Europe’s Dividend Growth Explained

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An interesting aspect of the WisdomTree annual rebalance process is identifying trends in aggregate regional *Dividend Streams®* of major markets. As we just rebalanced our developed world Indexes, including Europe, we wanted to provide some insight into how Europe’s dividends grew in the 12 months prior to the rebalance. The headline figure: Europe’s *Dividend Stream* grew 12.4% compared to the 2013 annual screening.1 Let’s look at how this has changed over time and the drivers of this year’s growth.

Figure 1: Behavior of Europe’s Dividend Stream—Two Consecutive Years of Growth!

Europe *Dividend Streams* as of Annual Index Screening Dates							
	2008	2009	2010	2011	2012	2013	2014
Europe	$473.4	$301.0	$289.7	$366.6	$314.3	$345.6	$388.3
Year-over-Year Growth		-36.4%	-3.8%	26.6%	-14.3%	9.9%	12.4%
Cumulative Growth		-36.4%	-38.8%	-22.5%	-33.6%	-27.0%	-18.0%

Sources: WisdomTree, Standard & Poor’s. Refers to companies in the WisdomTree DEFA Index universe that are incorporated in European countries. Past performance is not indicative of future results.

• Unlike the Dividend Stream of the United States,2 which has been hitting new record highs recently, Europe’s Dividend Stream of $388.3 billion still must grow 22% to reach its 2008 peak (or similarly put, currently we are 18% lower than 2008 levels). Yet clearly, the Dividend Stream is off its 2010 lows, up more than 34%, signaling positive momentum. • Financials experienced the greatest decline from 2008, going from approximately $160 billion in 2008 to approximately $86 billion in 2014. Financials must grow more than $72 billion (nearly 84%) from 2014 levels to surpass their 2008 peak. To delve into this difference in the dividends of European Financials from 2008 versus 2014, we’d like to note that in 2008, about 220 firms qualified as dividend payers in the European Financials sector, compared with 170 firms today. Royal Bank of Scotland3 is perhaps the most notable dropout, contributing more than $10 billion to the *Dividend Stream* in 2008 but not paying a dividend since. **Factors Driving Dividend Growth** The 12.4% aggregate growth of the Dividend Stream masked some variability in growth at both a sector and a country level.

Figure 2a: Dividend Stream Growth by Country

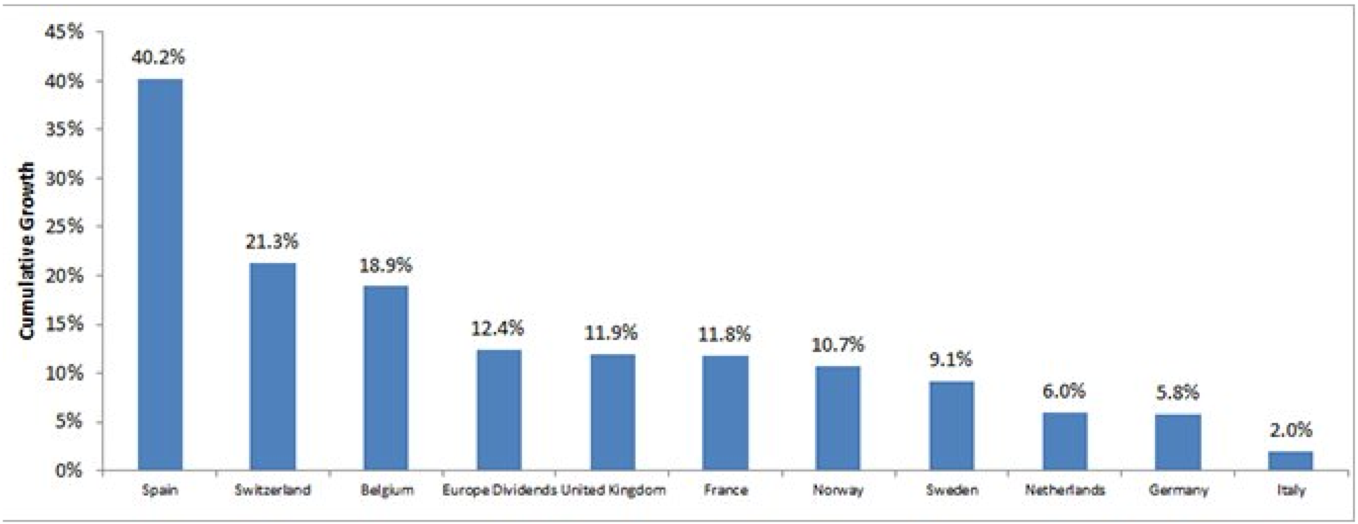
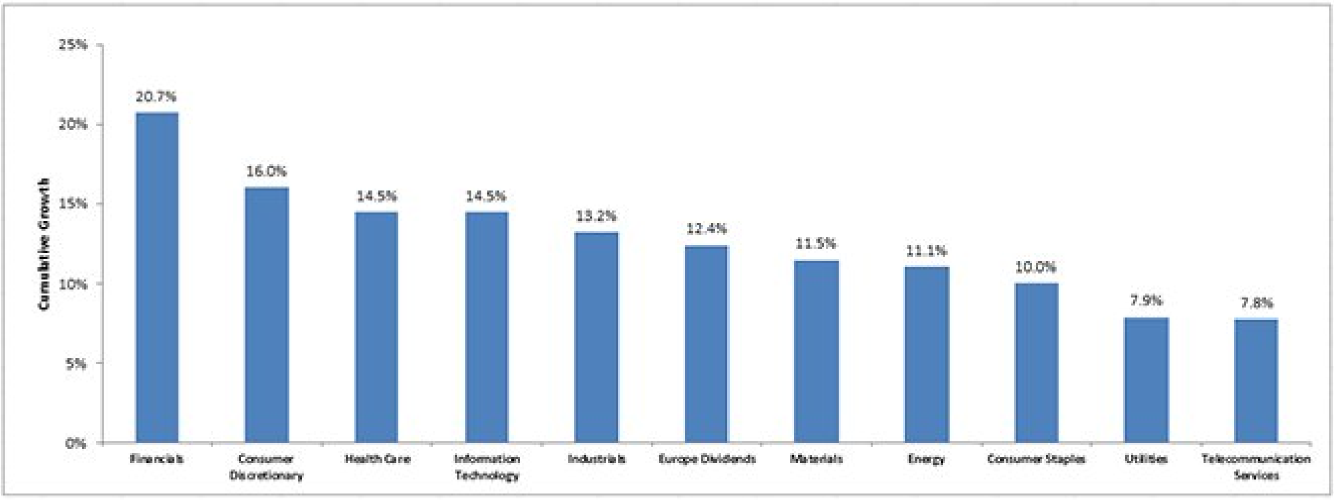


