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MoneyBeat

Income Chasers' New Favorite Destination: The S&P 500

By Akane Otani

Morning MoneyBeat is the Journal's pre-market primer. To receive this morning newsletter via email, click here: <http://on.wsj.com/MoneyBeatUSSignup>

Market Snap at Thu, 11 Aug 2016 08:57:12 -0400 ET

S&P 500 Futures 0.23% ↑ 2177.75	DJIA Futures 0.28% ↑ 18504
U.S. 10 Year -1 6/32 ↑ 1.513%	WSJ Dollar Index 0.06% ↑ 86.31
Crude Oil -0.34% ↓ \$41.57	Gold -0.03% ↓ \$1351.50
Europe	Asia
FTSE 100 -0.25%	Nikkei 225 -0.18%
DAX 0.45%	Hang Seng 0.39%
CAC 40 0.65%	Shanghai -0.53%

Overnight Developments

Stocks ticked higher Thursday as a recovery in oil prices helped reverse early losses in the energy sector.

The Stoxx Europe 600 erased morning declines to rise 0.4%, led by gains in defensive stocks such as utilities and food and beverage companies.

Futures pointed to a 0.2% opening gain for the S&P 500, which closed Wednesday slightly shy of its all-time high reached last week.

Brent crude oil was last up 0.4% at \$44.23 a barrel after falling below \$43.50 earlier in the day.

Earlier, the Shanghai Composite Index lost 0.5% while stocks in Hong Kong rose on reports that the Shenzhen-Hong Kong exchange trading link, which could channel cash into Hong Kong stocks, will be started soon. Markets in Japan were closed for a holiday.

The Breakfast Briefing

Stocks are the new bonds.

That's a narrative the market has told for some time now. As government bond yields have plumbed record lows, investors have increasingly turned to shares that behave like fixed-income proxies.

And in the S&P 500, it's never been easier to find bond-like stocks.

The proportion of S&P 500 stocks with dividend yields greater than that of the 10-year U.S. Treasury note has reached an all-time high, according to Bank of America Merrill Lynch. As of the end of July, 64% of S&P 500 stocks produced greater dividends than the benchmark long-term U.S. Treasury. That's the highest figure since the bank began tracking the broad index's constituents' payouts in 1986.

"In our view, the S&P 500 is one of the best sources for attractive dividend income today," said Jill Hall, U.S. equity strategist at BAML.

Stocks weren't always the destination of choice for income investors. Up until 2000, on average, just 3% of stocks in the broad index produced bigger dividend yields than the 10-year Treasury note, according to BAML data. In the decade that followed, the average share of stocks beating the 10-year ticked up to 10%.

But that was when long-term government bonds carried yields closer to 5%--not the comparatively anemic 1.594% they settled at on Tuesday. Years of ultra-low interest rates, plus massive bond-buying by the Federal Reserve Bank, have steadily thinned the yield on the U.S. Treasury. Yields have also remained suppressed as government bond yields elsewhere, in places like Japan and Germany, have ticked even lower, making the U.S. Treasury seem relatively attractive.

Hence the rise of dividend-paying stocks, which look attractive to investors hard-pressed to find yield elsewhere. Utilities shares in the S&P 500, for example, are up 14% this year. Shares of telecom companies, also known for their higher-than-average dividends, are up nearly 18% year to date.

But as the valuations in those sectors have become richer, investors have more recently shown signs of turning to other stock sectors. After underperforming for much of the year, tech stocks have become hot again, thanks to the hefty dividends paid by many of the sector's biggest companies.

Their surge has raised concerns among some investors and analysts, who question whether income chasers have pushed stock valuations beyond justifiable levels. Stocks, the critics say, just can't be a true substitute for bonds.

As long as the market refrain of "lower for longer" persists, though, analysts don't see the allure of bond-like stocks fading anytime soon.

"Yield is going to be something that will continue to matter," Ms. Hall said.

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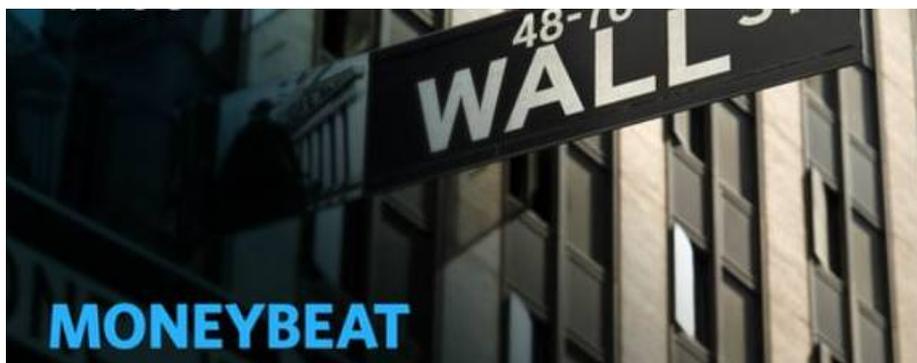
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On this day in 1992, the Mall of America opens in Bloomington, Minn.

