



# IS GROWTH THE NEW YIELD?

WITH DAVID LANE

# Agenda

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- A review of the past decade in traditional income sources
- COVID and Income
- Looking to the future for income
- Investment Outlook



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# A review of traditional income sources:

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- Term Deposits
- Government Bonds
- Corporate Bonds
- Hybrids / Real Estate Investment Trusts
- Equity dividends



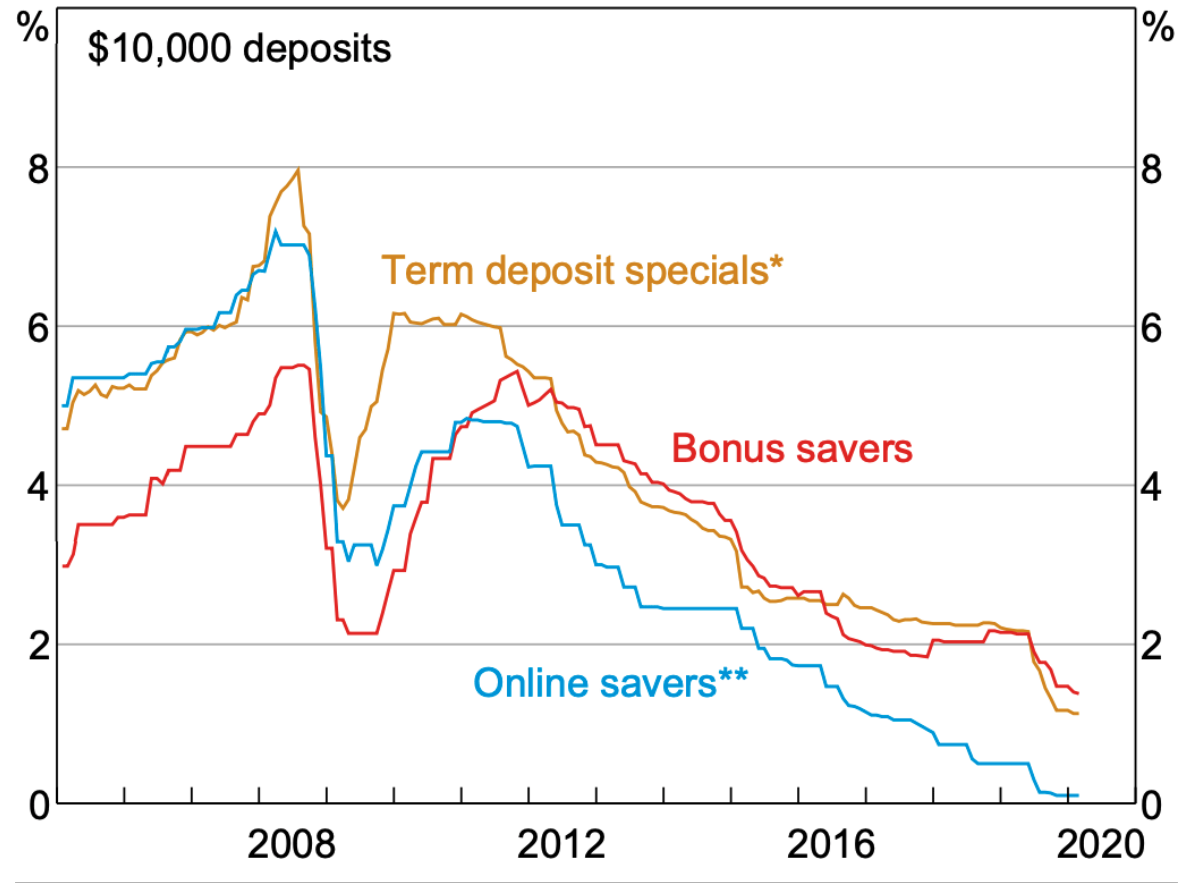
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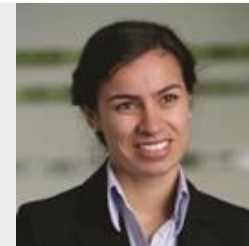
# A review of traditional income sources:

