5.1	1.0
S&P 500	-0.2	6.6	19.0
Russell 2000 (US Small Cap)	0.2	3.6	16.2
MSCI EAFE	1.8	8.4	12.2
MSCI World	0.6	7.2	15.8
MSCI Europe	1.6	4.2	8.9
MSCI Asia	0.6	8.5	10.3
MSCI Emerging Markets	-1.1	12.3	8.2

Currencies:	US\$ (%) (C\$)	EURO	GBP	YEN
	0.6	6.2	-5.0	
	-2.5	4.0	3.2	
	-2.4	-0.2	2.4	
	-3.6	-4.7	2.5	

Bond Total Returns (%) - DEX Indices

	1 Month	1 Year	5 Years	Yield
Universe	-0.8	-0.9	2.5	2.71
Short Bonds	-0.1	-0.8	1.5	2.29
Mid Bonds	-0.8	-2.7	2.4	2.74
Long Bonds	-2.0	0.0	3.8	3.21
Federal Bonds	-0.7	-1.9	1.4	2.47
Provincial Bonds	-1.3	-0.5	3.1	2.86
Corporate Bonds	-0.5	-0.3	3.0	3.24
Real Return Bonds	-0.8	0.5	1.0	0.68
91 Day T-Bills	0.1	1.0	0.7	1.20

Barclays Aggregate Bond (US\$)	-0.7	-0.3	1.5
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Commodities:	Index (%) (US\$)	Oil	Gold	Wheat
	5.0	22.1	-10.1	
	5.6	39.0	-6.2	
	-0.6	4.0	-2.1	
	15.1	20.7	-8.2	

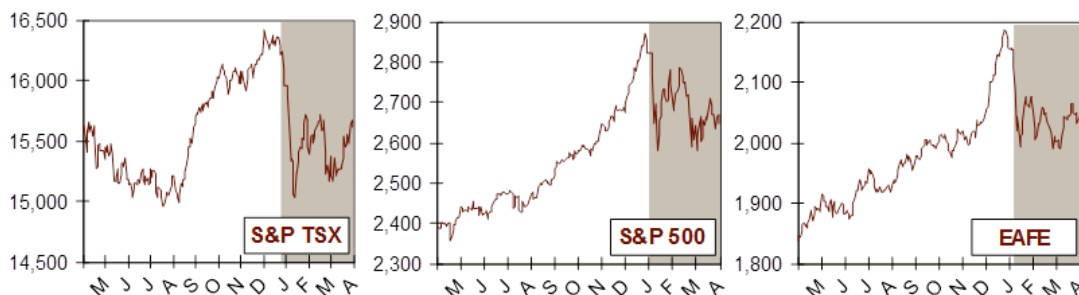
Sector Returns (%)

	S&P TSX (C\$)				S&P 500 (US\$)				MSCI EAFE (US\$)			
	1 Month	1 Year	5 Years	Weight	1 Month	1 Year	5 Years	Weight	1 Month	1 Year	5 Years	Weight
Consumer Discretionary	1.0	6.3	14.1	5.5	2.3	15.1	13.8	12.6	2.8	15.8	5.9	12.6
Consumer Staples	-1.0	-8.1	13.6	3.6	-4.5	-8.7	4.1	7.9	-0.1	5.6	2.5	11.1
Energy	12.3	1.6	-4.1	18.5	9.3	9.1	-1.2	6.0	10.4	29.4	-0.5	5.3
Financial Services	0.0	4.0	8.5	37.8	-0.5	16.5	12.6	17.6	1.8	8.8	1.4	24.6
Health Care	-3.7	29.0	3.8	1.2	1.1	9.1	11.6	13.9	0.4	2.5	2.7	10.2
Industrials	2.5	11.4	12.3	9.7	-2.8	6.7	11.1	10.3	0.7	11.6	5.7	14.6
Information Technology	2.3	18.3	17.4	3.8	0.0	23.0	18.6	24.1	0.9	22.3	10.3	6.6
Materials	0.4	-3.5	-1.2	11.5	0.1	7.1	7.5	3.0	2.6	18.4	3.0	8.0
Telecommunication	1.7	-4.8	5.7	4.6	-2.2	-7.5	-2.4	1.9	4.6	4.1	2.3	3.8
Utilities	-1.8	-8.5	-0.1	4.6	2.0	-0.3	4.4	2.7	2.9	11.3	0.6	3.3
Growth Index	1.3	-3.8	5.6		0.2	15.9	13.1		1.4	13.5	4.5	
Value Index	1.8	1.5	4.8		0.3	5.7	7.8		2.8	9.4	1.7	

Index Charts

12 Months ending April 2018

Grey shaded areas indicate periods of stock index decline.



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