Blue Chip Yielding 5% Beckons Daredevils to Catch Falling K nife

+----------------------------------------------------------------------------+

Blue Chip Yielding 5% Beckons Daredevils to Catch Falling Knife

2015-08-03 16:18:12.778 GMT

(For more Market Line insights, see NI MKTLINE.)

By Michael P. Regan

(Bloomberg) -- Gina Martin Adams at Wells Fargo & Co. asked a question today that will ring a bell with any parent who has taken the family on a summer road trip: “Are we there yet?”

The strategist wasn’t talking about Ocean City, but rather the nebulous destination that is the “bottom” for prices of energy stocks. It’s a question that other Wall Street strategists have attempted to answer so often in the past year that it’s easy to picture a bunch of buy-side clients crammed into the back of station wagons pleading over and over again:

“Are we there yet? Are we there yet? Are we..."

As has been the case for much of this seemingly never- ending knife drop, the bottom appears like it possibly, maybe, potentially (hopefully?) could be so alluringly close. Energy stocks in the S&P 500 have fallen more than 31 percent since their peak in June 2014. The group now accounts for only about 7 percent of the index’s market capitalization, the least in more than a decade. With a dividend yield of 3.3 percent, it’s the third-highest paying group among the 10 main industries.

Exxon Mobil Corp., down 25 percent since June 2014 including a 4.6 percent tumble on Friday after disappointing earnings, is trading at a three-year low and paying a dividend that yields an almost two-decade high 3.6 percent.

‘Growing Dividend’

After reporting its lowest profit since 2009 and cutting in half its plans for buybacks this quarter, Exxon Mobil’s vice president of investor relations Jeffrey J. Woodbury told analysts on a conference call: ‘‘Fundamentally, we’re committed to our shareholders to continue to provide a reliable and growing dividend.”

Said Chevron Corp. chief financial officer Patricia E.

Yarrington on her company's earnings call: "We said we would cover the dividend from free cash flow in 2017. We stand by that commitment."

Chevron is paying almost 5 percent of its share price in dividends, the most since 1992 and near the highest above 10- year Treasury yields in data going back to 1991. It's one of 19 energy companies in the S&P 500 with dividend yields above 10- year notes, and in recent weeks it exceeded Verizon Communications Inc. as the highest yielding blue chip in the Dow Jones Industrial Average.

Can't you almost taste the salt-water taffy, kids?

Like others who have addressed the "are we there yet"

question in recent months, Martin Adams at Wells Fargo offers a less-than-satisfying answer: not quite yet, kids.

'Too Early'

"For tactically oriented investors, we suggest it may still be too early to catch the 'falling knife' of energy stocks," Martin Adams wrote in a note this morning.

While the index of S&P 500 energy companies reached the weakest level since 2012 this morning, oil has yet to set a new low for 2015. Yet, the fact that oil prices are holding above their lows does not necessarily suggest the equities are poised to rally.

"We studied troughs in stocks and oil prices over the last ten years, and 85 percent of the time, stocks bottom first, by an average of 26 days," she wrote. In other words, knife catchers should look for energy stocks to firm up and signal an imminent bottom in oil, rather than vice versa. And while the dollar is also down from its high for 2015, it's still been trending higher since the middle of May.

And don't focus entirely on the supply side, Martin Adams advises. Concerns about demand are also at play, and oil and energy stocks could remain under pressure until investors are more comfortable with the outlook for economic growth in China, she wrote.

Pop another DVD in the player, kids. Don't make us turn this car around.

For Related News and Information:

Market Line Columns: NI MKTLINE <GO>

Developed Markets View: DMMV <GO>

World Stock Indexes: WEI <GO>

S&P 500 Market Map: SPX <Index> IMAP <GO> Top Stories on Stocks: TOP STK <GO> Equity Screening: EQS <GO>

Graphing: GRAPH <GO>

Feature Stories on Stocks: TNI STK GREET <GO>

To contact the reporter on this story:

Michael P. Regan in New York at +1-212-617-7747 or mregan12@bloomberg.net To contact the editors responsible for this story:

Jeff Sutherland at +1-212-617-6567 or

jsutherlan13@bloomberg.net