

NOVEMBER DIVIDEND UPDATE

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History doesn't repeat, but it often rhymes.

This is what a recent Bank of America research note¹ implies about the current U.S. equity market environment relative to 1999.

The BofA valuation framework suggests a -0.5% annualized price return for the [S&P 500](#) over the next 10 years. The last time that framework forecasted a negative return? 1999.

Isolating Dividend Returns

Robust earnings growth has reduced valuations this year, but the S&P 500 [forward price-to-earnings \(P/E\) ratio](#) of 21.2x is still around one [standard deviation](#) above its historical median.

S&P 500: Index Forward P/E Ratio



Sources: WisdomTree, FactSet, S&P, 12/31/1994–11/30/2021. You cannot invest directly in an index.

In the decade immediately following the global financial crisis, the starting forward P/E ratio was less than 16x. That allowed for multiple expansions to contribute to price returns on the Index of more than 11% annualized for the next decade. The dividend return provided an additional 2%.

S&P 500 Returns: 12/31/09–12/31/19



Sources: WisdomTree, S&P. You cannot invest directly in an index.

[Recency bias](#) tends to cause us to extrapolate recent experiences into the future. But a better reference point for the current environment could be the period of the 2000s, where the price return on the Index was -2.72%.

The 1.82% annualized return from dividends helped cushion some of the negative price return, resulting in a not-so-impressive -0.95% total return.

S&P 500 Returns: 12/31/1999–12/31/2009



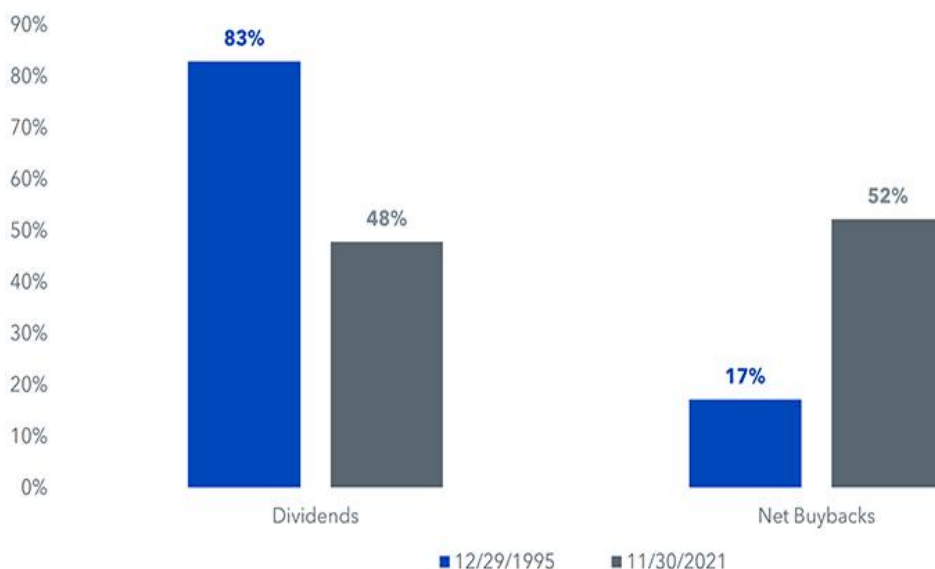
Sources: WisdomTree, S&P. You cannot invest directly in an index.

As BofA puts it: “Total return is the number to optimize, and we see **dividend preservation and growth** as the single most important criteria for stock selection, which could potentially be the difference between a flat-to-negative and positive return over the next 10 years in the S&P 500.”¹

Dividend Growth

Share buybacks have become an increasingly popular form of cash payouts relative to dividends. In 1995, dividends made up more than 80% of cash payouts. Today, payouts are roughly even between share buybacks and dividends.

