Dividend-Payers' Performance Across Monetary Cycles

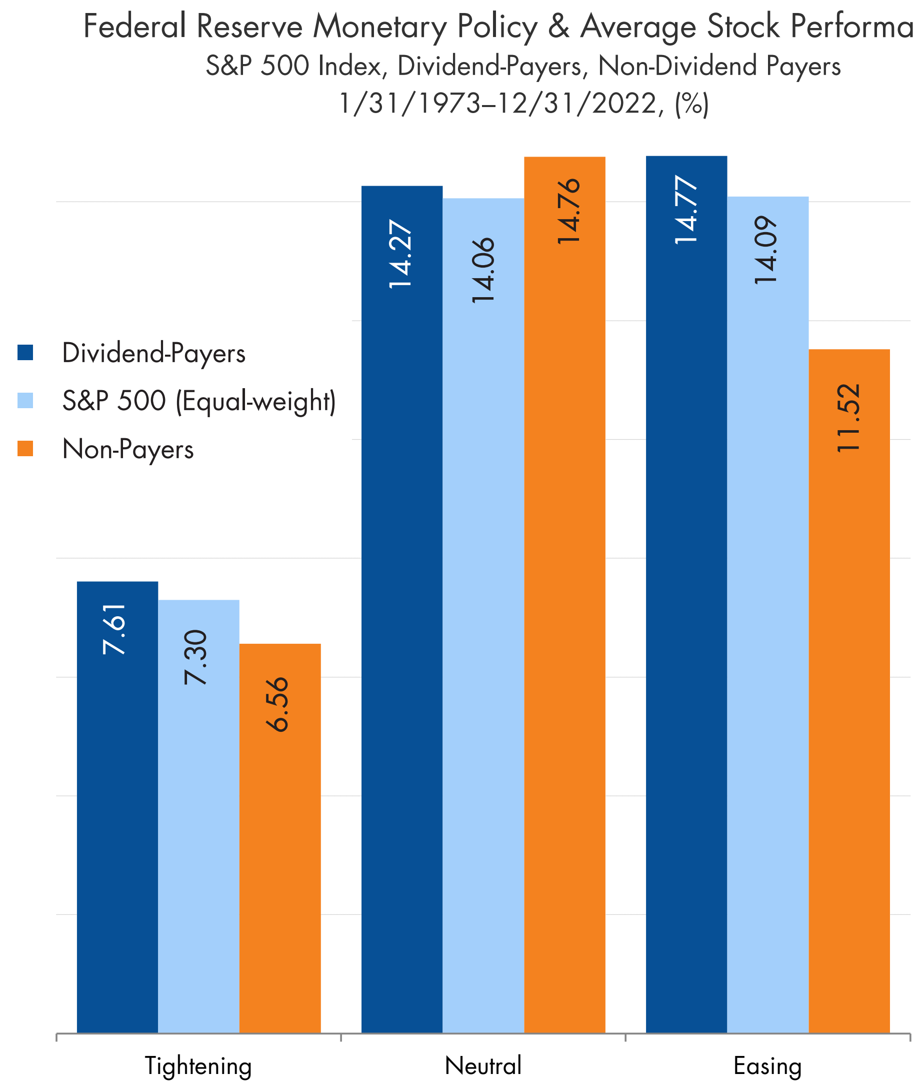
ADVISORS ASSET MANAGEMENT

Traditional wisdom states that rising interest rates are bearish for dividend-paying stocks since they are typically viewed as "bond surrogates". Over short periods of time, this dynamic is frequently true. However, traditional wisdom is turned on its head when returns are viewed from a longer-term perspective.

Many investors understand the negative effect rising interest rates may potentially have on their fixed income investments, and often paint dividend-paying equities with the same brush.

It may therefore surprise you to learn that over the long-term (1/31/1973-12/31/2022), dividend-paying stocks in the S&P 500 Index posted a *positive* average total return during tightening cycles. Dividends, when reinvested, have the potential to dramatically enhance total return, so even if the a stock declines in price, the income generated can mitigate or even offset the decline (see chart on following page).

In fact, when viewed with a long-term lens, dividend-paying stocks in the S&P 500 Index generated a positive return and outperformed the equal-weight S&P 500 Index across all monetary cycles.



