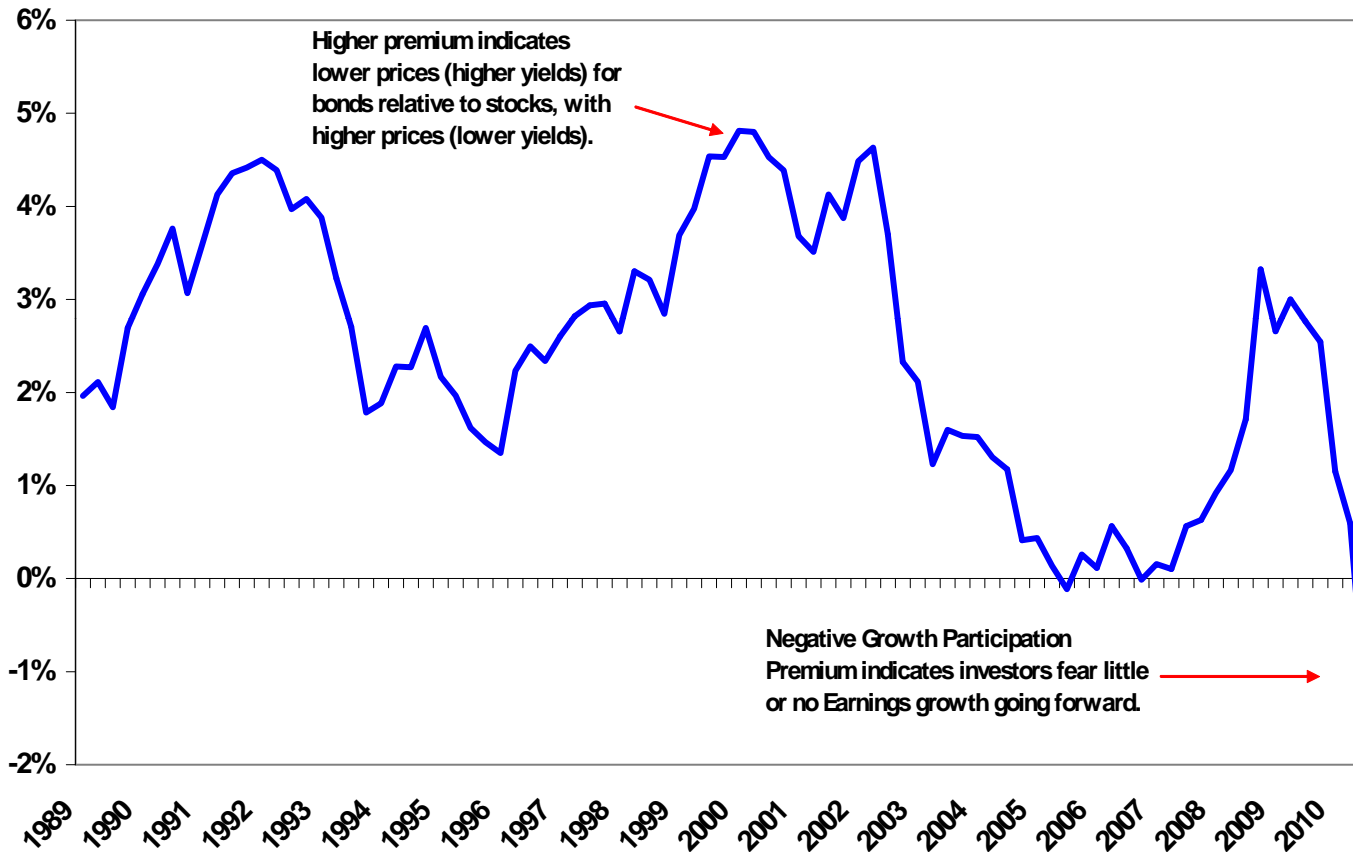


Corporate Bonds Vs. Stocks: Perceived Safety of Corporate Bonds Means Companies Fund Growth Opportunities More Cheaply

Corporate Bond Yield Over Corporate Earnings Yield: Growth Participation Premium



- The -1.33% discount for stocks relative to corporate bonds reflects the combination of two significant factors:

1) Large companies hold record amounts of Cash on Balance Sheets and are perceived as being capable of covering higher levels of debt; and...

2) Investors perceive the risk of earnings growth as too high to participate through owning stocks, even as companies invest newly issued corporate bond proceeds to fund internal growth and growth through acquisitions, driving growth in earnings going forward.

For most of the last 30 years, investors have paid a premium to participate in Corporate Earnings Growth by investing in stocks rather than Bonds.

Data from <http://research.stlouisfed.gov>



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