

Dividends could guide a global equity allocation

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In a previous installment of our educational blog series on investment strategies and asset classes – [The unique advantages of dividends](#) - we discussed why and how WisdomTree weights by dividends.

It is worth noting that dividends not only provide the potential for downside protection, but also provide the potential for a growing stream of income.

Companies are paying larger dividends than ever

Today, more companies are paying dividends—and in larger amounts than ever before. In fact, many companies actually increase their dividends over time, providing a potentially growing stream of income that makes them an attractive investment option for investors of all ages.

For example, the Dividend Stream1, the sum of all dividends being paid has been growing—with the total global dividend stream now at nearly \$1.5 trillion!

Figure 1: WisdomTree's global dividend stream

Sources: WisdomTree, Standard & Poor's, Factset. Data represents the constituents of the WisdomTree Global Dividend Index, measured as of each annual rebalance screening. You cannot invest directly within an Index.

Historical performance is not an indication of future performance and any investments may go down in value.

Global breakdown of dividends by region

Another interesting aspect of the global dividend landscape regards where the dividends, regionally, are coming from. Figure 2 allows us to draw a few key conclusions:

1. The world's largest dividend-paying regions on a dividend stream basis are the United States and Europe.
2. The United States is interesting, in that it has the largest dividend stream out of the regions shown, but only 76.7% of the market capitalization of the MSCI USA IMI Index was in stocks that had paid at least one dividend over the past 12 months, as of 30 September 2018. The MSCI Europe IMI Index showed 97.0% of Index weight in stocks that had paid at least one dividend over the 12-months prior to 30 September 2018, a large difference.

Figure 2: Breakdown of the global dividend stream by region

Region	Dividend Stream 2018 (in billions of USD)	% of Global Market Cap in Dividend Payers
Asia Pacific	\$200.77	98.4%
Canada	\$52.41	91.3%
Emerging Asia Pacific	\$188.14	86.8%
Emerging Europe	\$48.37	91.6%
Emerging Latin America	\$28.13	96.2%
Europe	\$423.70	97.0%
Israel	\$2.80	63.2%
United States	\$503.90	76.7%
Global	\$1,448.22	84.9%

Sources: WisdomTree, Factset, Standard & Poor's. Data is measured as of the WisdomTree 30 September 2018 Global Dividend Index data screening. Asia Pacific refers to developed market countries in the Asia Pacific region, Japan, Hong Kong, Australia, Singapore and New Zealand. Emerging Asia Pacific refers to China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan and Thailand. For the % of Global Market Cap in Dividend Payers which comes from the MSCI ACWI IMI Index in this case, Pakistan is also included, but it is not an eligible country within WisdomTree's Global Dividend Index. Canada, Emerging Europe, Emerging Latin America, Europe, Israel, the United States and Global refer to the MSCI Canada IMI, MSCI Emerging Europe, MSCI Emerging Latin America, MSCI Europe IMI, MSCI Israel IMI, MSCI United States IMI, and MSCI ACWI IMI Indices for the % of Global Market Cap in Dividend Payers. This measure is calculated as the percent weight in firms that paid at least 1 dividend over the prior 12-months, as of 30th September 2018. You cannot invest directly within an Index.

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Dividends as a guide to global equity allocations

Dividends are also becoming quite prolific. Small, medium and large companies all over the world offer dividends. We spend a lot of time helping investors think about a global equity allocation.

Market capitalization—the starting point

Investors today are extremely familiar with the allocations that come from market capitalization-weighting. US equities receive nearly 55% of the exposure, followed by developed world excluding US at 34.4% and emerging markets at nearly 11%, as illustrated on figure 3a. Now, many people also cite that the US equity market has been among the world's strongest exposure for an extended period, looking back to the Global Financial Crisis of 2008-09.

Dividend stream weighting—a method sensitive to relative valuation

Instead of allowing the share price multiplied by the number of shares outstanding to dictate exposure, investors might consider allowing the dividend per share multiplied by the number of shares outstanding to drive the result. As we mentioned earlier, WisdomTree calls this term the dividend stream. This would shift weight from the US towards both the Developed World ex-US and to the Emerging Markets. Yes, such an approach would have underperformed over the past 10 years, but on a forward-looking basis, it creates an interesting, differentiated starting point.

Figure 3a: The world broken down by market capitalization weighted exposure

Source: Bloomberg, with data measured for the MSCI ACWI IMI Index as of 30 September 2018. You cannot invest directly within an Index.

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Figure 3b: The world broken down by dividend stream weighted exposure

Sources: WisdomTree, Factset, Standard & Poor's, with data measured as of the 30 September 2018 WisdomTree Global Dividend Index Screening. You cannot invest directly within an Index.

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WisdomTree weights by dividends to potentially magnify the impact of dividends on performance. In addition, we conduct an annual rebalance back to relative value in order to manage valuation risk. This process is designed to help portfolios generate more income than their market cap-weighted counterparts.

1 The Dividend Stream is a term devised by WisdomTree, and it refers to the dividend per share of a firm over the prior annual cycle, measured as of 30 September each year, multiplied by the number of shares outstanding. Figures are converted into US dollar terms.

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