

ADVISER Investment

European Income portfolio manager identifies 60 'highly unusual' European stocks

Argonaut's Russ eyes defensive anomalies

EUROPE

by John Kenchington

Argonaut's Oliver Russ has urged bond investors to venture into defensive equities, as a market anomaly means dividend incomes on 60 European stocks are now greater than the yields on their credit.

The manager of the £442m Ignis Argonaut European Income fund said these companies' dividend yields were high and set to rise and that there were also prospects for capital gains this year.

The companies' bonds, on the other hand, continue to deliver poor yields as sovereign bond yields remain at low levels.

"To have such a large number of these stocks is highly unusual," Mr Russ said.

The manager said the 60 stocks had not yet replicated the

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Oliver Russ, Argonaut



rallies seen on more cyclical equities since March last year, meaning capital gains were highly likely this year.

He said: "Some of these names are still where they were in March last year. France Telecom was at about €17 then, and it is now at €16.6."

Mr Russ said that, as an added incentive to shift up the risk spectrum, these companies were likely to put in stellar dividend hikes this spring.

He said: "Many analysts are

saying you should get double-digit dividend growth, of at least 11 per cent, this year – I think it could be a lot more than that."

He said this was because European dividends were generally paid in the spring, meaning companies would decide how large the payouts were going to be around March.

But in March last year, these companies cut their dividends and hoarded cash during the darkest days of the financial crisis.

"Many of these companies have got a lot of cash on their balance sheets now that they have got to get rid of," Mr Russ said.

The 60 equities, which Mr Russ cautioned would prove more volatile than their bond equivalents, include utilities groups Centrica, National Grid, RWE, Scottish and Southern Energy and United Utilities.

Deutsche Telekom, Telefonica and UK giant Vodafone are reporting the anomaly, as are oil giants BP and Total.

British American Tobacco, a favourite of defensive master Neil Woodford, also features, as does chemicals giant BASF and pharmaceuticals GlaxoSmithKline, AstraZeneca, and Roche.

On the financials side, Allianz, Aviva, Banco Santander, Banco Popular Espanol and National Bank of Greece make the list.

The call for a shift into equities came as Mr Russ last week said he was launching a new UK-domiciled Argonaut European Enhanced Income fund, as revealed by Investment Adviser.

The fund, pencilled for a launch in March, will be based on his existing European Income fund, but it will use a covered-call strategy to boost its income.