



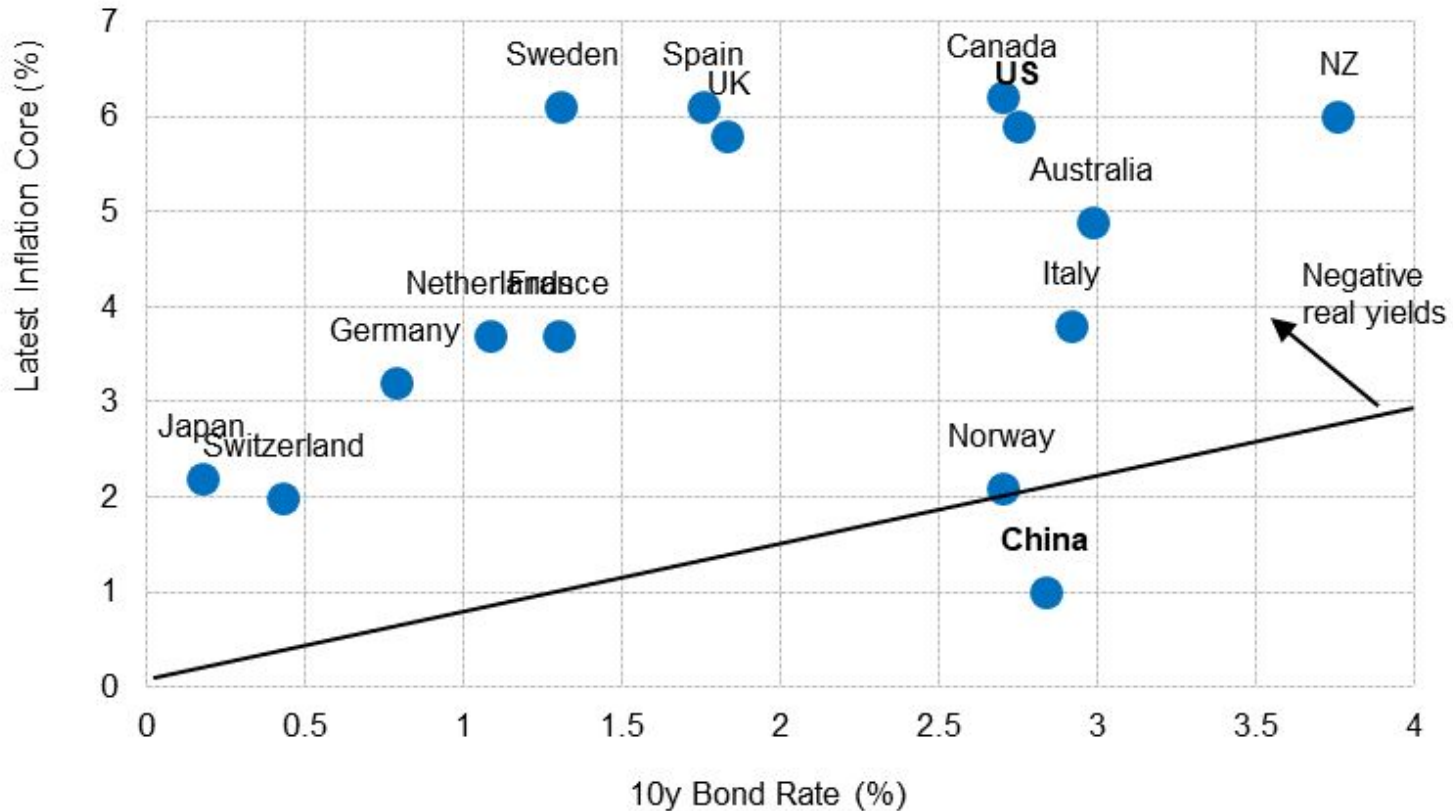
# SEVEN THINGS ABOUT HIGHER YIELDS YOUR FUND MANAGER WON'T TELL YOU

## Agenda: Reaching for yield

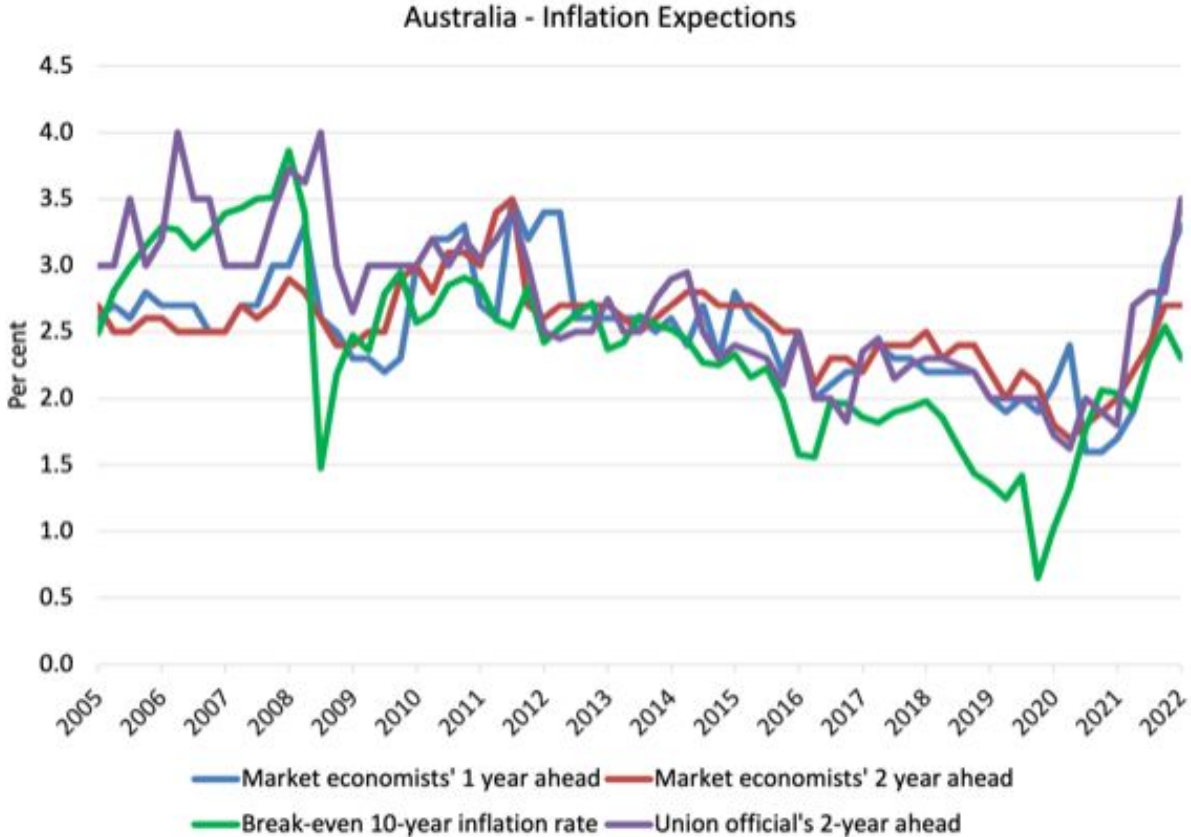
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- Real Bond yields are negative - but for how long
- Australian bond yields have reversed
- Corporate bond yields are a trap entering recessions
- Dividend Yields that are too good to be true
- No need to reach for yield
- Do you need yield, or are you looking for stability?
- Inflation linked bonds for the hyperinflationistas
- Implications for markets

