

# Buy Equities Sell Bonds

The thirst for yield has led to companies raising more debt at cheaper funding levels than before. This has led to a deterioration of credit quality. Of late some companies have been raising debt for share buy backs recognizing the gap between the cost of equity funding and debt funding. This should imply that investors should prefer equities to bonds since the insiders are clearly signaling this through their adjustments to their capital structures and additionally, since debt issuance has increased to the extent that companies have sufficient liquidity for the foreseeable future, risk of default is low and yet leverage has increased, an ideal confluence for equities which can be regarded as a call option on the underlying value of the firm.