## Term Deposits



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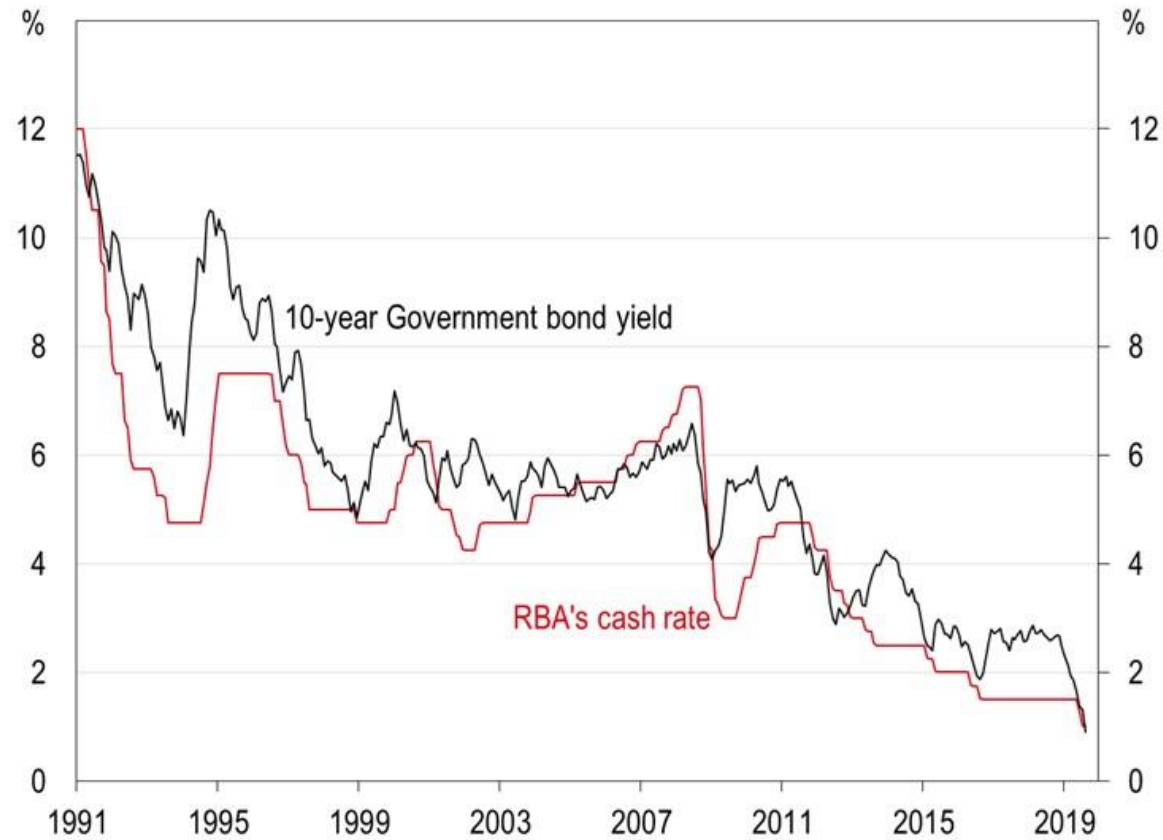
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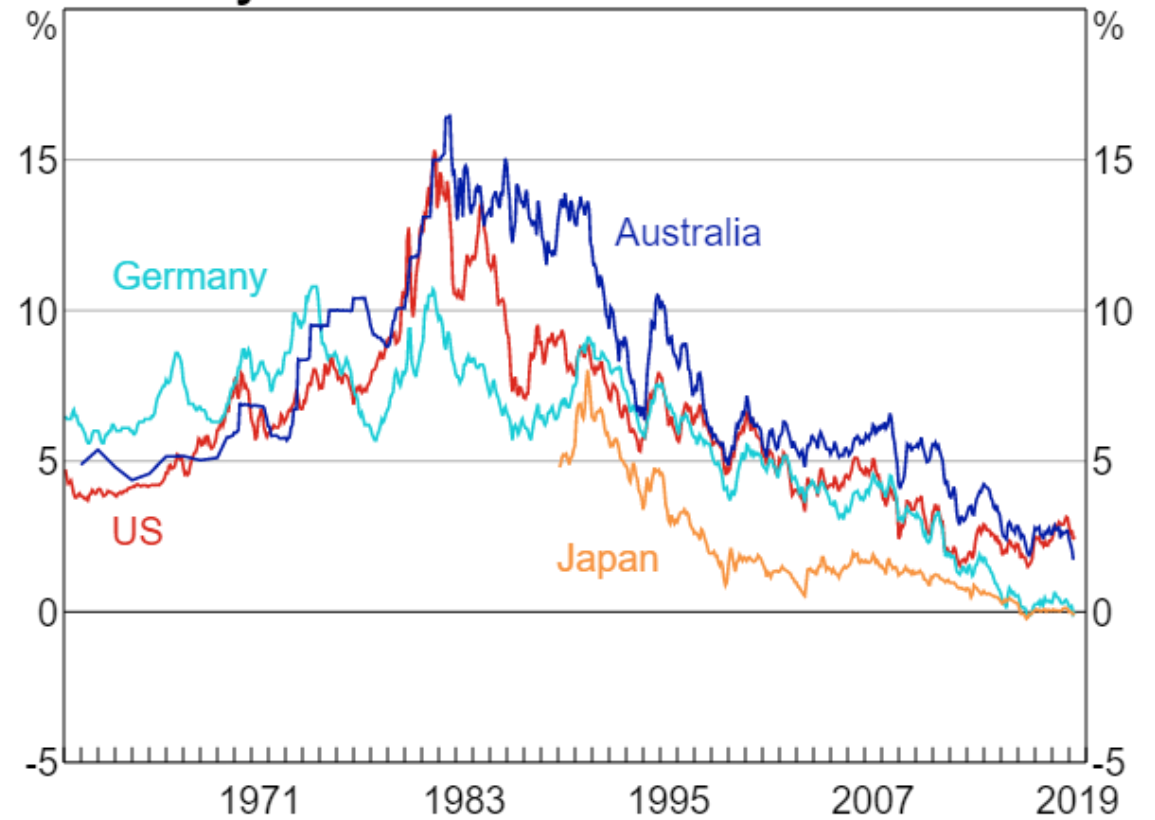
# A review of traditional income sources:

## Government Bonds

### Australian Interest Rates



### 10-year Government Bond Yields



Sources: Bloomberg; FRED; RBA



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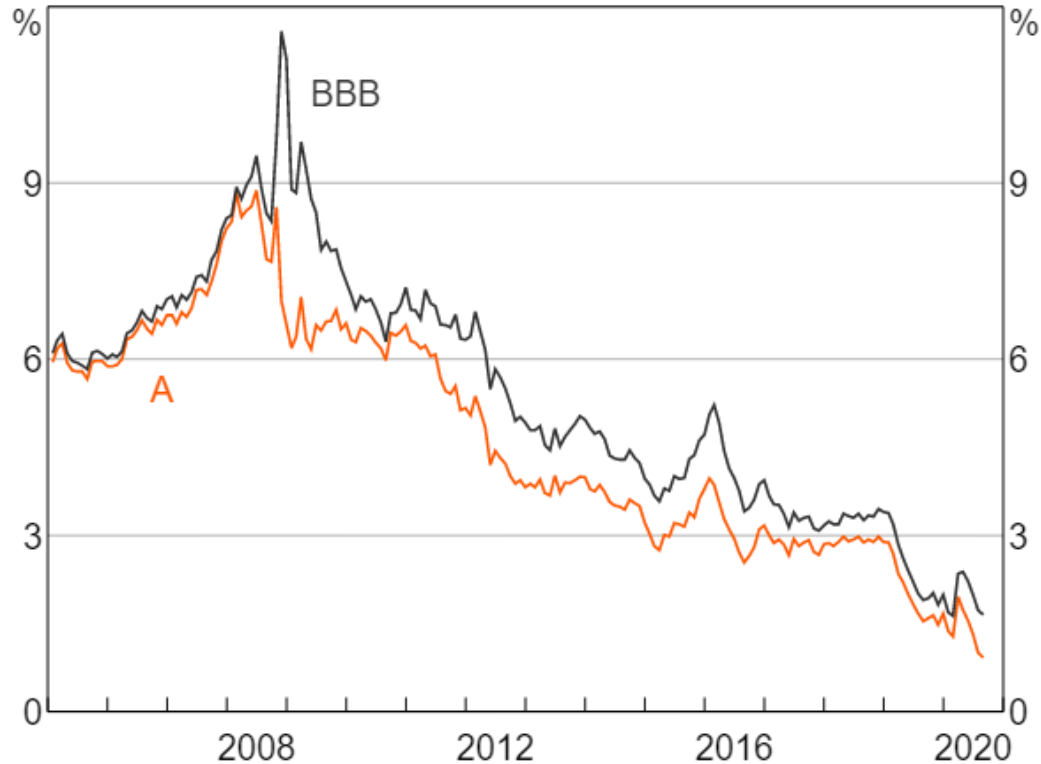


# A review of traditional income sources:

## Corporate Bonds

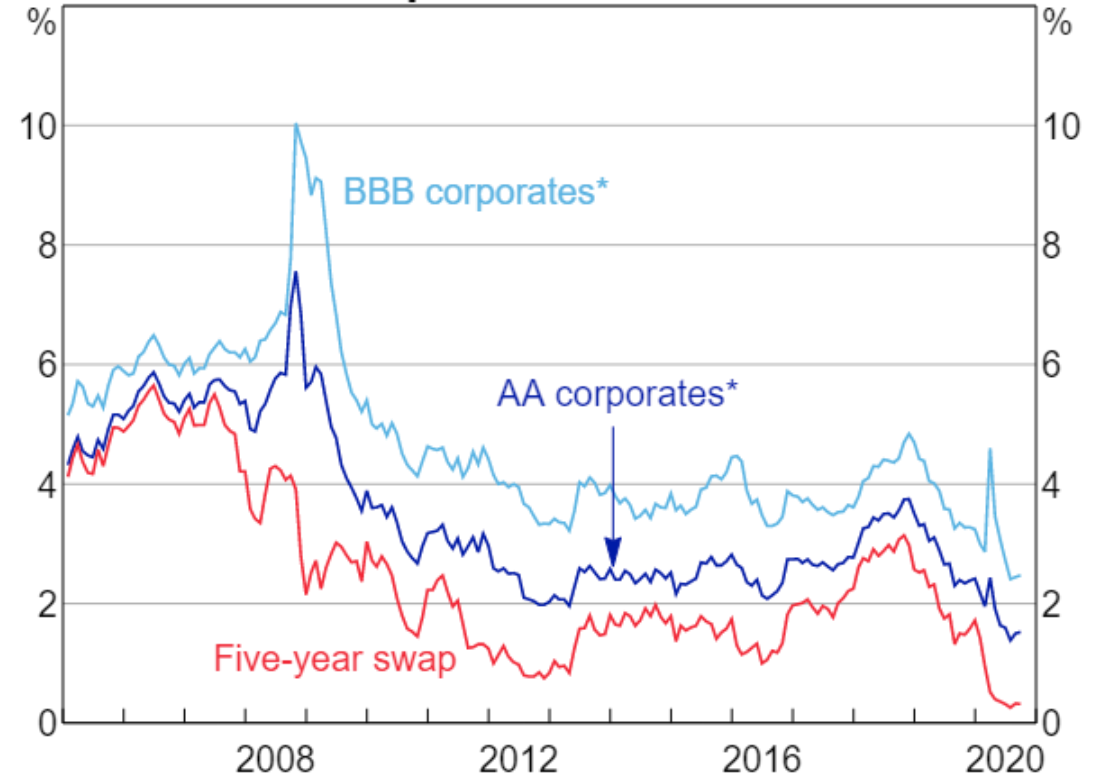
### Australian Non-financial Corporate Bond Yields

3-year target



Sources: Bloomberg; RBA

### US Corporate Bond Yields



\* Includes financials and non-financials

Source: ICE Data is used with permission



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# A review of traditional income sources:

## Hybrids & REITs

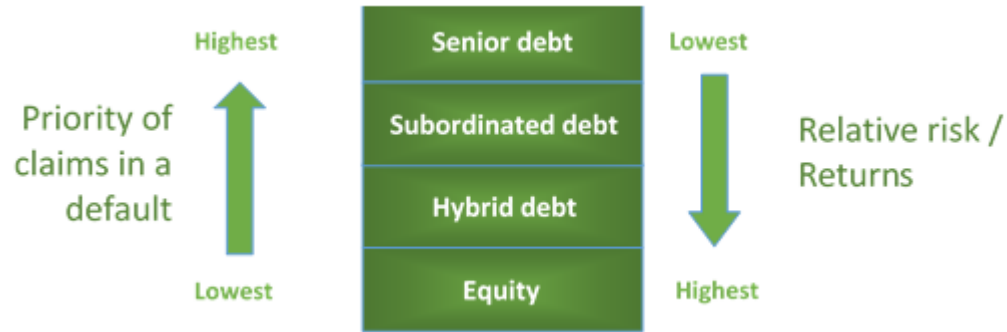
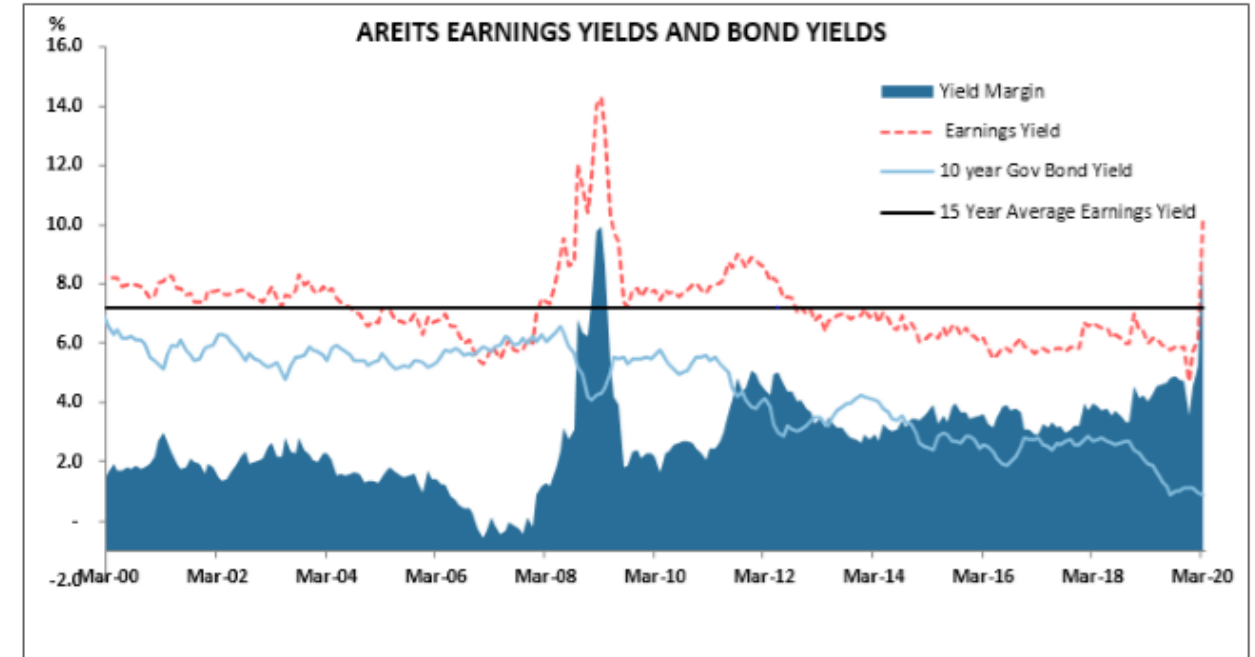


Chart 1– AREITS Earnings Yields Compared to Bond Yields



Source: RBA, UBS (2020)



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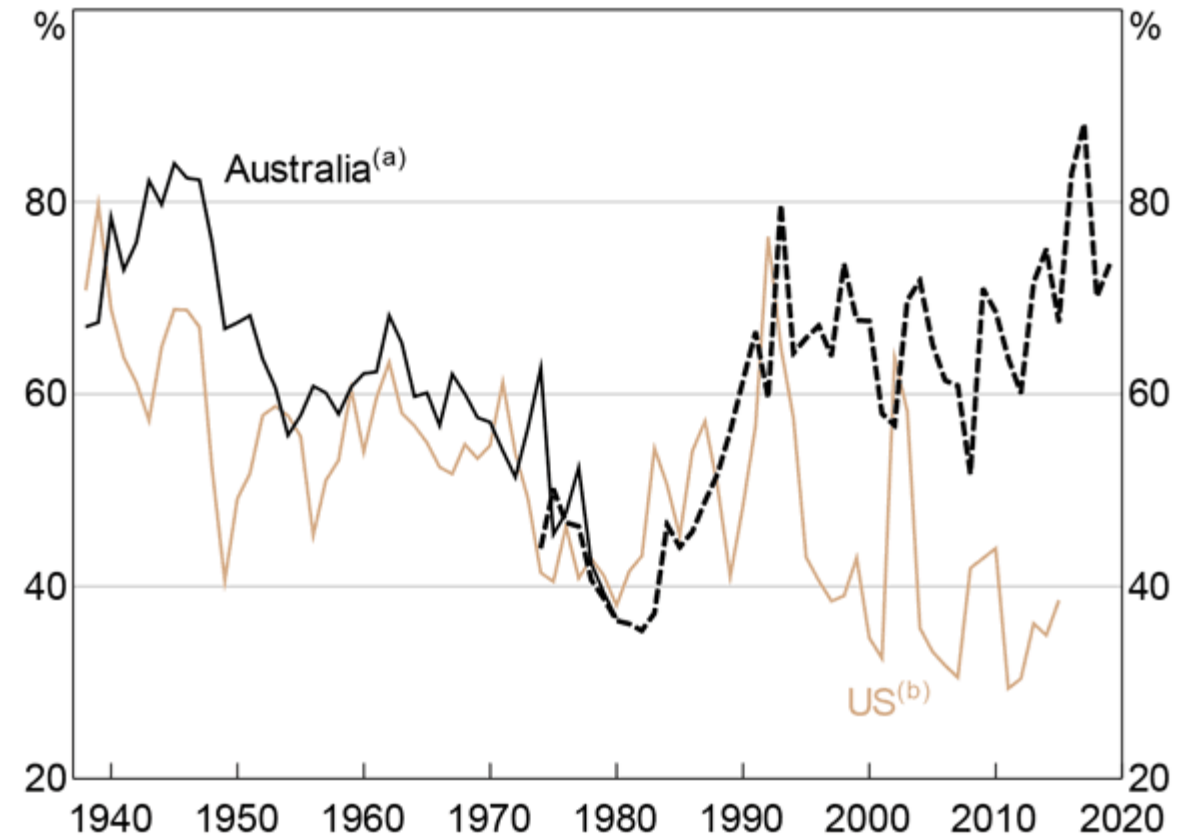
# A review of traditional income sources:

## Equity dividends

**Australian equity traditionally known for terrific dividends (pay out ratio's) vs. overseas counterparts.**

**Share buy backs and internal investment of profits more common internationally.**

Figure 4: Dividend Payout Ratios



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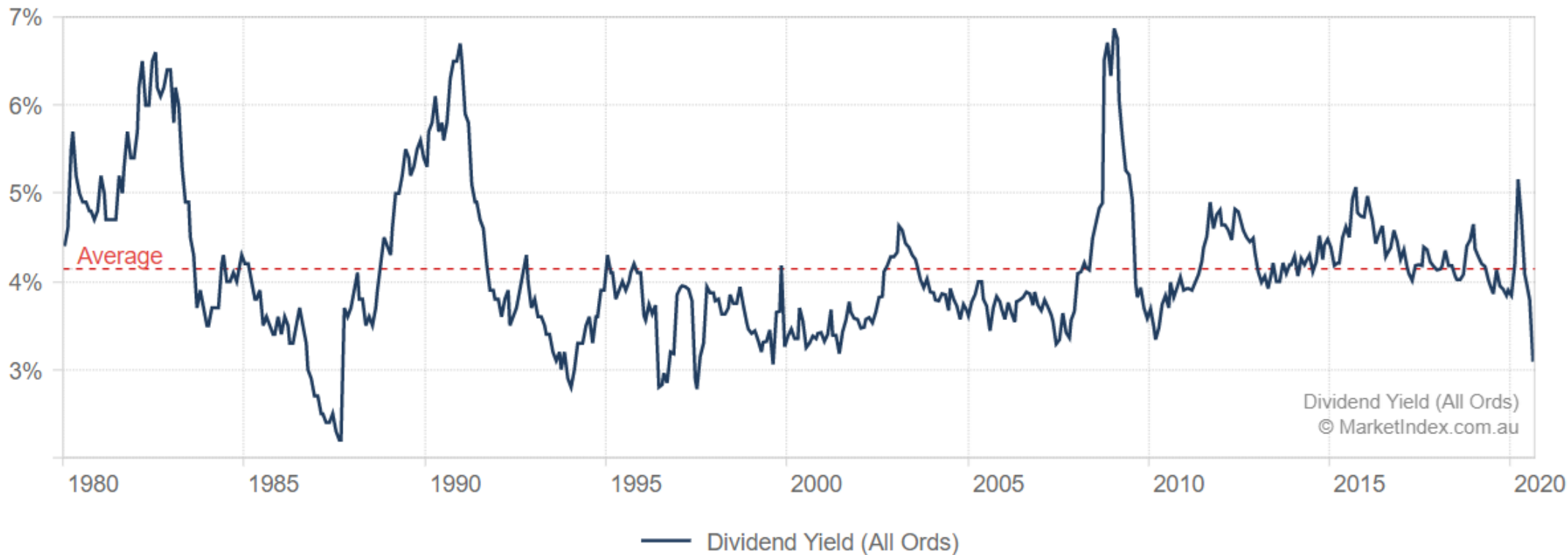