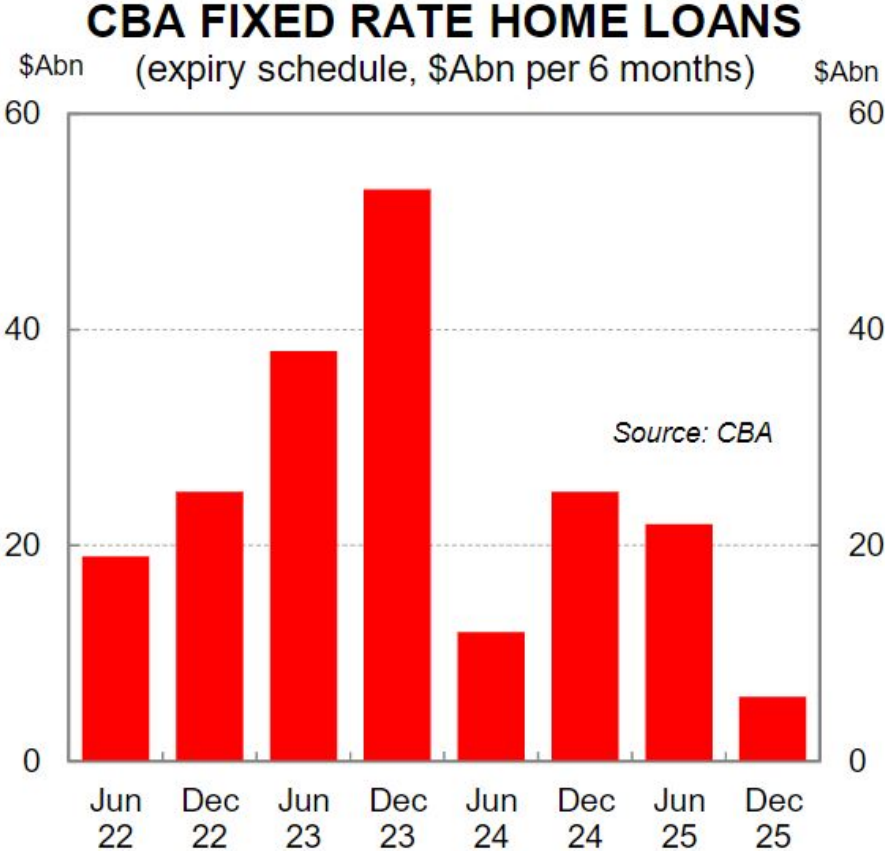
# Real Bond yields are negative: Global Real Rates



# Real Bond yields are negative: Australian Inflation Expectations

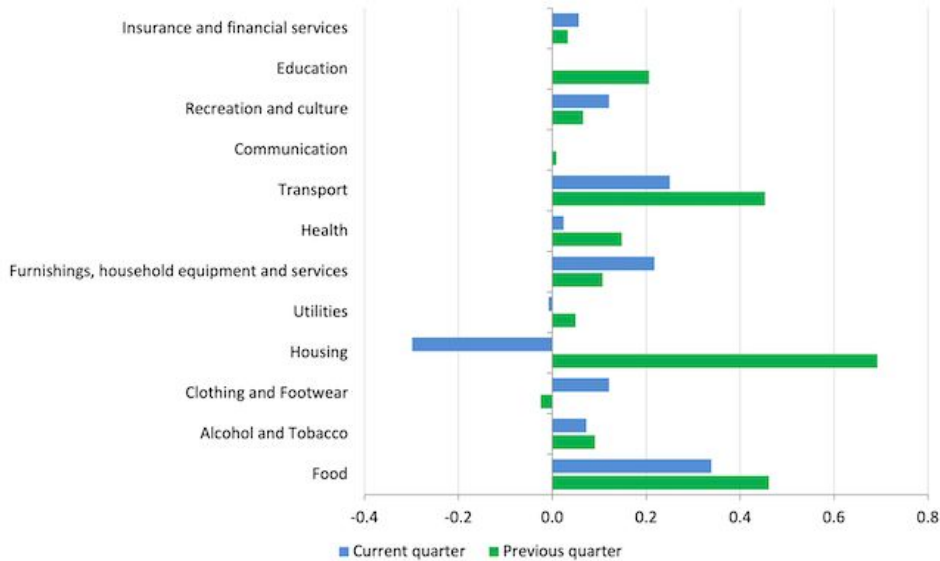


# Real Bond yields are negative: \$500bn fixed-rate mortgage reset

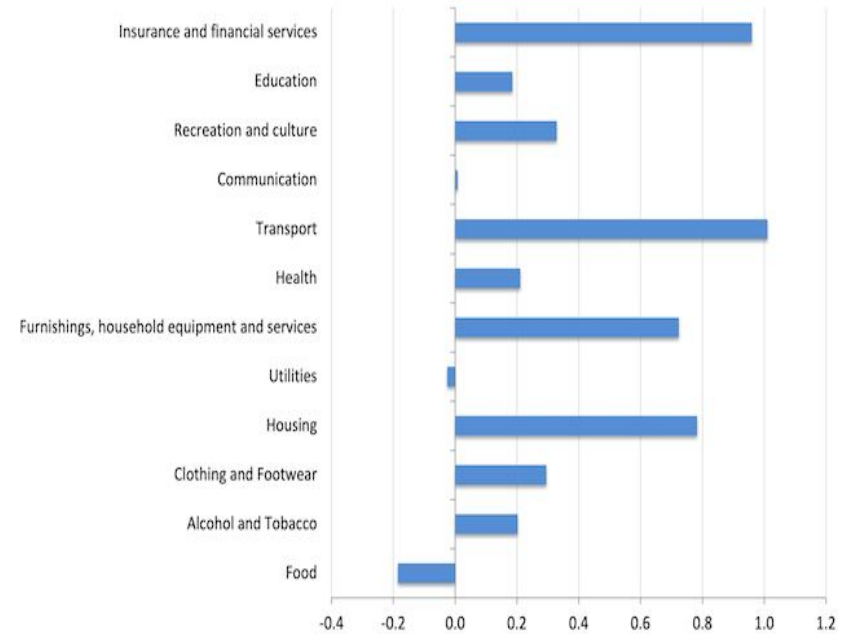


# Real Bond yields are negative: Inflation Source

Australia - Contributions to Quarterly Inflation Rate (points)

