

DIVIDEND STABILITY: HISTORY AS A GUIDE

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As fear spreads throughout the markets, it pays to step back and think about what drives long-term stock returns.

What matters most?

The underlying [cash flow](#) of businesses and the cash they return to shareholders—which comes in the form of [dividends](#)!

Yes, some dividends will be cut in the upcoming downturn. The market is pricing that in. Many [large-cap](#) energy stocks have [dividend yields](#) around four times the average dividend yield in the market, indicating these yields are highly suspect.

Just yesterday, Ford became the most notable company to announce a suspension of their quarterly dividend.

But how much might overall market dividends get cut this year?

Let’s let history be our guide.

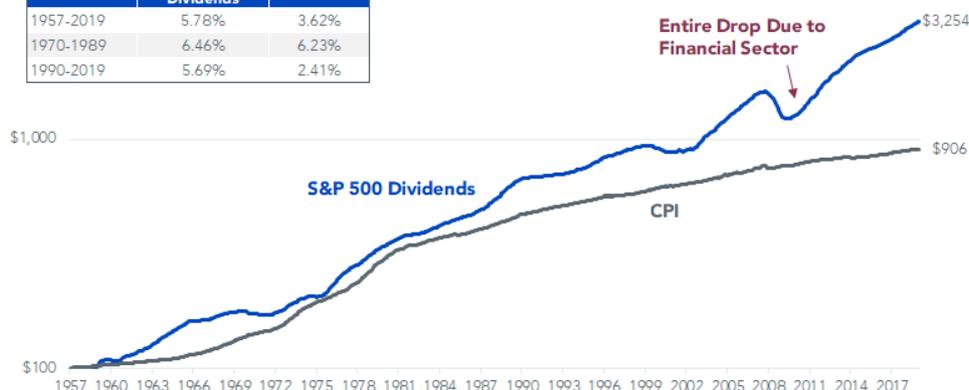
The [S&P 500](#) was born as an index of 500 stocks in 1957. Since then, dividends have grown by an average of 5.8% per year—more than 2% above the rate of [inflation](#).

That characteristic is why Professor Jeremy Siegel refers to stocks as “Super TIPS”— [TIP S](#) being the ultimate inflation-adjusted treasury security. Stocks can provide long-term inflation protection, but with real growth to boot.

This was true during high inflation periods (the '70s and '80s), when inflation averaged more than 6%. It’s also been true during low-inflation periods, such as the last three decades, when inflation averaged less than 2.5% per year while [dividend growth](#) was still around 5.7%.

Dividend Growth Rate Beats Inflation

	S&P 500 Dividends	Inflation
1957-2019	5.78%	3.62%
1970-1989	6.46%	6.23%
1990-2019	5.69%	2.41%



Source: Bob Shiller, <http://www.econ.yale.edu/~shiller/data.htm>. Data from 12/31/1957 to 12/31/2019. CPI: Consumer Price Index. Past performance is not indicative of futures results. You cannot invest directly in an index.

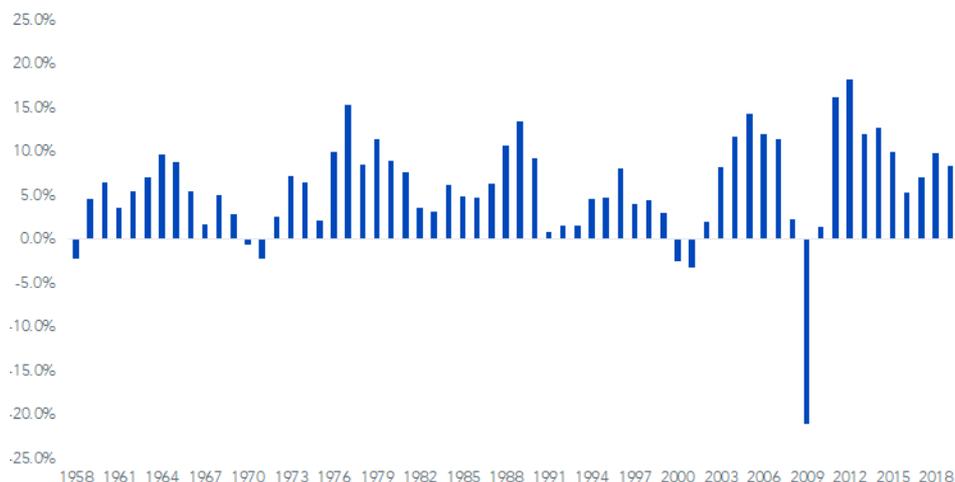
A few things stand out about long-term dividend growth.

In the last 62 years, there were only six years where dividend levels declined, and only one where they fell more than 5%.

By contrast, during those same 62 years, stock prices fell in 18 years, with a worst calendar-year decline of over 40% and an average decline of more than 11%.

Stock prices were three times more **volatile** than their underlying dividend cash flows, as sentiment drives short-term prices more than the cash flow volatility, which drives long-term value.¹

Annual Dividend Growth on S&P 500 Index



Source: Bob Shiller; <http://www.econ.yale.edu/~shiller/data.htm>. Data from 12/31/1957 to 12/31/2019. Past performance is not indicative of futures results. You cannot invest directly in an index.

The S&P 500 was recently down nearly 30% from its previous high. Daily market price moves between 7% and 10% have been common.

But what are the odds of dividends falling 20% this year, like they did in 2009?

Sector	Total Dividends	% Dividends
Financials	\$90.01	16.1%
Information Technology	\$81.96	14.7%
Health Care	\$61.55	11.0%
Consumer Staples	\$60.92	10.9%
Industrials	\$50.13	9.0%
Energy	\$46.16	8.3%
Real Estate	\$45.04	8.1%
Consumer Discretionary	\$40.22	7.2%
Communication Services	\$36.83	6.6%
Utilities	\$31.73	5.7%
Materials	\$14.57	2.6%
Total	\$559.12	

Sources: WisdomTree, Bloomberg. Data as of 11/30/2019, the screening date for the WisdomTree U.S. Dividend Index.

The *Dividend Stream*[®] today is much more diversified than it was in 2009, when over 30% of all dividends came from the financial sector. Today, Financials, the largest dividend-paying sector, represent just 16% of all dividends paid.

The next three largest sectors—Technology, Health Care and Consumer Staples—tend to be more immune against dividend cuts and likely three sectors with growth this year.

If aggregate dividends were to decline like they did in '09, it is also important to remember that it took only 4 years before dividend levels reached new highs after the global financial crisis.

Market prices often move much more than the fundamentals of businesses. Long-term investors should come back to focusing on underlying cash flows from owning equities many years into the future.

Dividends—which drive long-term stock values—are more robust and stable than the wild swings we have seen recently.

¹Based on the standard deviation of annual dividend changes and price changes on the S&P 500.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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DEFINITIONS

Cash flows: a measure of how much cash a business generates after taking into account all the necessary expenses, including net capital expenditures.

Dividend: A portion of corporate profits paid out to shareholders.

Large-Capitalization (Large-Cap): A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term “large market capitalization”. Market capitalization is calculated by multiplying the number of a company’s shares outstanding by its stock price per share.

Dividend yield: A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

S&P 500 Index: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor’s Index Committee designed to represent the performance of the leading industries in the United States economy.

Inflation: Characterized by rising price levels.

TIPS: Treasury Inflation Protected Securities.

Dividend growth: The growth in trailing 12-month dividends for the specified universe.

Volatility: A measure of the dispersion of actual returns around a particular average level.