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Dividend yield beats bond yield

Peter Szopo



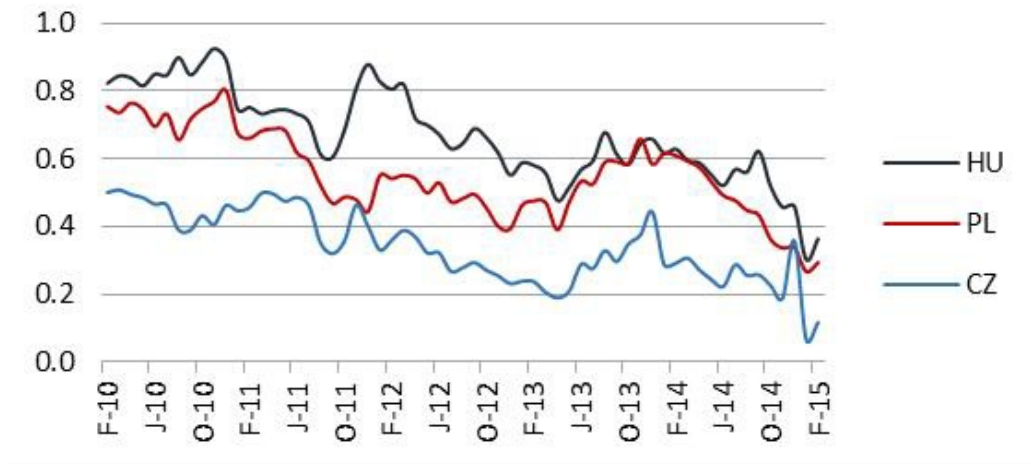
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The share price performance in emerging Europe, i.e. Poland, the Czech Republic, Hungary, Russia, Turkey, and since most recently again, Greece, has not been overwhelming in the past years. Since the middle of 2011 the MSCI Emerging Europe, the most important index for the region, had been locked into a sideways movement, which was topped off by a correction at the end of 2014 as a result of the ongoing political crises. Along with (geo-) political factors, the weakening of the economic dynamics and a lack of reforms had been causing a subdued price performance.

Whereas the performance leaves a lot to be desired, the central European and Russian equity markets are topping the ranks when it comes to dividends. In the past ten years the dividend yield has increased from a modest 2% or below 3% to sometimes more than 6%, i.e. more than in other emerging markets, and significantly more than in developed markets.

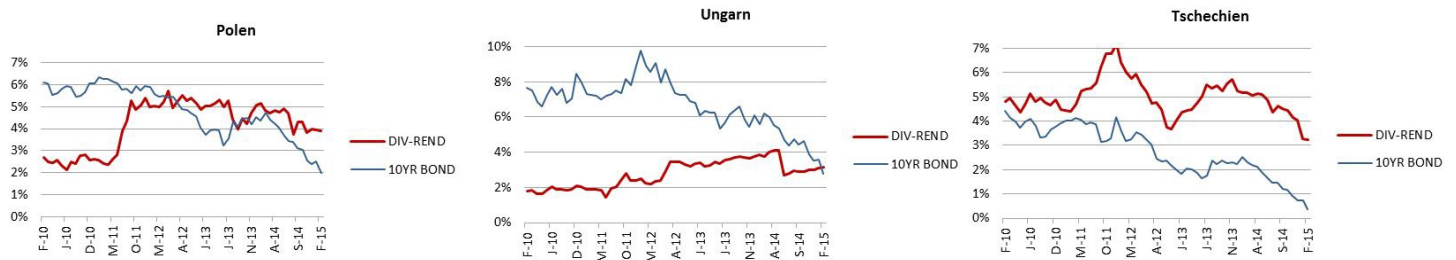
Especially in central Europe equity valuations have improved massively vis-à-vis bonds due to the decline in interest rates. The ratio of bond yield to earnings yield – a traditional valuation ratio for equity markets, also known as BEER – is at a record low in the three central European markets.

Bondrendite zu Gewinnrendite



Sources: Bloomberg, Erste Asset Management.

As a result of the more aggressive dividend policy, dividend yields have become very attractive in comparison with the current bond yields. The dividend yields in the Czech Republic and Poland had already been above bond yields for a while, and since very recently, this has also been the case in Hungary. In summary, dividend yields beat bond yields – which compensates for the prolonged unspectacular sideways movement of share prices.



Sources: Bloomberg, Erste Asset Management.

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Peter Szopo has worked as chief equity strategist at the Erste Asset Management since March 2015. Before he already worked as a consultant for equity fund management at Erste Asset Management for Central and Eastern European equity markets. From November 2009 to April 2013, he was head of the research department at Alfa Bank in Moscow.

After his research work at WIFO (Austrian Institute of Economic Research) from 1978 to 1990, he worked as a securities specialist in various management functions at internationally renowned investment banks. During this time he held the position of Head of Research at such institutions as Creditanstalt Investmentbank, UniCredit Bank Austria, Robert Fleming Securities, and at Bank Sal. Oppenheim.

Along with his analysis activities, he worked from 1997 to 2000 at Eastfund Management as the fund manager for Central and Eastern European equity.