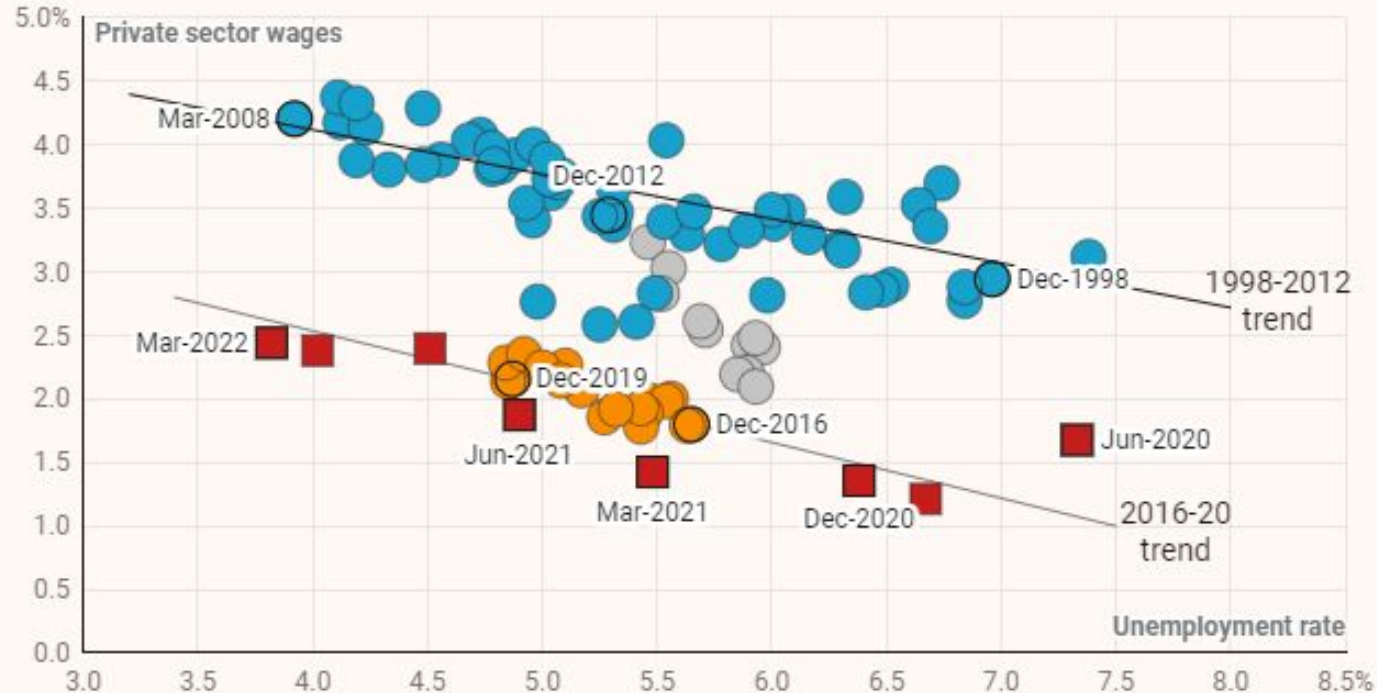


Australia - Contributions to Annual Inflation Rate (points)



# Real Bond yields are negative: Wage growth has changed

## Unemployment rate and private sector wages growth



# Australia vs US Spreads: Rapid Decline

## Australia / US Yield Spreads

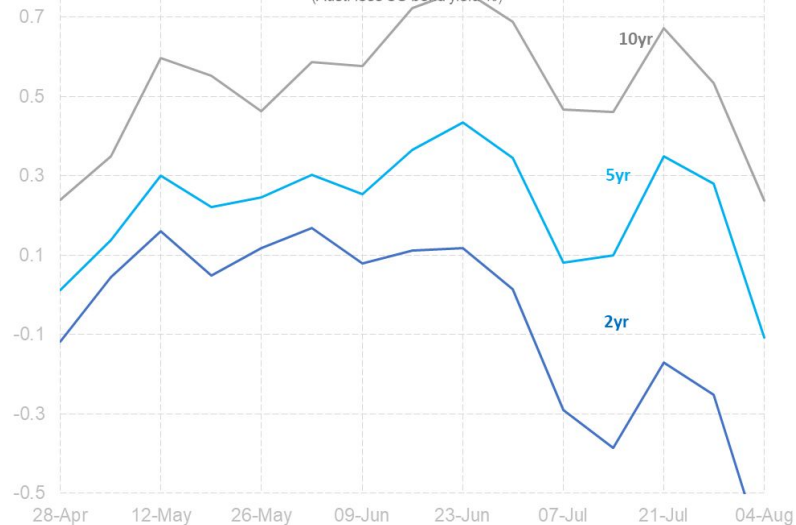
(Aust. less US bond yield)



Source: S&P Capital IQ, Nucleus Wealth

## Australia / US Yield Spreads

(Aust. less US bond yield %)



Source: S&P Capital IQ, Nucleus Wealth



# Australia vs US Steepness: No longer diverging

## Australia / US Bond Steepness

(10 year less 2 year bond yield %)



Source: S&P Capital IQ, Nucleus Wealth

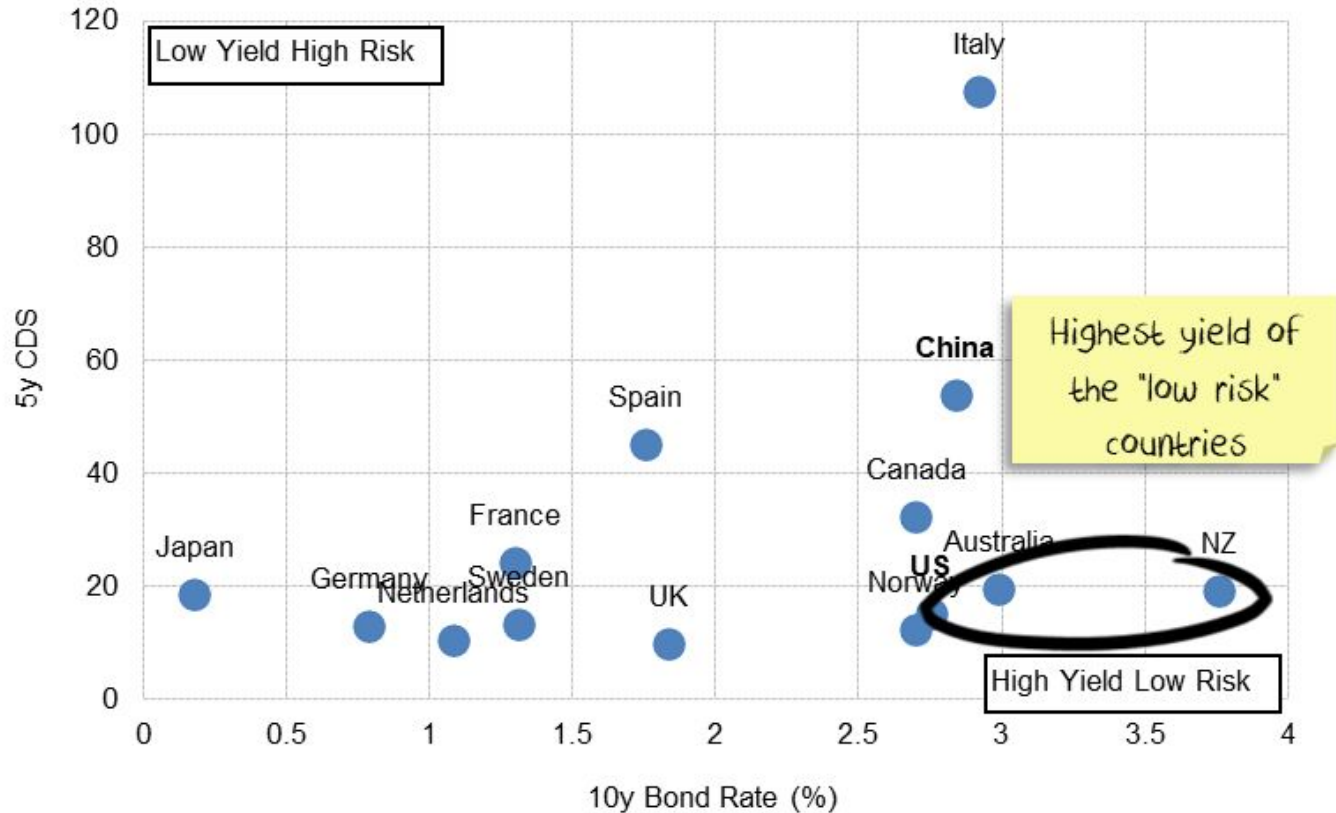
## Australia / US Bond Steepness

(10 year less 2 year bond yield %)



Source: S&P Capital IQ, Nucleus Wealth

# Global Risk Return



# Volatility High

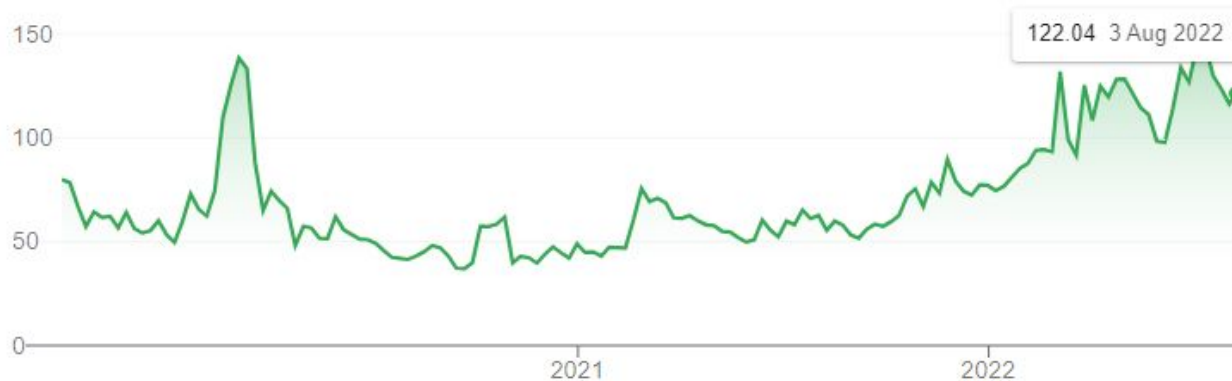
Market Summary > Merrill Lynch Option Volatility Estimate