MoneyBeat Podcast



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Amid the dog days of August, Paul Vigna and Stephen Grocer are joined by Wall Street Journal reporter Ben Eisen and Ed Al-Hussainy of Columbia Threadneedle to discuss current employment figures and future economic outlooks.

TWEET OF THE DAY

It's hard to see what will save the American department store

--Paul Page @PaulPage

Key Events

8:30 a.m. Jobless Claims [266,000]

Initial claims for unemployment benefits, a proxy for layoffs across the U.S., fell by 1,000 to a seasonally adjusted 266,000 in the week ended August 6. The drop follows a two-month burst of robust job creation, suggesting firms aren't shying away from hiring despite squeezed corporate profits and middling overall economic growth.

8:30 a.m.: Import and Export Prices for July [0.1%]

The price of goods shipped to the U.S. from abroad rose in July, a sign firmer inflation may be in the pipeline. Import prices, measuring costs for everything from German machinery to Middle Eastern oil, increased 0.1% in July from a month earlier. A sustained pickup in long-sluggish U.S. inflation could prompt the Fed to move more quickly to raise interest rates.

10:30 a.m.: EIA Natural Gas Report

Analysts expect EIA data to show that natural-gas inventories rose by 21 billion cubic feet of gas during the week ended Aug. 5. The estimate for Aug. 5 is lower than the 57 bcf added to storage for the same week last year and a five-year average build of 53 bcf for that week. If the storage estimate is correct, inventories as of Aug. 5 totaled 3.309 trillion cubic feet, 12% above levels from a year ago and 15% above the five-year average for the same week.

Stocks to Watch

Shares of **Valeant Pharmaceuticals International Inc.** tumbled 11% ahead of the bell after news of a federal investigation into whether the drugmaker defrauded insurers.

Macy's is up 13% after the company beat expectations and said it would close about 15% of its stores. Meanwhile, **Kohl's Corp.** rose 9.6% to \$41.70 in premarket trading after it reported a surprise increase in profit as gross margin expanded in the latest quarter thanks to inventory-management initiatives.

Alibaba Group Holding Ltd. added 4.3% to \$91.11 in premarket trading after it reported revenue and earnings that topped expectations. The Chinese e-commerce giant continues to add users and drive mobile sales.

Shake Shack Inc. dropped 10% ahead of the open after the burger chain late Wednesday posted weak sales growth in the second quarter.

Shares of **Kura Oncology Inc.** surged 42% in thin premarket trade after the biotech company late Wednesday said a phase 2 trial for one of its cancer drugs was showing "promising" results.

Blue Buffalo Pet Products Inc. are up 2.3% ahead of the bell after the company late Wednesday raised its outlook for the year as second-quarter results beat expectations.

And after the market closes, **Nordstrom Inc.** and **Planet Fitness Inc.** will put out their own financial updates.

Today's Video



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From a new model for vehicle sharing to electric vehicles under development, Tesla's Chief Executive Elon Musk announced his plans for the Palo Alto, Calif., electric-car maker as it seeks to become a major supplier of clean, autonomous transport and energy.

NUMBER OF THE DAY

15%

The percentage gain in gold demand in the second quarter, compared with the same period last year, spurred by investment demand from the West, according to the

Must Reads

Housing Rebound Leaves Broad Group Out in the Cold: The housing recovery that began in 2012 has lifted the overall market but left behind a broad swath of the middle class, threatening to create a generation of permanent renters and sowing economic anxiety and frustration for millions of Americans.

Valeant Under Criminal Investigation: Federal prosecutors are investigating whether Valeant defrauded insurers by shrouding its ties to a mail-order pharmacy that boosted sales of its drugs.

Saudi Oil Output Sets Record Amid Global Glut: OPEC says the kingdom's July output rose to nearly 11 million barrels as it focused on market share over prices, which are in the midst of a two-year slump.

Taxes on Property Aim to Keep Outsiders Away: Governments from Canada to Australia are trying to limit the amount of foreign money coming into local real-estate markets to prevent home prices from rising further.

Bond Markets -- Ever More Bizarre: The latest example of how long-term low rates are turning markets upside-down: German bonds that guarantee the investor will lose money—unless they can find someone else willing to pay more.

Chart of the Day

Pricey

Price of zero-coupon German bond due January 2021



Note: Based on 2.5% bond due 2021, stripped of coupons
Source: FactSet

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