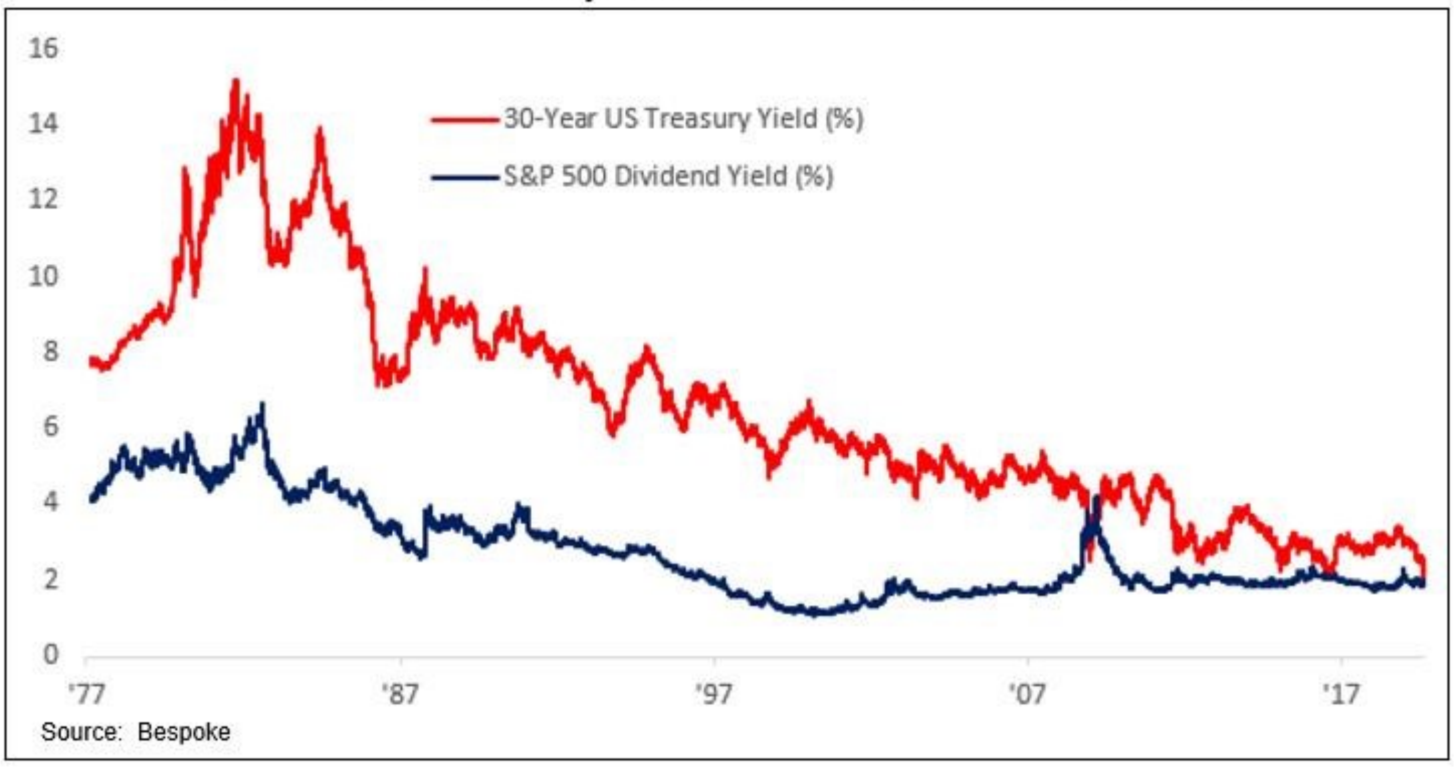
CHART OF THE MONTH

SEPTEMBER 2019

30-Year US Treasury Yield and S&P 500 Dividend Yield



Last week, the yield on the 30-year Treasury fell to an all-time low and below the dividend yield on the S&P 500 for the first time since March 2009 (which just so happened to mark the bottom of the stock market and the beginning of a bull run that has persisted for 10-1/2 years). The last inversion was due to a combination of Treasury yields falling and stock yields rising (owing to the decline in equity prices). The current inversion, on the other hand, is solely attributable to the diminishing yields in bonds.