## 122.04

+42.18 (52.82%) ↑ all time

3 Aug, 3:35 pm GMT-4 • Disclaimer

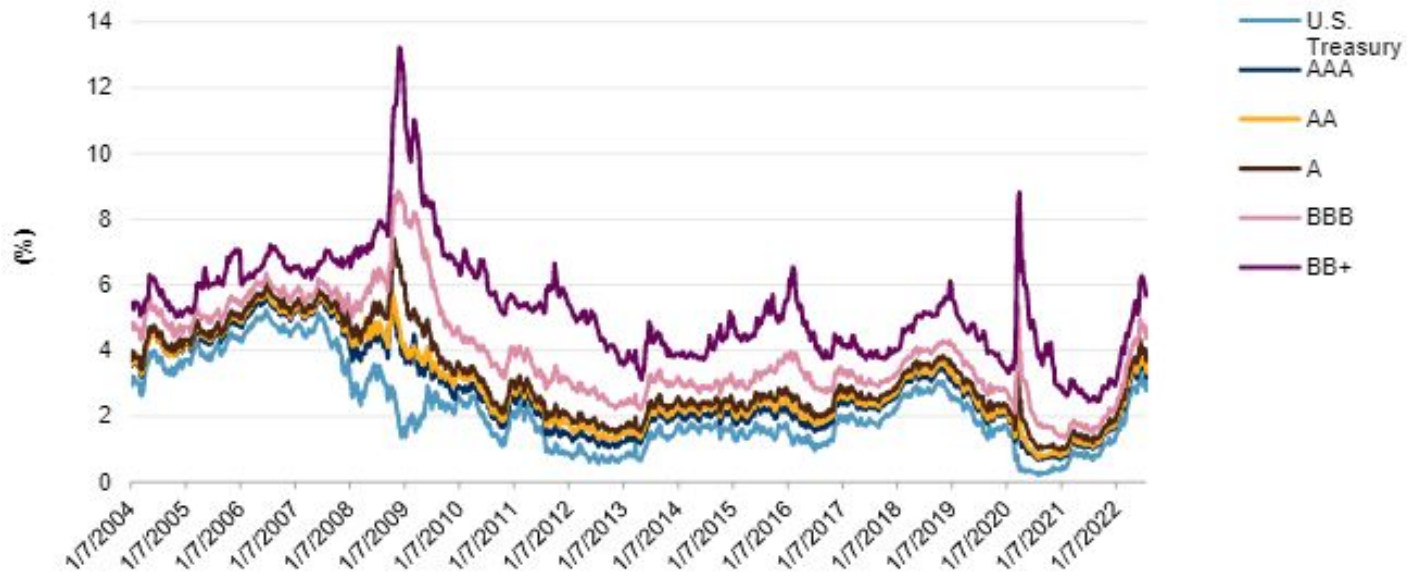
1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Open	129.23	Low	122.04	52-wk high	149.71
High	129.23	Prev close	129.23	52-wk low	51.73

# US corporate bond yields up

## Historical Corporate Bond Yields--Five-Year Maturity



Data as of July 27, 2022. Source: S&P Global Ratings Research.

