



## Chart of the week

### The yield on European high-yield bonds is not so high any more (compared to stocks)

Traditionally, investors have relied on fixed-income securities to generate income from regular coupon payments. Equities, by contrast, were meant to provide price gains, and to increase in value, with dividends only providing a little extra income. In recent times, however, things have changed. We have witnessed an unprecedented decline in yields, which has produced big price gains for bonds. Subsequently, even yields on high-yield bonds are below equity dividend yields. Our "Chart of the Week" demonstrates this development for European markets. These low yields, resulting from low risk premia on high-yield bonds, can be justified given the favorable economic environment combined with low default rates. Higher income, however, can be achieved by investing in equities.

#### Europe: Dividend yield versus yield on high-yield bonds



Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH; as of 8/23/17  
\*MSCI Europe; \*\*BofA Merrill Lynch European High Yield Index

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## Glossary

### **BofA Merrill Lynch European High-Yield Bond Index**

The BofA Merrill Lynch European High-Yield Bond Index is a U.S. high-yield index that also includes zero-coupon bonds and payment in kind bonds.

### **Dividend yield**

The dividend yield is the dividend that a company pays out each year divided by its share price.

### **High Yield (HY)**

**High-yield** bonds are issued by below-investment-grade-rated issuers and usually offer a relatively high yield.

### **MSCI Europe Index**

The **MSCI Europe Index** is designed to measure the performance of the large- and mid-cap segments of 15 developed markets in Europe.

### **Risk premium**

The risk premium is the expected return on an investment minus the return that would be earned on a risk-free investment.

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Investments in Foreign Countries – Such investments may be in countries that prove to be politically or economically unstable. Furthermore, in the case of investments in foreign securities or other assets, any fluctuations in currency exchange rates will affect the value of the investments and any restrictions imposed to prevent capital flight may make it difficult or impossible to exchange or repatriate foreign currency.

Foreign Exchange/Currency – Such transactions involve multiple risks, including currency risk and settlement risk. Economic or financial instability, lack of timely or reliable financial information or unfavorable political or legal developments may substantially and permanently alter the conditions, terms, marketability or price of a foreign currency. Profits and losses in transactions in foreign exchange will also be affected by fluctuations in currency where there is a need to convert the product's denomination(s) to another currency. Time zone differences may cause several hours to elapse between a payment being made in one currency and an offsetting payment in another currency. Relevant movements in currencies during the settlement period may seriously erode potential profits or significantly increase any losses.

High Yield Fixed Income Securities – Investing in high yield bonds, which tend to be more volatile than investment grade fixed income securities, is speculative. These bonds are affected by interest rate changes and the creditworthiness of the issuers, and investing in high yield bonds poses additional credit risk, as well as greater risk of default.

Hedge Funds – An investment in hedge funds is speculative and involves a high degree of risk, and is suitable only for “Qualified Purchasers” as defined by the US Investment Company Act of 1940 and “Accredited Investors” as defined in Regulation D of the 1933 Securities Act. No assurance can be given that a hedge fund's investment objective will be achieved, or that investors will receive a return of all or part of their investment.

Commodities – The risk of loss in trading commodities can be substantial. The price of commodities (e.g., raw industrial materials such as gold, copper and aluminium) may be subject to substantial fluctuations over short periods of time and may be affected by unpredicted international monetary and political policies. Additionally, valuations of commodities may be susceptible to such adverse global economic, political or regulatory developments. Prospective investors must independently assess the appropriateness of an investment in commodities in light of their own financial condition and objectives. Not all affiliates

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