S&P 500: Percentage of Payout by Source

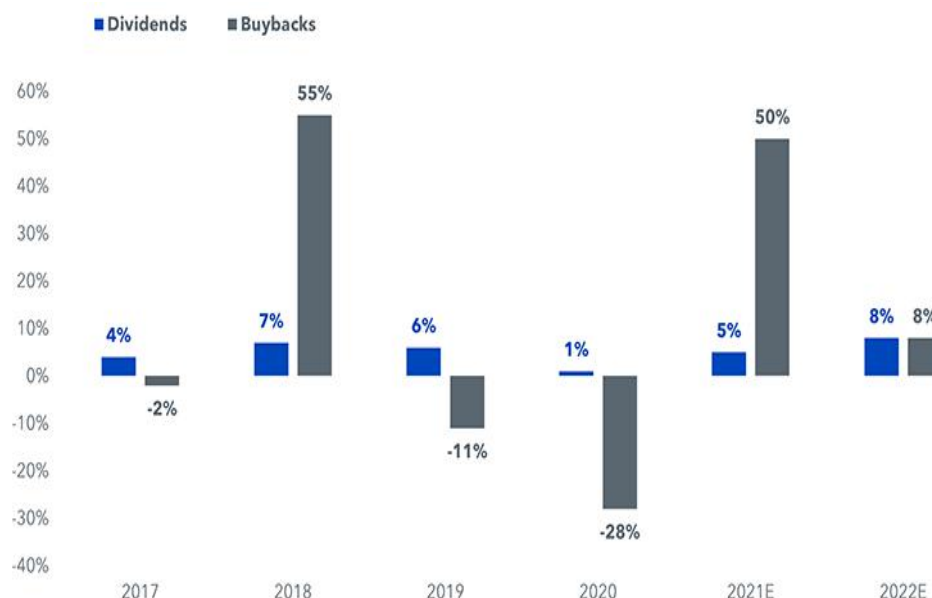


Sources: WisdomTree, FactSet. You cannot invest directly in an index.

There are a few key factors supporting dividend growth relative to buybacks for investors to keep in mind:

1. **Dividends are less volatile**—In 2020, S&P 500 earnings were down 13%. In the face of a recession, dividend growth was slightly positive, while buybacks were down 28%. [Buybacks](#) are pro-cyclical, whereas U.S. companies typically aim to avoid dividend cuts at all costs.
2. **Taxes**—The Democrats' latest proposed tax plan includes a 1% tax on corporate buybacks. While small, this may signal a bigger tax bill on buybacks to come.
3. **Valuations**—With valuations at historically elevated levels, buybacks may not represent the greatest use of companies' cash, which instead favors dividends.

S&P 500: Dividend and Buyback Growth



Source: "US Equity Views: Updating our 2022 S&P 500 Cash Use Forecasts," Goldman Sachs Portfolio Strategy Research, 10/28/21.

WisdomTree U.S. Quality Dividend Growth Index

Dividend preservation and growth are at the heart of the construction of the [WisdomTree U.S. Quality Dividend Growth Index](#).

Dividend payers with sustainable dividend payout ratios ([dividend yield](#) < earnings yield) are initially eligible.

The 300 companies with the strongest combined [return on equity/return on assets](#) and earnings growth estimates are then selected, to target profitable companies that are more likely to maintain/grow their dividends.

With the dividend return component of total returns in focus in this elevated valuation environment, this basket has a dividend yield premium of more than 80 [basis points \(bps\)](#). Its combined shareholder yield (dividend yield plus net buyback yield) is a roughly 100 bps improvement.

Index Fundamentals

Fundamentals	WT U.S. Quality Dividend Growth	S&P 500
Constituents	298	505
Dividend Yield	2.10%	1.28%
Net Buyback Yield	1.62%	1.40%
Shareholder Yield	3.72%	2.68%
Est. Price-to-Earnings	16.99	21.23

Sources: WisdomTree, S&P, 11/30/2021. You cannot invest directly in an index.

¹ "US Equity Strategy in Pictures: Investing for 4Q and beyond," Bank of America Global Research, 10/26/21.

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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You cannot invest directly in an index.

DEFINITIONS

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.

Forward P/E ratio : Share price divided by compilation of analyst estimates for earnings-per-share over the coming 12-month period. These are estimates that may be subject to revision or prove to be incorrect over time.

Standard deviation : measure of how widely an investment or investment strategy's returns move relative to its average returns for an observed period. A higher value implies more "risk", in that there is more of a chance the actual return observed is farther away from the average return.

Recency Bias : When people more prominently recall and emphasize recent events and observations than those in the near or distant past.

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

Buyback : When a company uses its own cash to purchase its own outstanding shares; may positively impact the share price.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

Dividend yields : Refers to the trailing 12-month dividend yield. Dividends over the prior 12 months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.

Return on Equity (ROE) : Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Return on assets (ROA) : Firm profits (after accounting for all expenses) divided by the firm's total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.

Basis point : 1/100th of 1 percent.