Source: Ned Davis Research, Inc. © Copyright 2023 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/. Annualized total returns for S&P 500 Index constituents, including the reinvestment of dividends, equal-dollar-weighted with monthly rebalancing. Past performance does not guarantee future results. It is not possible to invest in an index. Returns are not indicative of any AAM product.

S&P 500 Index Price, Income and Total Return (%)

	1930s	1940s	1950s	1960s	1970s	1980s	1990s	2000s	2010s	2020	2021	2022
Price Return	-5.3	3.0	13.6	4.4	1.6	12.6	15.3	-2.7	11.2	16.2	26.9	-19.4
Income Return	5.6	6.0	5.6	3.3	4.1	4.8	2.8	1.8	2.2	2.2	1.8	1.3
Total Return	0.3	8.9	19.2	7.7	5.7	17.4	18.1	-1.0	13.4	18.4	28.7	-18.1

By Decade By Year

- Historically, dividends have contributed a substantial portion of total market return – 40.8% of the total return on the S&P 500 Index from 12/31/1929 through 12/31/2022.
- More specifically, the S&P 500 without dividends returned an average 5.7 per year during this period, versus a total average annualized return (including reinvestment of dividends) of 9.7%.

Source: Ned Davis Research and Standard and Poor's. **It is not possible to invest directly in an index. Past performance does not guarantee future results.** The return of the price index is referred to as capital appreciation. Income return is assumed to be the Index's total return minus its capital appreciation. Total Return = Capital appreciation plus reinvested dividends during the time period.

US monetary policy is the process by the Federal Reserve controls (i) the supply of money, (ii) availability of money, and (iii) cost of money or rate of interest, in order to attain a set of objectives oriented towards the growth and stability of the economy. Monetary policy is generally referred to as either being an expansionary (easing), contractionary (tightening) or neutral. An expansionary policy is traditionally used to stimulate a sluggish economy and keep unemployment in check by increasing the total supply of money in the economy via lower interest rates. A contractionary policy (tightening) seeks to slow economic expansion and inflation by decreasing the total money supply and raising interest rates. Neutral policy seeks to neither stimulate nor contract the economy.

Trade-Offs and Risks: Dividend Payment Risk: An issuer of a security may be unwilling or unable to pay income on a security. Common stocks do not assure dividend payments and are paid only when declared by an issuer's board of directors. The amount of any dividend may vary over time. **Market volatility.** A company's stock price, whether dividend-paying or not, may move up or down depending on various market conditions. Therefore, the initial principal invested may be worth less when an investor decides to sell, depending on the market value of the underlying holding. **Loss of income.** A company may choose to skip or suspend dividend payments. In this case, shareholders lose the investment income and might also see the value of their shares fall if income-oriented investors sell their holdings. **Underperformance.** During market rallies, dividend stocks historically lag the broader market, causing investors to accept relatively lower return potential in exchange for less volatility and income. **Increase in income tax rates**. The current dividend tax rate is subject to legislative changes. Please consult a tax professional regarding the taxation of dividends.

S&P 500 Index: The S&P 500 Index is an unmanaged market capitalization-weighted index used to measure 500 companies chosen for market size, liquidity and industry grouping, among other factors.

1. **Dividend-Paying vs. Non-Dividend-Paying Stocks:** Each stock's dividend policy is determined by its indicated annual dividend. Ned Davis Research classifies a stock as a dividend-paying stock if the company indicates that it is going to be paying a dividend within the year. A stock is classified as a non-payer if the stock's indicated annual dividend is zero.

   The index returns are calculated using monthly equal-weighted geometric averages of the total returns of all dividend-paying (or non-paying) stocks. A stock's return is only included during the period it is a component of the S&P 500 Index. The dividend figure used to categorize the stock is the company's indicated annual dividend, which may be different from the actual dividends paid in a particular month.

   Dividend-Growing, No-Change-In-Dividend, and Dividend-Cutting: Dividend Growers and Initiators include stocks that increased their dividend anytime in the last 12 months. Once an increase occurs, it remains classified as a Grower for 12 months or until another change in dividend policy. No-Change stocks are those that maintained their existing indicated annual dividend for the last 12 months (i.e., companies that have a static, non-zero dividend). Dividend Cutters and Eliminators are companies that have lowered or eliminated their dividend anytime in the last 12 months. Once a decrease occurs, it remains classified as a Cutter for 12 months or until another change in dividend policy.