# A review of traditional income sources:

## Australian dividend yields have actually been stable over the last 15 years

### Dividend Yield

Market-cap weighted Dividend Yield for the Australian stock market



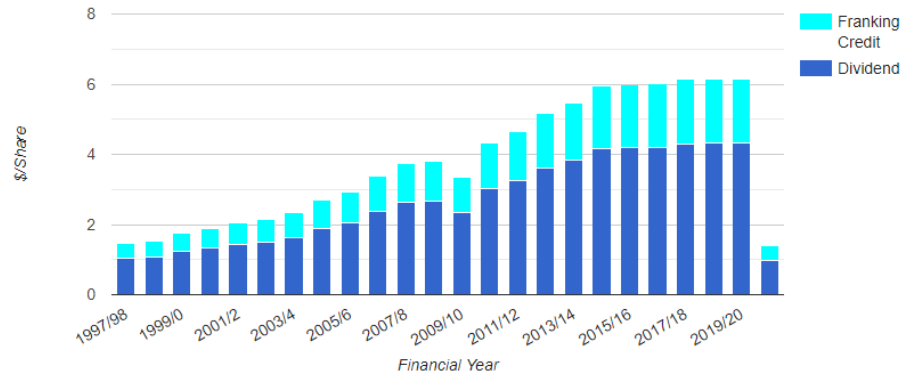
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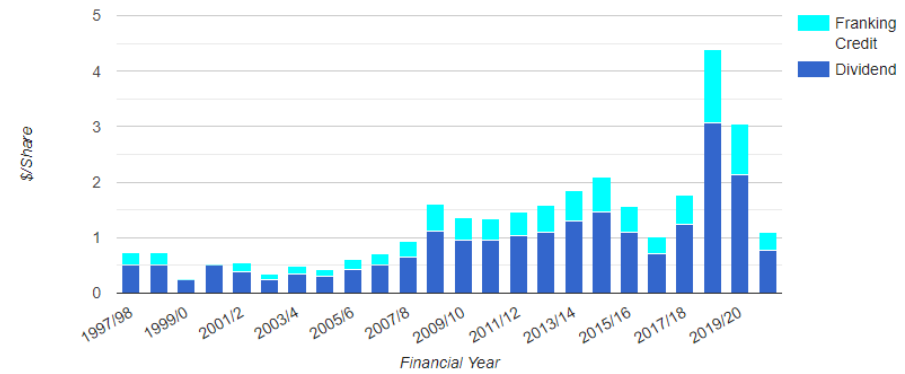


# A review of traditional income sources:

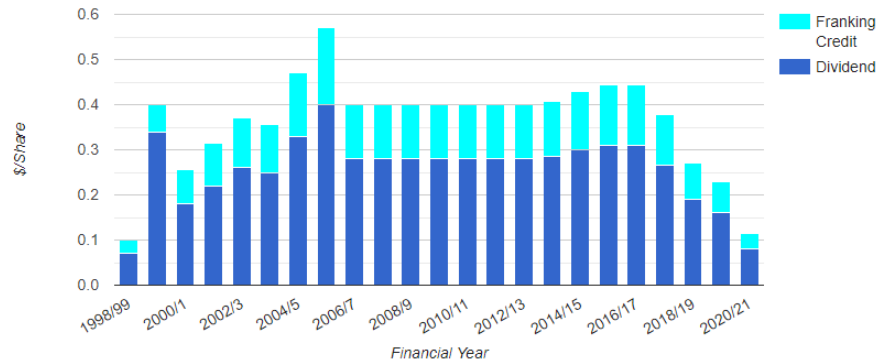
COMMONWEALTH BANK OF AUSTRALIA. Dividend Payment History



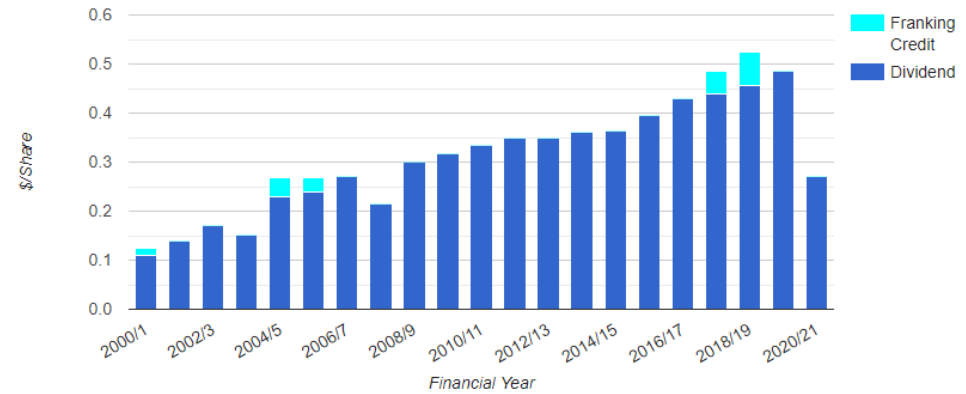
BHP GROUP LIMITED Dividend Payment History



TELSTRA CORPORATION LIMITED. Dividend Payment History



APA GROUP Dividend Payment History



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# A review of traditional income sources:

Equity dividends

## Historic Dividend Risk Levels Across Sectors

Low	Moderate	High
Consumer Staples	Financials / Banks	Consumer Discretionary
Telecommunications		Industrials
Information Technology		Real Estate
Utilities		Energy
Healthcare		Mining / Materials



