

DIVIDEND SAFETY AND VALUATIONS

Matt Wagner — Associate Director, Research
05/08/2020

We recently [highlighted a few of the trends we're closely following for U.S. dividends](#). Among them, significant cuts anticipated by [futures](#) with disparity in sell-side forecasts.

WisdomTree maintains [eight U.S. dividend indexes](#) across [market caps](#), [high-dividend yield](#) and dividend growth. Assessing dividend safety and [valuations](#) across these indexes yields unique insights on the uneven impact of cuts and suspensions across markets.

Broad Market—Cuts Are Sector-Specific

WisdomTree's broadest dividend index—the [WisdomTree U.S. Dividend Index](#)—holds about 1,400 companies that pay regular cash dividends. It's a similar universe to the approximately 1,500 securities in the total market [Russell 3000 Index](#) that pay a dividend.

As of the December 2019 annual reconstitution of WisdomTree's domestic dividend indexes, the total [Dividend Stream®](#)—the sum of all regular cash dividends—was \$559 billion.

The table below illustrates the weighting process for the top 10 weights. With a *Dividend Stream* of \$15.56 billion, Microsoft earned the greatest weight at 2.78%.

WisdomTree U.S. Dividend Index

WisdomTree U.S. Dividend Index					
Rank in Index	Company Name	Indicated Dividend per Share	Shares Outstanding (Billions)	Dividend Stream (\$ Billions)	Percent of Total Dividend Stream
1	Microsoft Corp	2.04	7.63	\$15.56	2.78%
2	AT&T Inc	2.04	7.30	\$14.90	2.67%
3	Exxon Mobil Corp	3.48	4.23	\$14.72	2.63%
4	Apple Inc	3.08	4.44	\$13.69	2.45%
5	JPMorgan Chase & Co	3.60	3.14	\$11.29	2.02%
6	Verizon Communications Inc	2.46	4.14	\$10.17	1.82%
7	Johnson & Johnson	3.80	2.63	\$10.00	1.79%
8	Chevron Corp	4.76	1.89	\$9.00	1.61%
9	Wells Fargo & Co	2.04	4.23	\$8.63	1.54%
10	Pfizer Inc	1.44	5.53	\$7.97	1.43%
Top 10 Companies, Total Contributions				\$115.94	20.74%
WisdomTree U.S. Dividend Index: Total Dividend Stream				\$559.12	100.00%

Sources: WisdomTree, Bloomberg, as of 11/30/19. Past performance is not indicative of future results. Holdings subject to change. You cannot invest directly in an index. The WisdomTree U.S. Dividend Index is the parent index for WisdomTree's domestic dividend indexes. The annual screening date for the WisdomTree U.S. Dividend Index takes place at the end of November (11/30). Indicated dividend per share: As of the 11/30/19 Index screening date, this refers to the most regular dividend per share that the respective firm has indicated it will pay over the coming dividend payment cycles.

The breadth of this Index—holding all dividend payers across market caps—provides a good proxy for changes to total U.S. dividends. The combined impact of dividend reductions and dividend growth has resulted in a drop of about 4% in U.S. dividends.

The tables below show the *Dividend Stream* by sector on the left and the rates of change on the right. The dates represent the Index screening date (11/29/19), an unofficial peak dividends date (3/13/20) and the most recent close of business date (5/7/20).

Red font indicates a reduction in indicated dividends for that sector or index since November 29, 2019. Just greater than half of sectors (6 out of 11) have had reductions this year, and Health Care, Utilities, and Information Technology have grown dividends more than 2%.

WisdomTree U.S. Dividend Index

Dividend Stream (\$Bn)				Change in Dividend Stream from 11/29/19		
Sector	11/29/19	3/13/20	5/7/20	Sector	3/13/20	5/7/20
Communication Services	\$36.83	\$37.47	\$33.87	Communication Services	1.73%	-8.05%
Consumer Discretionary	\$40.22	\$41.43	\$26.21	Consumer Discretionary	3.00%	-34.85%
Consumer Staples	\$60.92	\$61.33	\$61.77	Consumer Staples	0.67%	1.40%
Energy	\$46.16	\$45.00	\$42.80	Energy	-2.51%	-7.28%
Financials	\$90.01	\$92.24	\$91.21	Financials	2.48%	1.34%
Health Care	\$61.55	\$63.67	\$63.69	Health Care	3.44%	3.47%
Industrials	\$50.13	\$51.00	\$43.42	Industrials	1.75%	-13.38%
Information Technology	\$81.96	\$83.84	\$83.78	Information Technology	2.29%	2.21%
Materials	\$14.57	\$14.88	\$14.57	Materials	2.12%	-0.04%
Real Estate	\$45.04	\$45.60	\$40.70	Real Estate	1.24%	-9.64%
Utilities	\$31.73	\$32.74	\$32.59	Utilities	3.19%	2.70%
Total	\$559.12	\$569.20	\$534.59	Total	1.80%	-4.39%

Sources: WisdomTree, Bloomberg, as of 5/7/20. You cannot invest directly in an index. Weights subject to change.

