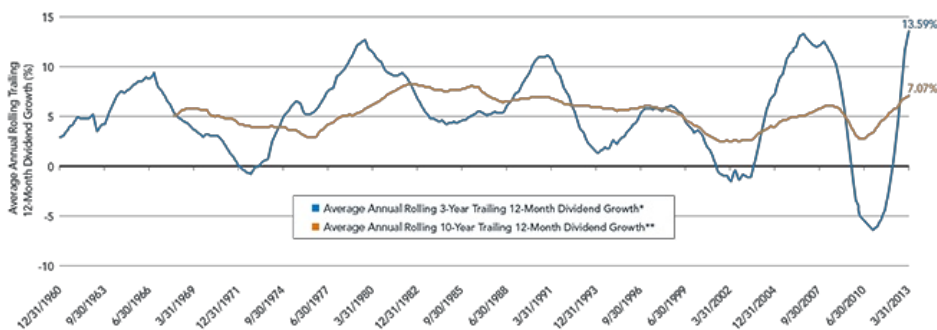


U.S. DIVIDEND GROWTH HITS RECORD HIGH—WILL INVESTORS CAPITALIZE?

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In today’s environment, investors are in an almost constant search of income-producing asset classes. One particular area of focus has been dividend-paying equities—made attractive not only because of the *current* income but also because of the potential for future *growth* of that income. We believe the recent trends for dividend growth discussed below have become an unmistakably positive signal for the market’s underlying fundamental value. **Putting Recent Growth in Historical Perspective** We examined the history of [dividend growth](#) of the [S&P 500 index](#), as it is one of the most commonly used benchmarks available to measure the performance of U.S. equity markets and has dividend data extending back to its inception in 1957. There are two notable points when we compare the latest readings to historical data: 1) **Record Three-Year Growth:** The recent three-year average annual dividend growth—13.59% for the period ending March 30, 2013—is a record in the history of the S&P 500. To be fair, this follows a record fall in dividends that occurred a few years earlier and in some ways represents a normalization of dividend levels. 2) **10-Year Growth Impresses:** Despite the record fall in dividends during the last 10 years, the 10-year average annual dividend growth of 7.07% is still approximately 2 percentage points above the median 10-year growth rate. This gives us confidence about future dividend growth.

Rolling 3-Year and 10-Year Growth of Trailing 12-Month Dividend for S&P 500 Index (12/31/1960-3/31/2013)



*Avg. ann. rolling 3-year trailing 12-month dividend growth: Average annual growth in trailing 12-month dividends calculated for three-year periods, rolled forward one month at a time. 12/31/1957–12/31/1960 represents the first three-year period. The median value is that for which 50% of the observed values are above and 50% are below.
 **Avg. ann. rolling 10-year trailing 12-month dividend growth: Average annual growth in trailing 12-month dividends calculated for 10-year periods, rolled forward one month at a time. 12/31/1957–12/31/1967 represents the first 10-year period. The median value, 5.2%, is that for which 50% of the observed values are above and 50% are below.
 Source: Professor Robert Shiller, Yale University, 2013.
 Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

Changing Composition of

Dividend Stream® Has Driven This Result There have been two major trends driving the bulk of growth in the *Dividend Stream* in the United States in recent periods: • **Financials:** Many financial firms were forced to cut or eliminate their dividend payments as they received government assistance during the height of the crisis. Today, those that remain are in a much stronger position and are in the process of returning their dividend payments to normalized levels. • **Examples of Dividend Normalization:** Wells Fargo increased its dividend per share *twice* thus far in 2013 (through April 30) for a total increase of 36%—meaning that approximately \$1.7 billion more will be returned to shareholders. J.P. Morgan increased its dividend per share 27% during the same period, resulting in an incremental increase of \$1.26 billion being returned to shareholders. • **Information Technology:** Tech firms have historically been associated with reinvesting the bulk of their profits back into their businesses to finance future growth. More recently, when returning money to shareholders, they have heavily favored [share buybacks](#) over dividend payments. While both of these

characteristics remain true, some of the largest tech firms in the United States have so much cash that they are also becoming some of the largest payers of indicated cash dividends.

Specific examples of technology dividend leaders:

- **Apple:** With the re-instatement of its first dividend since 1996, Apple is currently (as of April 30, 2013) indicated to be the largest dividend payer in the United States, with a cash *Dividend Stream* of nearly \$11.5 billion per year. According to an April 23, 2013, announcement, this dividend is part of a plan to return approximately \$100 billion to shareholders by the end of 2015.¹

- **Cisco** introduced its first dividend in April of 2011. At the time, Cisco was indicated to be the 40th-largest dividend payer in the U.S. based on its indicated cash dividends.² With following dividend hikes of 75% in the third quarter of 2012 and another 21% in the first quarter of 2013, it became one of the 20 largest dividend payers in the U.S.

Conclusion We find it interesting that the trend in U.S. dividend payments has shifted so quickly from basically a record fall to record acceleration. Additionally, we believe that the sector trends we've outlined—specifically in Information Technology—have the potential to continue. In our next blog, we'll discuss what we believe to be the potential consequences of missing the trends in these sectors, thereby potentially missing significant drivers of dividend growth in the United States. *Read our full research [here](#). View Jeremy Schwartz discuss dividends. [\(Video\)](#)*

¹Apple Press Info, "Apple More than Doubles Capital Return Program," April 23, 2013. ²Based on the 11/30/2011 screening for the WTDI, a screening that does not include any growth-of-dividend qualifications to determine constituent eligibility.

Important Risks Related to this Article

Dividends are not guaranteed and a company's future abilities to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

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

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.

Dividend Stream : Refers to the regular dividends per share multiplied by the number of shares outstanding.

Share buybacks : Firms using cash to purchase their own outstanding shares; may positively impact the share price.