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# Spreads still low

## Wider Ahead?

Junk-bond spreads are lower than past recessionary periods

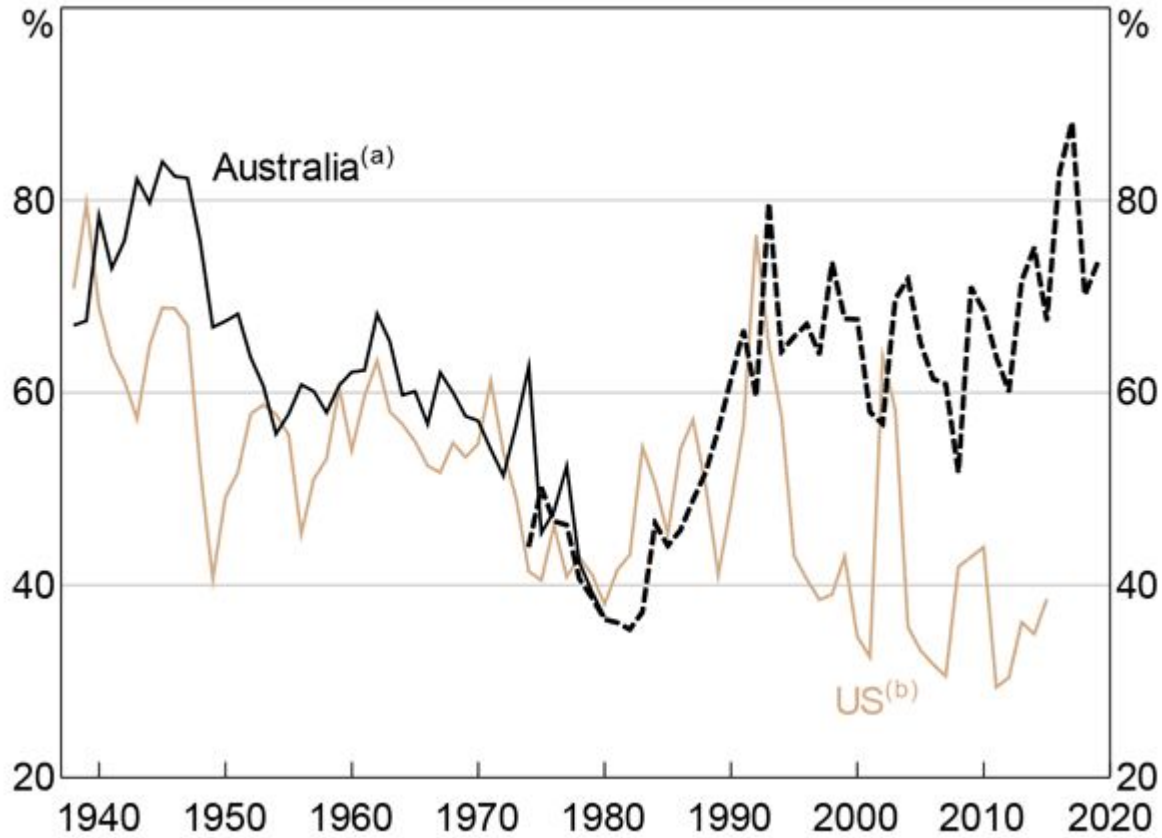


Source: Bloomberg

Bloomberg

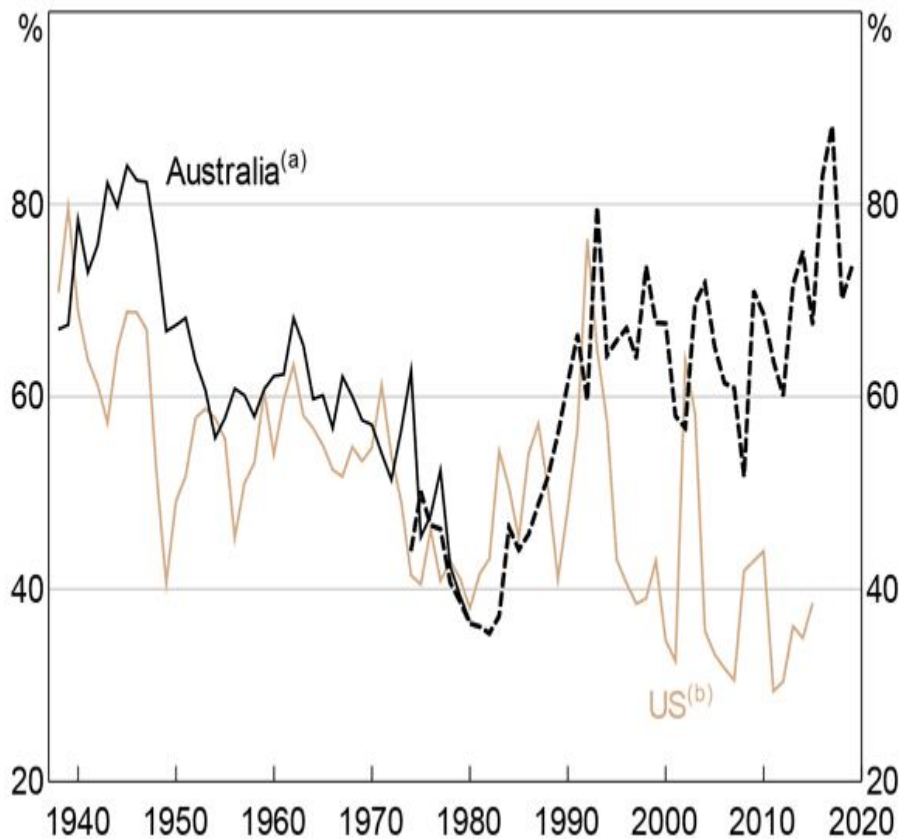
# Dividend Yields: Too good to be true?

Figure 4: Dividend Payout Ratios



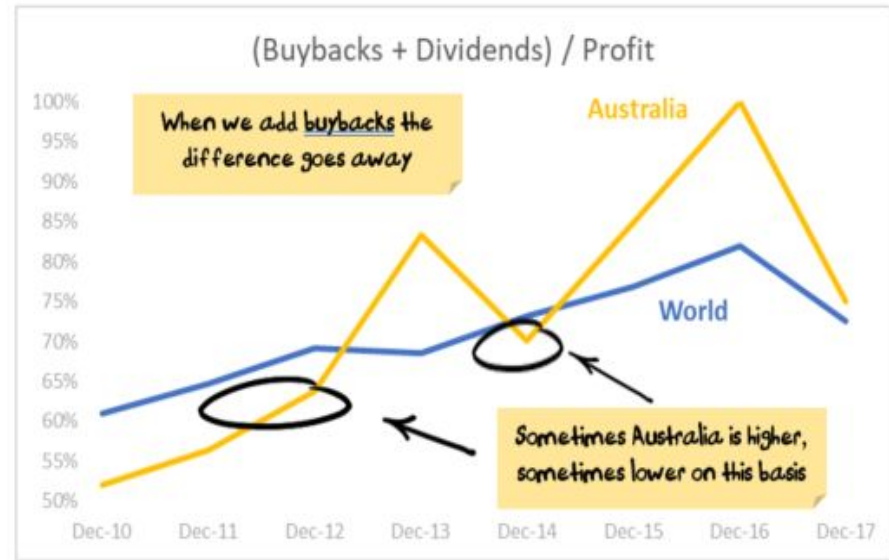
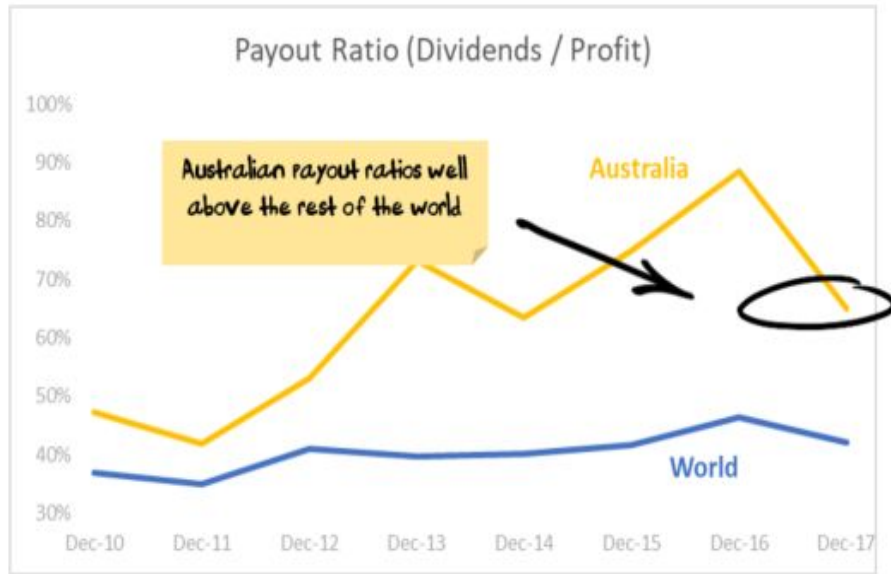
# Dividend Yields: Too good to be true?

Figure 4: Dividend Payout Ratios



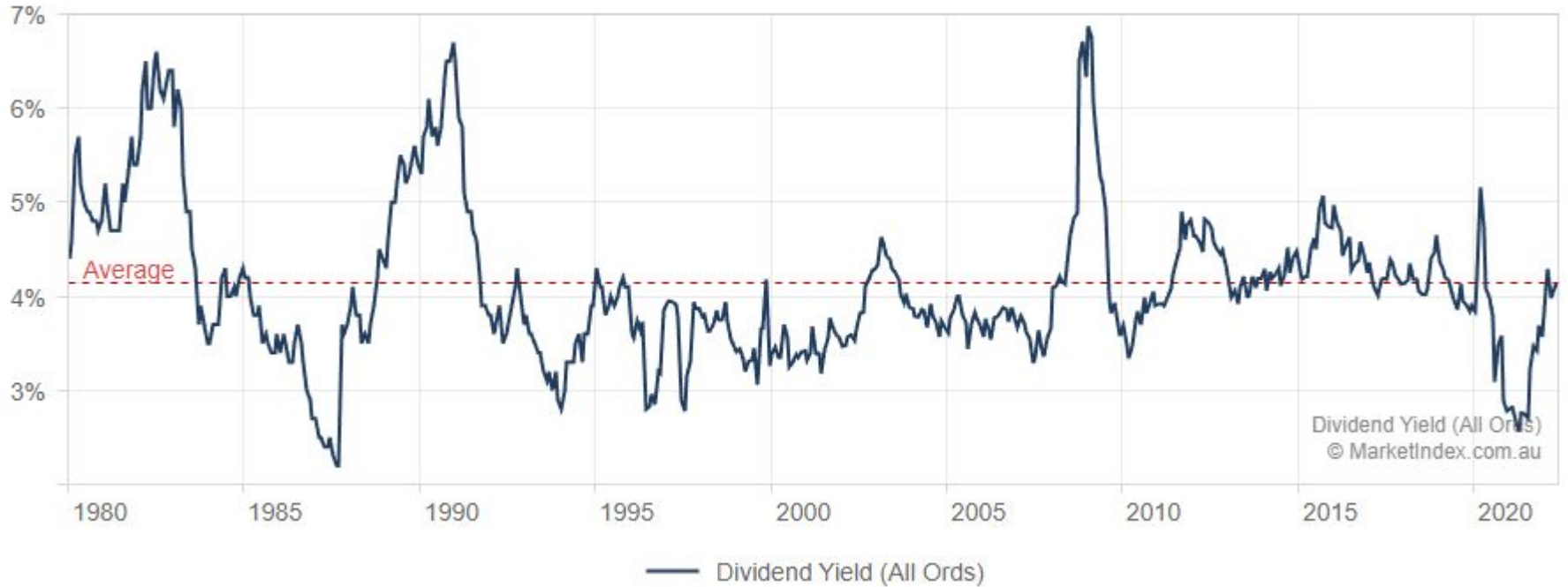
	Last 12m	Next 12m
Fortescue Metals	15.8%	9.8%
Rio Tinto	10.2%	10.3%
Stockland	6.8%	7.0%
BHP	6.8%	8.6%
Aurizon	6.3%	5.2%
ANZ Bank	6.3%	6.6%
Vicinity Centres	5.8%	5.3%
Westpac Bank	5.6%	6.0%
Dexus	5.5%	5.8%
Suncorp	5.5%	6.1%
Woodside Energy	5.5%	8.6%

