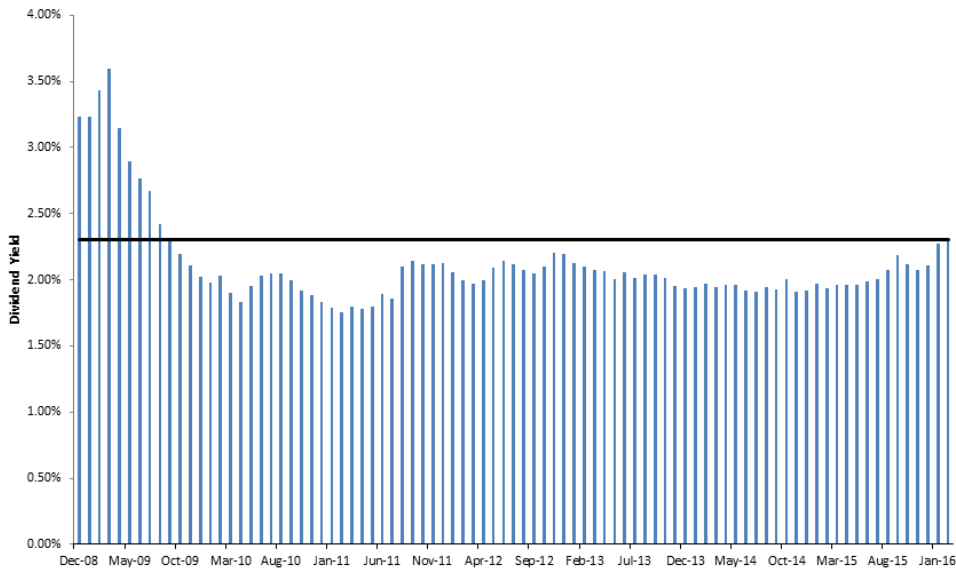


DIVIDEND YIELDS REACH SEPTEMBER 2009 LEVELS

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One of the market's major anxieties has been that the gains we've experienced since the financial crisis were mostly artificially induced by [monetary easing](#) from central banks and that now, with the Federal Reserve (Fed) starting to raise [interest rates](#), we are likely to see more [volatility](#) and pressures on the market. The volatility certainly has come, but the market gains were, in fact, supported by underlying positive trends in one of the most important [fundamental](#) metrics of the markets we track: the cash [dividends](#) companies are paying to their shareholders. The [dividend yield](#) is one [valuation](#) gauge for the market. At nearly 2.3%, as the [S&P 500 Index](#) was priced on February 29, 2016, this represents a level that had not been reached on a monthly basis going back as far as September 2009.¹ Back then, the S&P 500 had an index level just slightly above 1,000. At the end of February, the S&P 500 stood at 1,932, some 90% higher than in 2009. The fact that the dividend yield was at the same level means that [aggregate dividends](#) also rose approximately 90% over the period—or more than 10% per year.² This shows that the gains in the market were not being artificially driven by Fed easing. Since September 2009, the market gains have been broadly in line with the [dividend growth](#) of the market. While earnings deteriorated in aggregate in 2015, the [median](#) dividend growth for S&P 500 companies was still approximately 10%. While double-digit rates are unlikely to continue indefinitely, we can potentially see [per share growth](#) rates of 7%–8% continue. This is our expectation for dividend growth on the market over the next five years and longer. When we focus on the dividend yield of 2.3% as a valuation guide, some investors quip that one can easily lose that dividend percentage in a single day with the market volatility—and that is, of course, true. But the dividend yield and, importantly, the dividend growth of the market is what we believe will drive long-term returns. Just like this [market was powered over the last six years by rising dividend trends](#), we see the underlying dividend trends and health as supportive for continued allocations to equities over the other competing asset classes. The [10-year U.S. government bond yield](#) today is just 1.73%,³ which implies an extremely low level of income potential for investors over the next 10 years. When we hear growing calls that this was just a Fed-induced rally, we go back to these dividend trends: they were absolutely a key fundamental driver, and it's clear the market has not gotten more expensive against this key fundamental metric since September 2009. **2/29/16 Dividend Yields Revert to 09/30/09 Levels with S&P 500 Rising ~90% Over the Period**



Sources: Professor Robert Shiller, Bloomberg, with data from December 31, 2008, to February 29, 2016. Past performance is not indicative of future results. You cannot invest directly in an index.

¹Sources:

Professor Robert Shiller, Bloomberg, as of 2/29/16. ²Sources: Professor Robert Shiller, Bloomberg, with period from 9/30/09 to 2/29/16. ³Source: Bloomberg, with data as of 2/29/16.

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DEFINITIONS

Monetary easing policies: Actions undertaken by a central bank with the ultimate desired effect of lowering interest rates and stimulating the economy.

Interest rates: The rate at which interest is paid by a borrower for the use of money.

Volatility: A measure of the dispersion of actual returns around a particular average level.

Fundamentals: Attributes related to a company's actual operations and production as opposed to changes in share price.

Qualified dividends: Dividend paid by corporations meeting certain criteria defined by the Internal Revenue Service and therefore eligible in certain instances to be taxed at rates below a tax filer's tax bracket on ordinary income.

Dividend yield: A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

Valuation: Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

S&P 500 Index: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Aggregate dividends: Weighting constituents according to the proportion of cash dividends that they generate compared to the sum total of cash dividends for all constituents within the index.

Dividend growth: The growth in trailing 12-month dividends for the specified universe.

Median: The median is the value within a dataset at which 50% of all observations occur above and 50% occur below.

Per share growth: refers to the amount of growth per share.

10-year government bond yield: Yields on the 10 year government debt security.