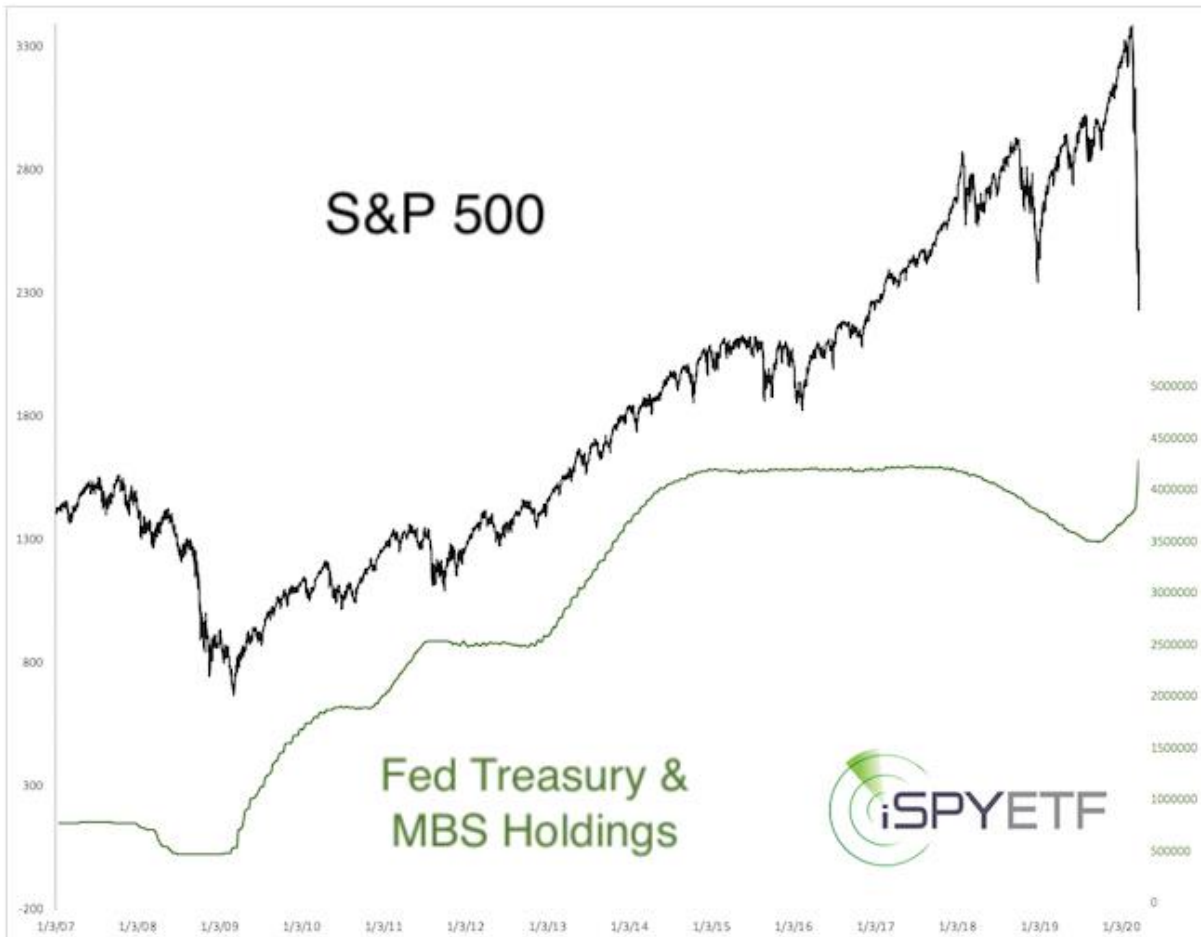
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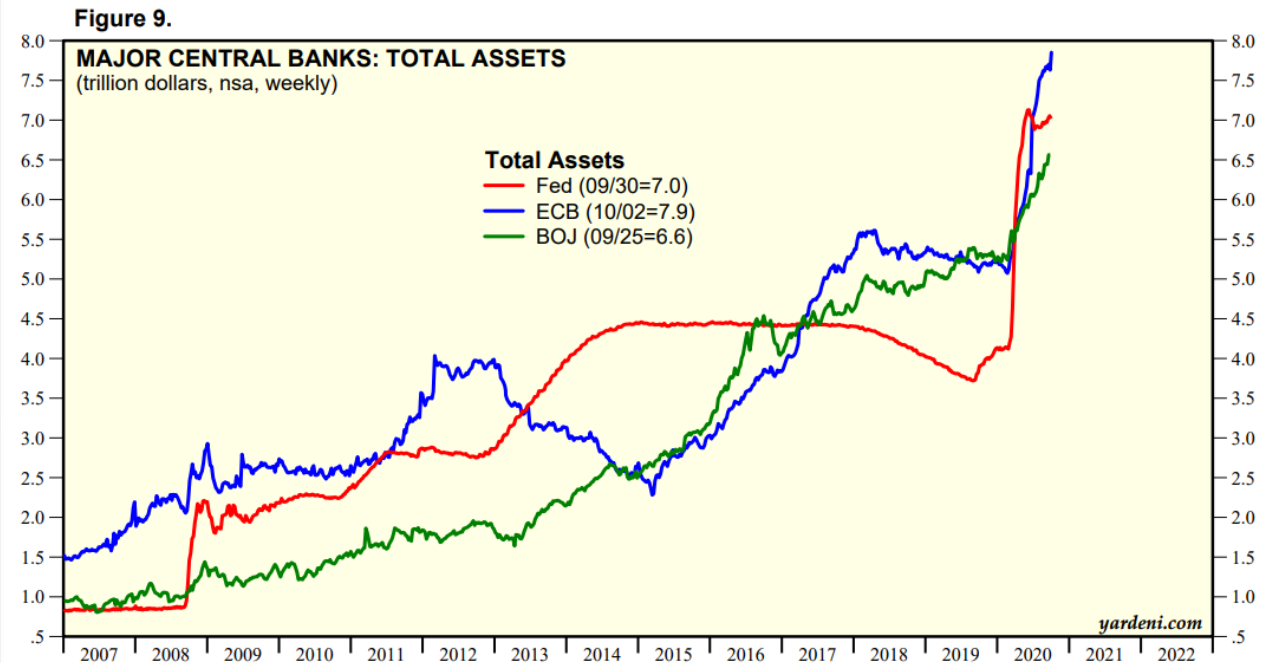


# COVID and Yield:

## Government stimulus has pushed asset prices, not necessarily income?



### Fed+ECB+BOJ in Dollars

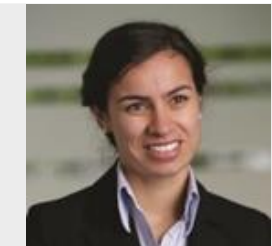


Source: Haver Analytics.