# Dividend Yields: Too good to be true?

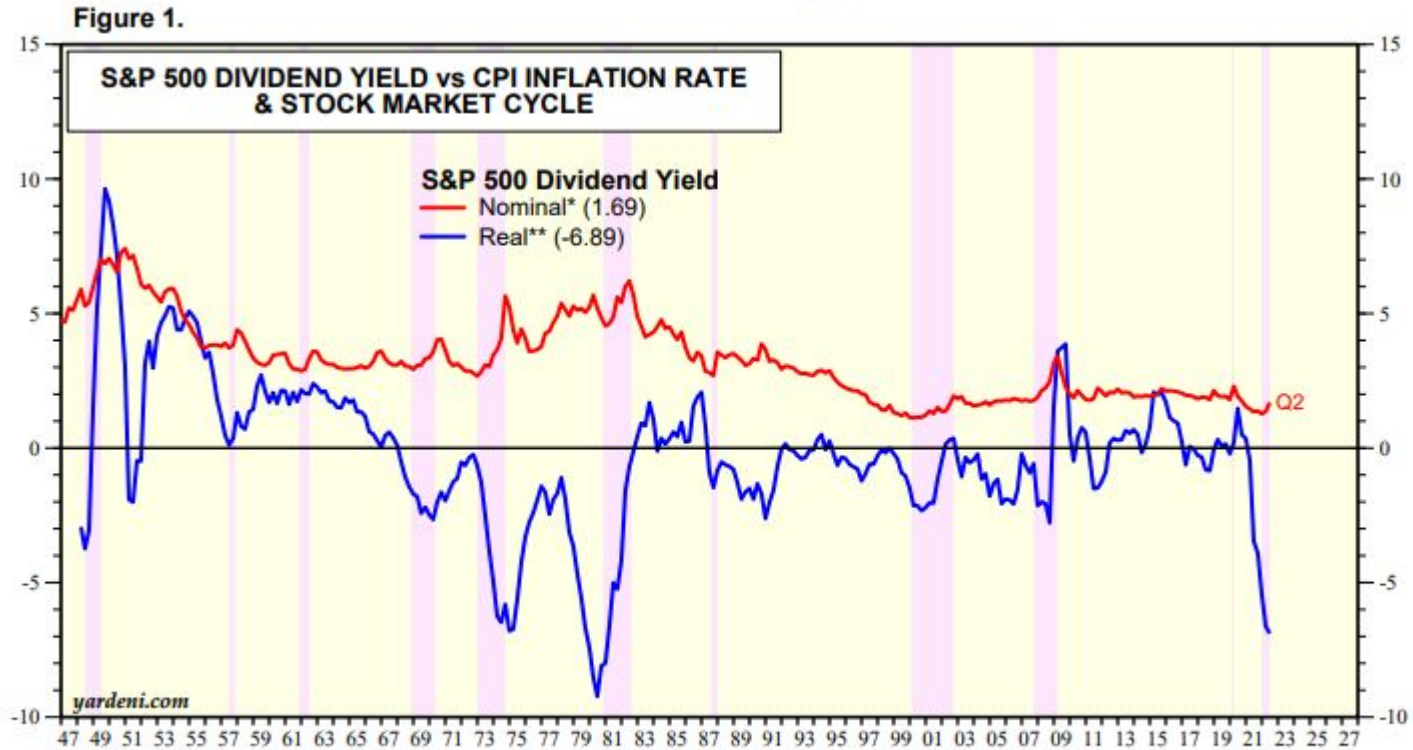




# Dividend Yields: For stability?



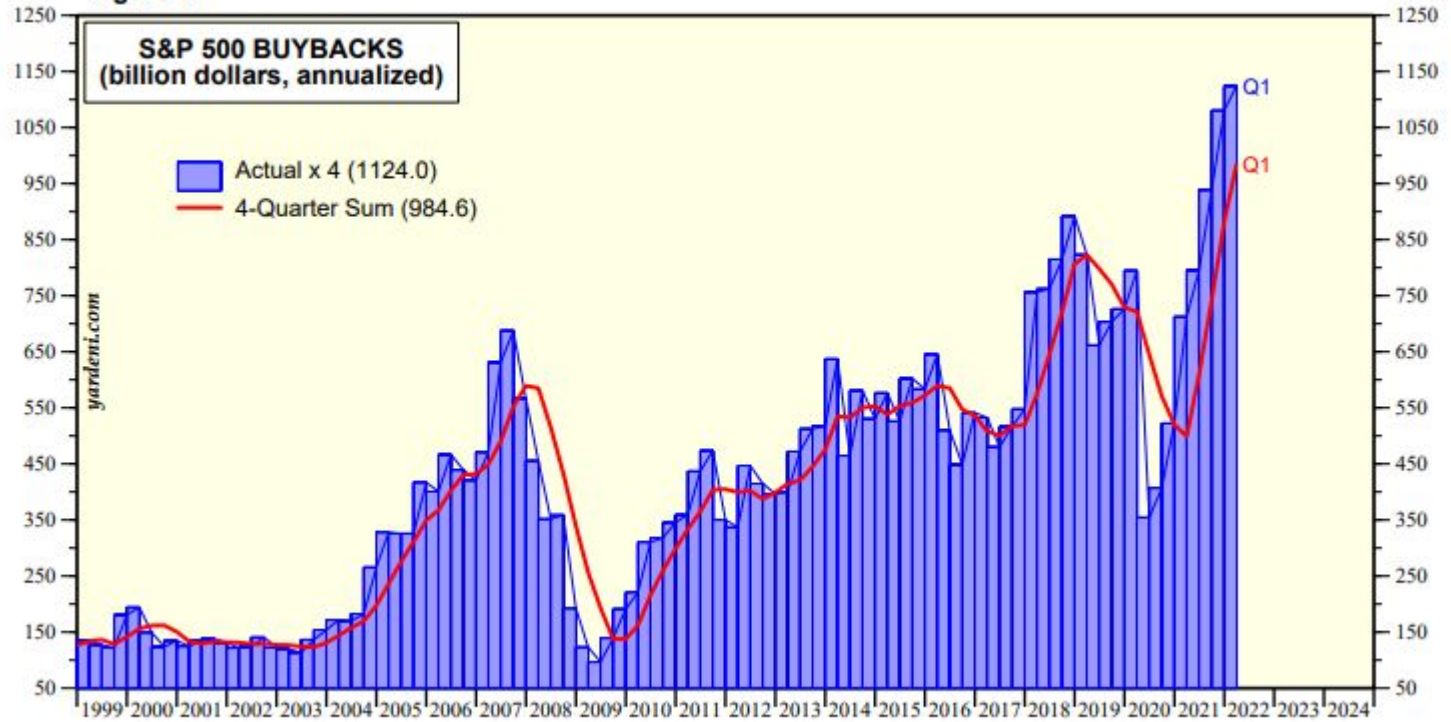
# Dividend Yields: For stability?