Figure 2b: Dividend Stream Growth by Sector



Sources for Figures 2a & 2b: WisdomTree, Standard & Poor's. Refers to companies in the WisdomTree DEFA Index universe that are incorporated in European countries. Period is from 5/31/13 Index screening to 5/31/14 Index screening. Past performance is not indicative of future results. Subject to change.

• **What Happened in Spain?** In looking at figures 2a and 2b, the case of Spain literally leaps off the page, so we looked a bit more deeply into what was driving the 40% *Dividend Stream* growth figure. It's worth noting here that Spain's total *Dividend Stream*, slightly over $32 billion, is less than 10% of Europe's total *Dividend Stream*, which we saw earlier is $388.3 billion. Broadly speaking, there are two drivers of Spain's dividend growth:4 o **Companies Re-initiating Payments:** Telefonica SA5 and Endesa SA6 are two examples of this phenomenon. Both failed to make their dividend payments leading up to the 2013 screening date, so they were not eligible to contribute to Spain's *Dividend Stream*. In 2014, Endesa SA had a *Dividend Stream* of over $2 billion, and Telefonica re-initiated an annual *Dividend Stream* to contribute more than $4.6 billion. o **Companies Growing Dividends Significantly:** Repsol SA7 is an example of a firm that was included in Europe's Dividend Stream in 2013, but that nearly doubled its dividend per share for this year's screening date. Its contribution was over $1.7 billion. This is the first of a series of blogs that will discuss our European Index rebalance. In future installments, we'll dig into some specific

Indexes and describe how the rebalancing process illustrates a real-time case study of smart beta at work. For the full research on the WisdomTree European Indexes rebalance, click here. 1Refers to annual screening dates 5/31/13 and 5/31/14. 2Refers to the universe of the WisdomTree Dividend Index, with most recent Index screening date of 11/30/13. 3Royal Bank of Scotland is not a dividend-paying company and is therefore not included in any WisdomTree Dividend Index. 4For entire paragraph and subsequent two bullets, sources are WisdomTree, Standard & Poor's and Bloomberg, with data as of 5/31/14 Index screening. 5As of the 5/31/14 Index screening date, Telefonica SA was prescribed to be a 1.09% weight in the WisdomTree International LargeCap Dividend Index, a 0.81% weight in the WisdomTree DEFA Index, a 1.30% weight in the WisdomTree DEFA Equity Income Index, a 1.64% weight in the WisdomTree International Dividend ex-Financials Index and a 5.77% weight in the WisdomTree Europe Hedged Equity Index 6As of the 5/31/14 Index screening date, Endesa SA was prescribed to be a 0.51% weight in the WisdomTree International LargeCap Dividend Index, a 0.37% weight in the WisdomTree DEFA Index, a 0.61% weight in the WisdomTree DEFA Equity Income Index and a 1.44% weight in the WisdomTree International Dividend ex-Financials Index. 7As of the 5/31/14 Index screening date, Repsol SA was prescribed to be a 0.41% weight in the WisdomTree International LargeCap Dividend Index, a 0.30% weight in the WisdomTree DEFA Index, a 0.48% weight in the WisdomTree DEFA Equity Income Index and a 1.24% weight in the WisdomTree International Dividend ex-Financials Index.

Important Risks Related to this Article

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