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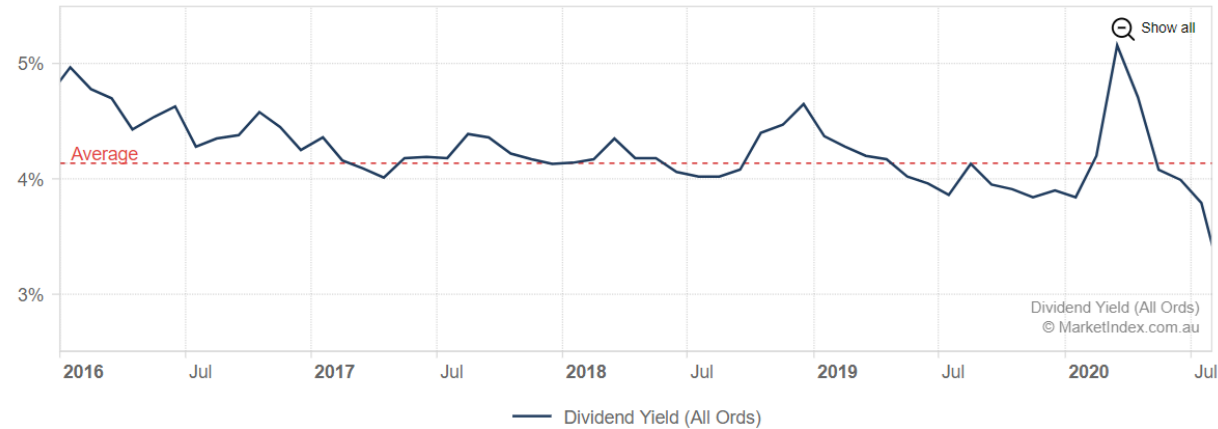


# COVID and Yield:

## Government stimulus has pushed asset prices, not necessarily income?

Dividend Yield

Market-cap weighted Dividend Yield for the Australian stock market



All Ordinaries Chart

Intraday 1m 3m 6m 1yr 5yr 10yr



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# Looking to the future of income:

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- Government Bonds
- Corporate Bonds
- Equity dividends
- Targeting Growth for Harvest
- When all else fails?



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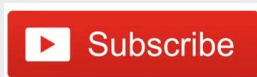


# The future of yield - Government Bonds for Yield :

## Pennies in front of a steamroller?

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- Potentially big downside risks, limited upside.
- Speed of adjustment is key
- 10 year bonds are a trading strategy, not an investment
- Traders take risks on bonds, investors get certainty



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# The future of yield - Government Bonds for Yield:

## Inflation risks and opportunities

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- Inflation is the key
- Inflation linked bonds are a hedge
- Duration leads to a greater impact



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# The future of yield - Reaching for corporate bond yields

## Uncertainty never been higher

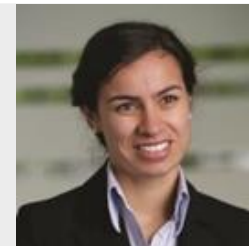
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- How long will rules be suspended for?
- Spreads
- Fixed vs Floating
- Credit rating
- Duration
- Government backing



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# The future of yield - Stocks for Yield: Sector Diversification

Sector Correlations, 1999–2018

	Comm. Services	Cons. Disc.	Cons. Staples	Energy	Financials	Health Care	Industrials	Info Tech.	Materials	Real Estate	Utilities
Comm. Services	1.00										
Cons. Disc.	0.73	1.00									
Cons. Staples	0.51	0.53	1.00								
Energy	0.45	0.45	0.36	1.00							
Financials	0.62	0.75	0.57	0.49	1.00						
Health Care	0.54	0.53	0.62	0.39	0.60	1.00					
Industrials	0.70	0.82	0.59	0.62	0.81	0.60	1.00				
Info. Tech.	0.75	0.69	0.31	0.38	0.51	0.47	0.65	1.00			
Materials	0.64	0.74	0.52	0.69	0.70	0.50	0.86	0.57	1.00		
Real Estate	0.52	0.68	0.51	0.40	0.66	0.50	0.69	0.45	0.64	1.00	
Utilities	0.31	0.28	0.45	0.45	0.34	0.40	0.39	0.20	0.34	0.47	1.00

Source: Fidelity Investments, as of 12/31/2018. U.S. equity market is represented by the top 3,000 U.S. stocks as measured by market capitalization and sectors are defined by the GICS. Correlation coefficient is the interdependence of two random variables that range in value from -1 to +1, indicating perfect negative correlation at -1, absence of correlation at 0, and perfect positive correlation at +1.



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# The future of yield - Stocks:

## Other forms of diversification

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- COVID / non COVID
- Interest rate sensitive / insensitive
- Cyclical / Non-Cyclical
- Growth / Value
- Business Type
- Country



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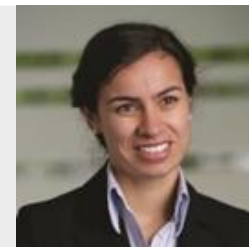


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# The future of yield - Targeting growth for harvest:

Now the fun begins!

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- More growth assets (equity) may need to be included
- Need higher levels of portfolio management than in the past
- Growth based income can come with tax advantages
- When all else fails - eating into capital may be the last resort or its cat food sandwiches.



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# Investment Outlook

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- Budget: Supply side response to a demand side problem
- Tax cuts in Australia, tax hikes in the US
- Bond rates in the belly of the curve – may extend out later
- 3Q reporting season over next few weeks – extremely important read into outlook



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# Viewer question of the week:

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Which would you prefer between income or capital gains?

Drop your answers in the comments



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# Coming up

## Nucleus Investment Insights : Steve Keen Nucleus Wealth Live Webinar page

next

Thursday 15<sup>th</sup> October



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