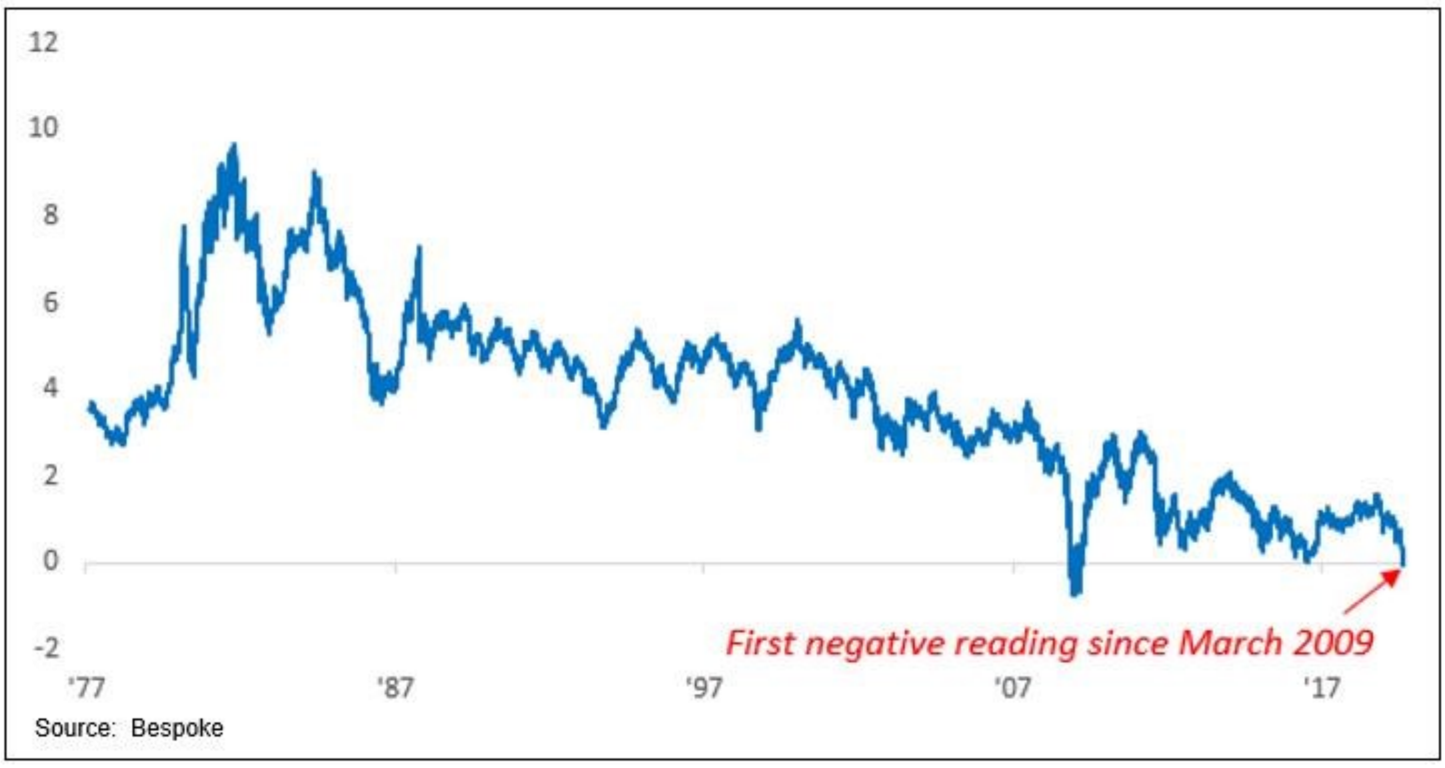
While the spread between the 30-year Treasury and the S&P 500 has been narrowing for the past four decades, other than in the late-2008 through early-2009 period, the latter has never yielded more than the former since the government began issuing such bonds in 1977. The S&P 500, in fact, now yields more than every Treasury along the maturity spectrum. Based on this metric alone, stocks appear to be attractively priced.

Stocks, of course, entail more risk than bonds. They are subject to more volatility and their returns are less certain. Earnings can go up *and* down and dividends can be cut or omitted. The interest and principal of government bonds are backed by the full faith and credit of the United States. As a result, they have virtually no credit or default risk.

From the 19th century through the mid-20th century, the dividend yield on stocks generally exceeded the yield on long-term government bonds because they were perceived to be riskier securities. However, the relationship reversed in 1958 when fixed-income investments were deemed to be of greater risk of capital depreciation in an inflationary era. As shown below, the gap between the two peaked in the early-1980s at the inflection point between an inflationary and disinflationary economy.

In the department of "nothing is permanent on Wall Street," could the situation turn over once again (with stocks yielding more than bonds) for a sustainable period in the future? While we would be surprised other than on an intermittent basis, it is our belief that such an occurrence would be caused by Treasury yields falling further rather than stock yields climbing materially higher. In an uncertain world, we remain vigilant in monitoring the economic data as well as corporate earnings reports and guidance while making portfolio adjustments as warranted.

Spread Between 30-Year US Treasury Yield and S&P 500 Dividend Yield



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