Chart 2 has been prepared with data from the Bank of Canada (which obtained its data for Long Corporates from Scotia Capital), my estimates of Long Corporate yields after June 2007 (when the Toronto Stock Exchange ceased supplying these data to the Bank) and my firm's "PerpetualDiscount" index (after multiplication of the dividend yield by 1.4, to provide at least an approximate "interest equivalent yield" – see *CMS*, February 2007). Note that "Long Corporates" includes only investment grade corporate bonds with a remaining term to maturity of greater than ten years. Elimination of "short" (1-5 years) and "mid" (5-10 years) bonds increases the relevance of the comparison.

…

Bearing this in mind, we can examine the long-Corporate / long-Canada spread in Chart 3, and finally, the PerpetualDiscount / long-Corporate spread in Chart 4. The latter chart shows just how unusual the summer has been: the prior peak in this spread was a mere 250bp, reached in March 2000, while the current spike exceeded the 300bp level.

…

It seems like a pretty straightforward choice, doesn't it? What conceivable reason is there to purchase a high-dividend issue in these circumstances? In fact, as shown in Chart 6, the total returns actually did correct themselves from June 24 to the market's nadir on July 16 and were basically equivalent for the May 30-July 16 period … as would be expected from theory.

While the CM issues are very convenient for analytical purposes – since a wide range of dividend rates may be examined while maintaining constant credit quality – this behavior extended to all issues over the period, as shown in Charts 7 and 8. In the May 30-June 24 period, higher dividend issues outperformed, which was not the case in the June 24-July 16 period.