High-Dividend Yield and Quality Dividend Growth

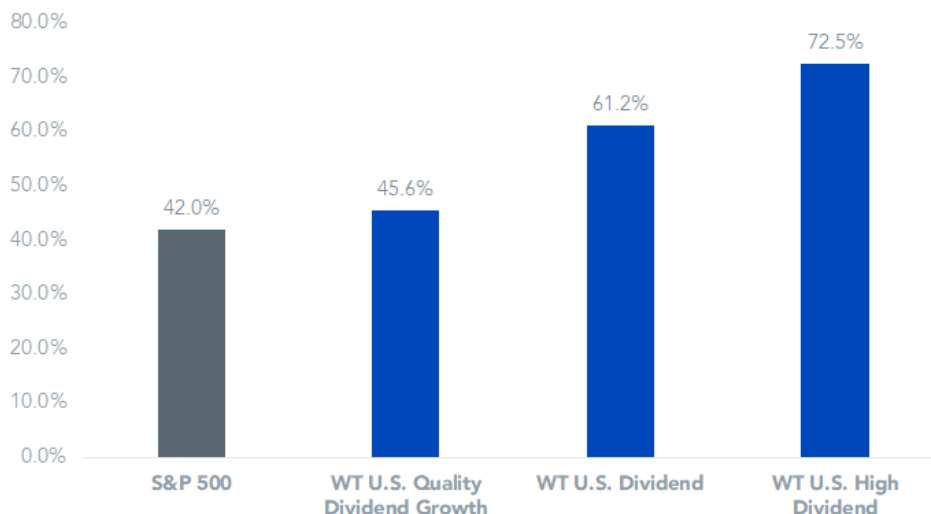
The WisdomTree U.S. High Dividend Index and the [WisdomTree U.S. Quality Dividend Growth Index](#) are subsets of this broad dividend index.

The high-dividend index tracks the 30% of highest yielding companies—screening companies and adjusting weights based on a composite risk filter—and the dividend-growth index tracks 300 companies with sustainable dividends and robust profits.

Expectations for historic dividend cuts have [led the dividend-growth index to outperform the high-dividend index so far this year](#). Investors have wagered that the forced shutdown of the economy will cause the highest dividend yielders—typically sought after for their safety during drawdowns—to severely cut their dividends.

The [dividend payout ratio](#) chart below helps illustrate why investors perceive quality dividend growers to have safer dividends than high-yield—lower payout ratios indicate these companies can withstand a greater hit to earnings before cutting dividends.

Index Dividend Payout Ratios



Sources: WisdomTree, FactSet, as of 5/6/20. Past performance is not indicative of future results. You cannot invest directly in an index.

The inverse can be seen in valuations of these indexes—the high-yield index is at a significant valuation discount to the dividend-growth index. While safer, or more sustainable, dividends can be found from the quality dividend-growth index, the trailing 12-month dividend yield for high dividends is at a 10-year high.

Index Valuations



Sources: WisdomTree, FactSet, as of 5/6/20. Past performance is not indicative of future results. You cannot invest directly in an index.

Interestingly, outsized cuts have not been witnessed from the high-dividend index thus far. This past December, an enhancement was made to the [methodology to screen out companies at risk of cutting their dividends](#).

Of the 99 companies that were screened out (exclusions), 43 have cut or suspended their dividends. **This rate (43%) is more than two times greater than the 17% of companies included** in the Index that have cut or suspended their dividends.

Of companies included in the high-dividend index, 29% have grown their dividends while roughly half as many (15%) of the companies excluded have increased payouts.

WisdomTree U.S. High Dividend Index

Count Summary		
Div Policy	Index Constituents	Exclusions
Suspended	32	27
Cutter	26	16
Grower	97	15
Unchanged	183	40
Other	1	1
Total	339	99

Sources: WisdomTree, Bloomberg, as of 5/7/20. You cannot invest directly in an index. Weights subject to

What's Next

Investors should expect further dividend cuts to come over the coming weeks and quarters. The greatest cuts are likely to come from the companies with the highest yields, with fewer cuts from dividend growers. But this information seems fully reflected in market prices, as we saw with discounted valuations from our high-yield index.

In a future post, we will provide an update on dividend cuts and suspensions within mid-caps and small caps, which have seen more severe cuts thus far and have also yet to experience the same recovery in their share prices that have occurred in large caps. Positioning for an eventual rebound, we think mid- and small-cap valuations may pose a historic opportunity for long-term strategic investors.

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

Futures/Futures Contract : Reflects the expected future value of a commodity, currency or Treasury security.

Market Capitalization : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

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

Russell 3000 Index : Measures the performance of the 3,000 largest U.S. companies based on total market capitalization.

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

Dividend Payout Ratio : The percentage of earnings paid to shareholders in dividends. Calculated as yearly dividends per share over earnings per share.