

Taking Stock



Wealth
Management

October 14, 2021

Portfolio Advisory Group – U.S. Equities

Reaping dividends with dividend growth investing

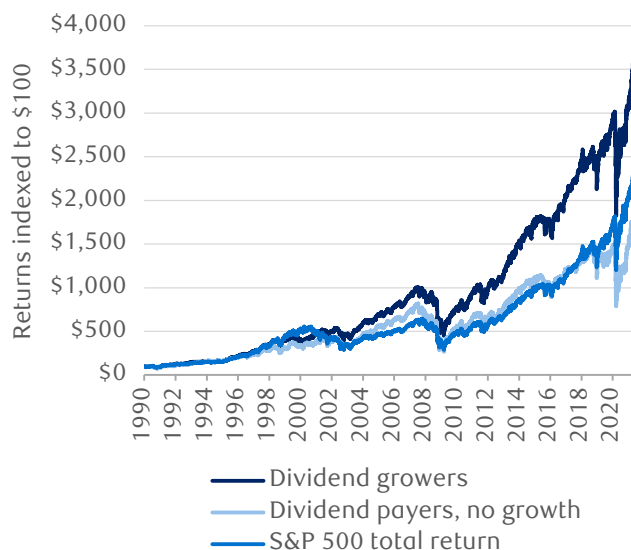
Dividend investing can deliver strong investment performance when focusing on companies that consistently grow their dividends each year. The chart shows how dividend growth stocks have significantly outperformed dividend-paying stocks with no dividend growth. Also, the returns of dividend growers have outpaced the S&P 500 over the long term, which is why we believe dividend growth investing can be a core long-term investment strategy.

A core portfolio strategy

Consistent dividend growth requires consistent revenue and earnings growth. High-quality businesses with strong competitive positioning are typically able to deliver that consistent growth. Therefore, the potential for outperformance of dividend growth stocks makes intuitive sense since their investment returns are driven by growth and not just valuation multiple changes. Also, the stocks of high-quality businesses that deliver consistent growth tend to receive premium valuation multiples compared to peers.

Investors of all types value growing dividend income streams. Dividend cash flow can be reinvested into the portfolio or distributed for income. Growing dividends can also provide purchasing power protection against inflation. Older investors tend to most highly value growing dividends to help meet their current income needs and to act as a buffer against inflation. Demographic trends are favorable for dividends as, according to the U.S. Census Bureau, the percentage of the U.S. population 65 years or older is expected to grow from 17% of the total population in 2020 to 21% in 2030.

Returns by dividend policy



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Attractive investment outlook

We believe the current outlook for dividend growth investing is attractive. Importantly, the dividend growth fundamentals for most companies have improved as the economy has recovered. Also, dividend growth stocks possess attractive valuations relative to the broader market after underperforming thus far during the pandemic. We believe the stronger economic environment and rising interest rate backdrop will help improve the valuations of dividend growth stocks.

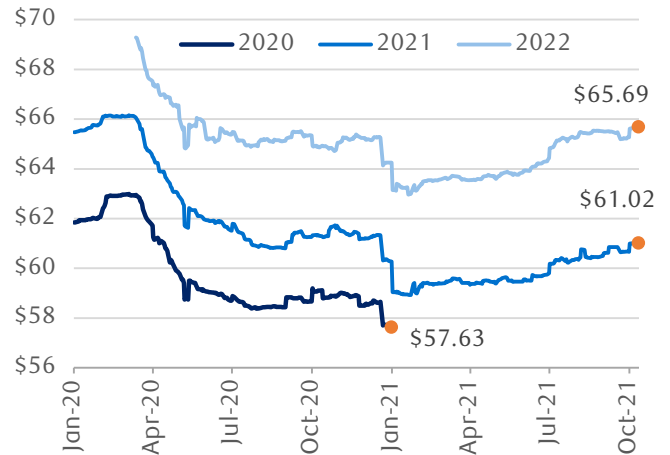
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Dividend stock yields also appear attractive relative to corporate bond yields. According to data from the St. Louis Federal Reserve, an index of investment-grade corporate bonds yields 2.0% and an index of high-yield corporate bonds yields 4.3%. Both of those yields are near historically low levels compared to the current 1.3% dividend yield of the S&P 500. We believe the low corporate bond yields suggest more muted go-forward return potential for the asset class, making dividend growth stocks look attractive given their higher yields and potential for capital appreciation.

The power of dividend growth

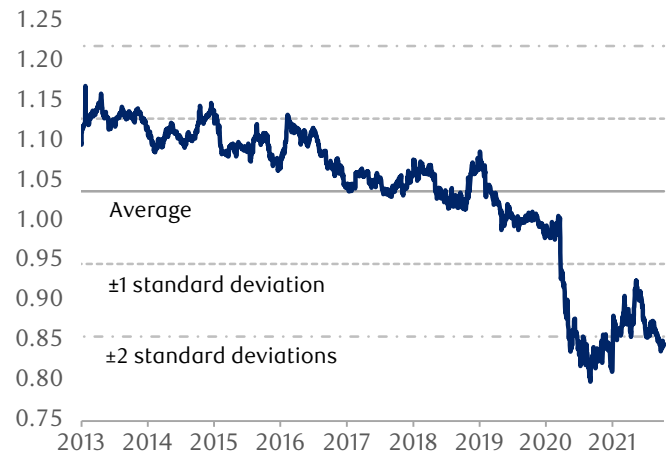
We believe dividend growth investing can be a core long-term investment strategy given its focus on high-quality companies and the investor appeal of growing dividend income streams. We also see the current outlook for dividend growth investing as attractive due to strong business fundamentals and compelling valuations on dividend growers. A portfolio of dividend growth stocks can generate a growing stream of dividend income to keep investor purchasing power ahead of inflation, while also enabling the potential for long-term capital appreciation.

S&P 500 dividend estimates



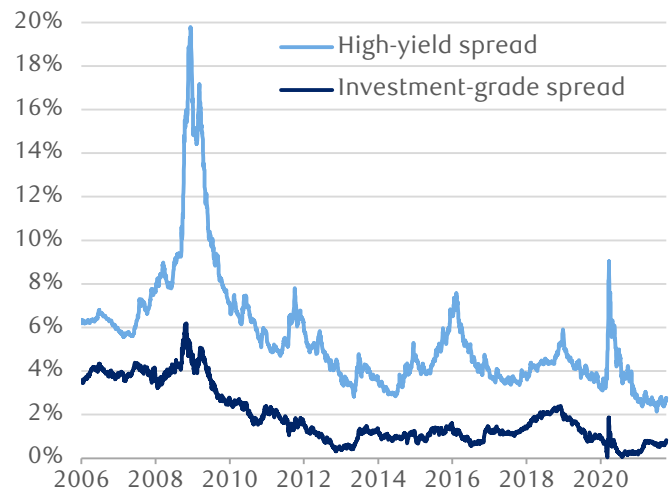
Source - Bloomberg

Relative forward P/E evaluation: Dividend Aristocrats vs. S&P 500



Source - Bloomberg

Corporate bond spreads over S&P 500 dividend yield



Source - Bloomberg

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			Count	Percent
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