- \* S&P 500 four-quarter trailing dividends per share divided by quarterly closing value of the S&P 500 index.
  - \*\* Nominal dividend yield minus CPI inflation rate on y/y basis using quarterly data based on 3-month averages.
- Note: Shaded red areas are S&P 500 bear market declines of 20% or more. Yellow areas show bull markets.  
Source: Standard & Poor's and Bureau of Labor Statistics.

# Dividend Yields: For stability?

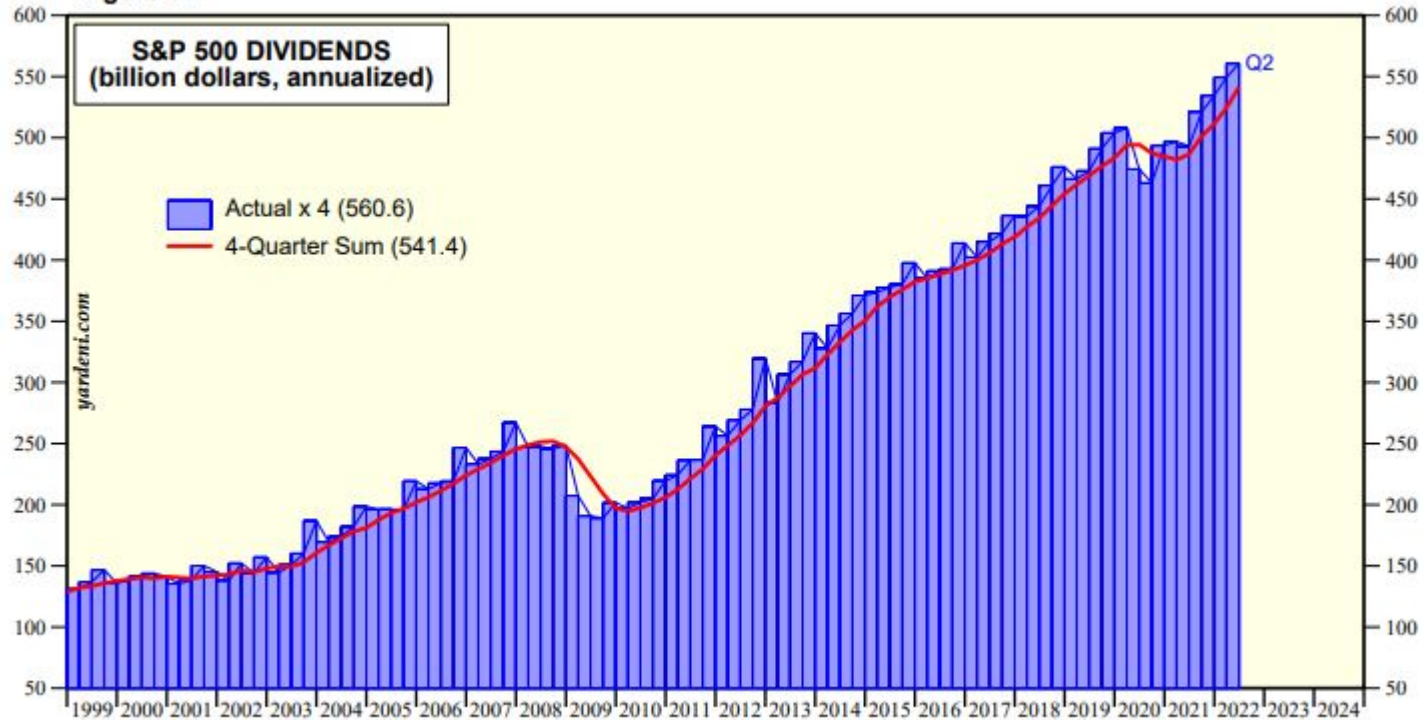
Figure 1.



Source: Standard & Poor's.

# Dividend Yields: For stability?

Figure 2.



# Dividend Yields: Diversification

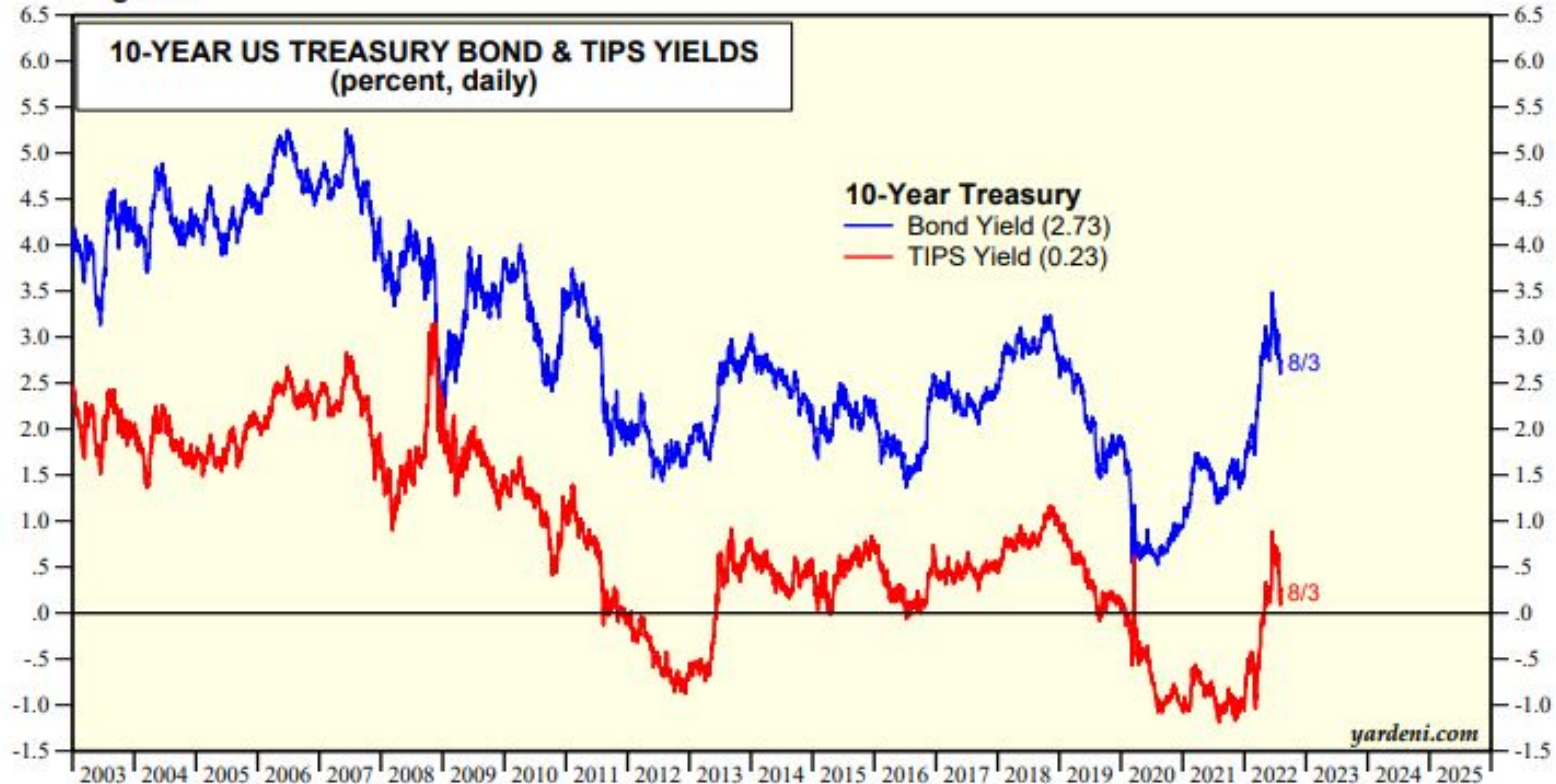
Sector Correlations, 1999–2018

	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.

