DIVIDEND STABILITY: HISTORY AS A GUIDE

Jeremy Schwartz — Global Chief Investment Officer
03/20/2020

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.

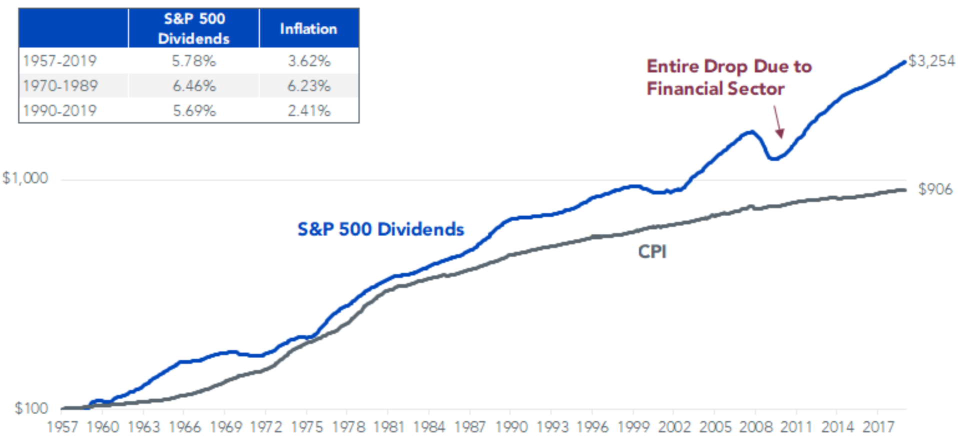
The S&P 500 was born as an index of 500 stocks in 1957. Since then, dividends have grown by an average of 5.8% per year—more than 2% above the rate of inflation.

That characteristic is why Professor Jeremy Siegel refers to stocks as "Super TIPS"— TIPS 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.

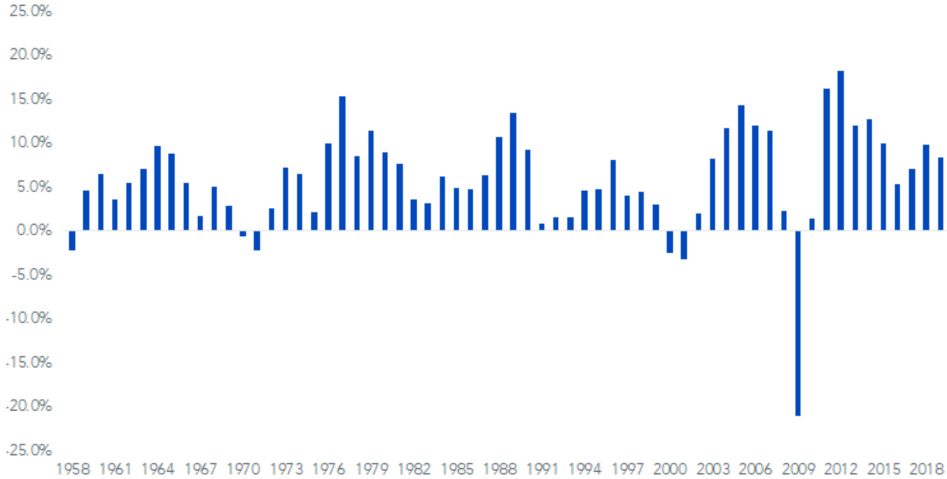
A few things stand out about long-term dividend growth.

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 fo 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.

[1]Based 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.

For more investing insights, check out our Economic & Market Outlook

View the online version of this article here.

IMPORTANT INFORMATION

U.S. investors only: Click here to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

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. .