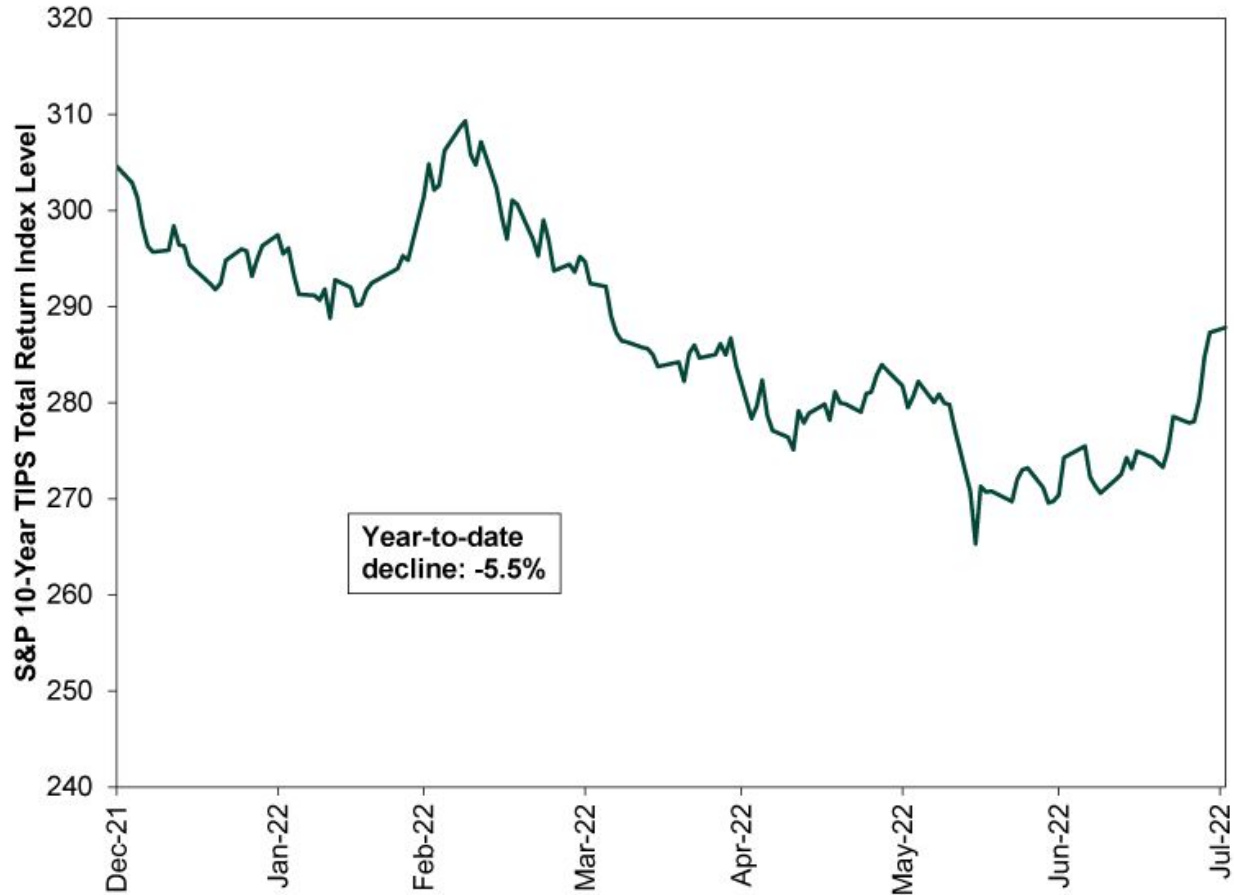
# Inflation Linked: If you expect hyperinflation

Figure 1.

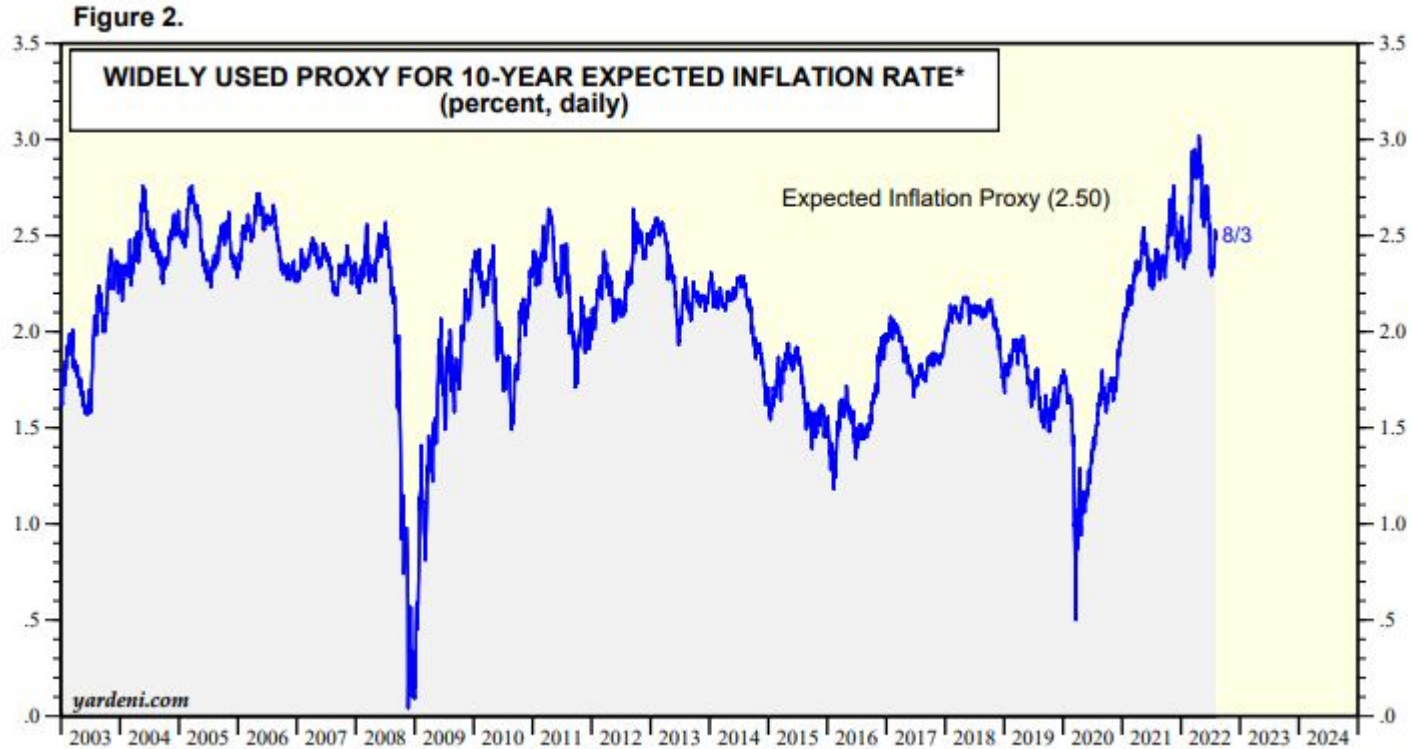


Source: Federal Reserve Board.

# Inflation Linked: If you expect hyperinflation



# Inflation Linked: If you expect hyperinflation



\* Nominal 10-year US Treasury bond yield minus 10-year TIPS yield.  
Source: Federal Reserve Board.



## Viewer question of the week:

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**Has the bond opportunity passed, or is there more to come?**

**Drop your answers in the comments**

# Agenda: Implications for markets

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- Inverted yield curve signalling recession
- Stocks expensive given declining earnings prospects
- Inflation has lowered level of Fed “put” and needs a commodities bust
- DXY bull market to make it worse. AUD to keep falling
- Further capitulation of stocks
- Australian long-end to roll as RBA and Fed hike

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