



## **DIVIDENDS: A LUCRATIVE INCOME STREAM FOR EQUITY INVESTORS**

### **Outlook for 2020: dividends as a central argument**

Right at the start of the new year, things really started happening on the stock markets. After a friendly first day of trading, the SMI® dropped more than 100 points on Epiphany. Worldwide, the threat of an escalation in the conflict between the USA and Iran caused uncertainty at the start of the first full week of trading in 2020. Nevertheless, investors used the setbacks as a buying opportunity; at any rate, the leading domestic index quickly made good the losses mentioned above.

This demonstrates once again that, despite all the risks, it remains hard to look past equities as an investment class. One of the central arguments for this view is dividends. UBS Global Wealth Management asked more than 3,400 high net worth investors for their assessments, targets and key themes for 2020. More than two thirds of those who took part indicated that they wanted to increase their exposure to blue chip equities which issue dividends.

According to the "UBS Investor Watch" publication, they are doing so in response to the well-known lows in interest rates.

### **Enormous discrepancy**

Indeed, the pickings on bond markets are thinner than ever for investors. "In total, just under 25% of outstanding bonds worldwide have a negative nominal yield," Allianz Global Investors (AGI) found. This rate is even higher among the government securities regarded as particularly safe.

According to the experts, some 90% of bonds issued by Germany, for instance, were returning less than zero in December 2019.

While the ten-year benchmark Bund last lay around 23 basis points in the red, the Swiss Eidgenossenschaft of the same term was actually more than twice that far into negative territory.

Many companies, on the other hand, are scoring with high dividend yields.

According to AGI, the discrepancy between this key ratio and the yields on government and corporate bonds in Europe has never been as great. Based on the MSCI country indices, for instance, the dividends paid by German and Swiss companies correspond to an interest rate of around 3%.

### **Significant performance factor**

"Dividend strategies seem to be a very attractive option for achieving a capital income and stabilising the portfolio," wrote the AGI capital market professionals in a recent study.

They back up the fore-mentioned buffer function with a historical analysis. Beginning in 1974, AGI has analysed the European equity market in five-year periods. "Dividends were able to compensate for some or even all losses on share prices," the analysts found. This is particularly true for the correction phases following the turn of the millennium and during the global financial crisis in 2008/09 (see graph).

Over the period as a whole, dividends contributed some 38% to the annualised total return on an equity investment in the MSCI® Europe.

It is well known that stock markets having been trending upwards for more than a decade. Thanks to the constant rise in profit sharing, dividend yields still remain lucrative. According to calculations by Janus Henderson, in 2018 companies around the world distributed just under USDtn 1.4 in 2018. That represents a jump of 28% in total distributions globally in the space of five years (see graph).



## **Expert in dividend strategy**

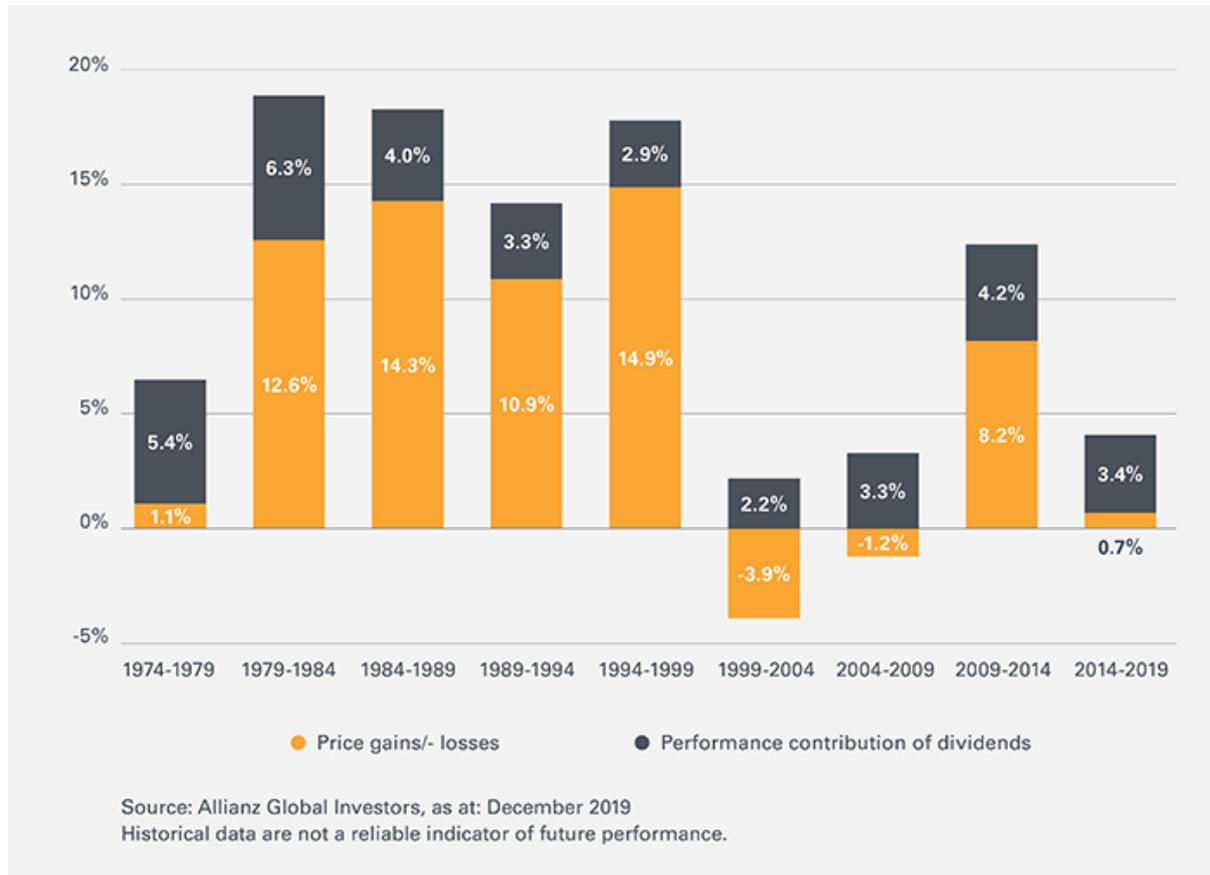
In their search for attractive dividend-bearing stocks, however, investors should not rely solely on yields: a number of other parameters must also be taken into account. These include in particular the sustainability of the distributions.

Another key criterion is the growth of the profit shares. Investors do not need to hack their way through the thicket of shares and the associated data on their own, though, as there are many stock market professionals who have dedicated themselves to a dividend strategy.

In the German-speaking world, Christian W. Röhl is one of those with detailed knowledge of this topic. On his "DividendenAdel" research platform, the entrepreneur and author supplies statements, strategies and statistics for a long-term positioning in high-yielding equities. The approach he takes also now forms the basis for diversified dividend indices.

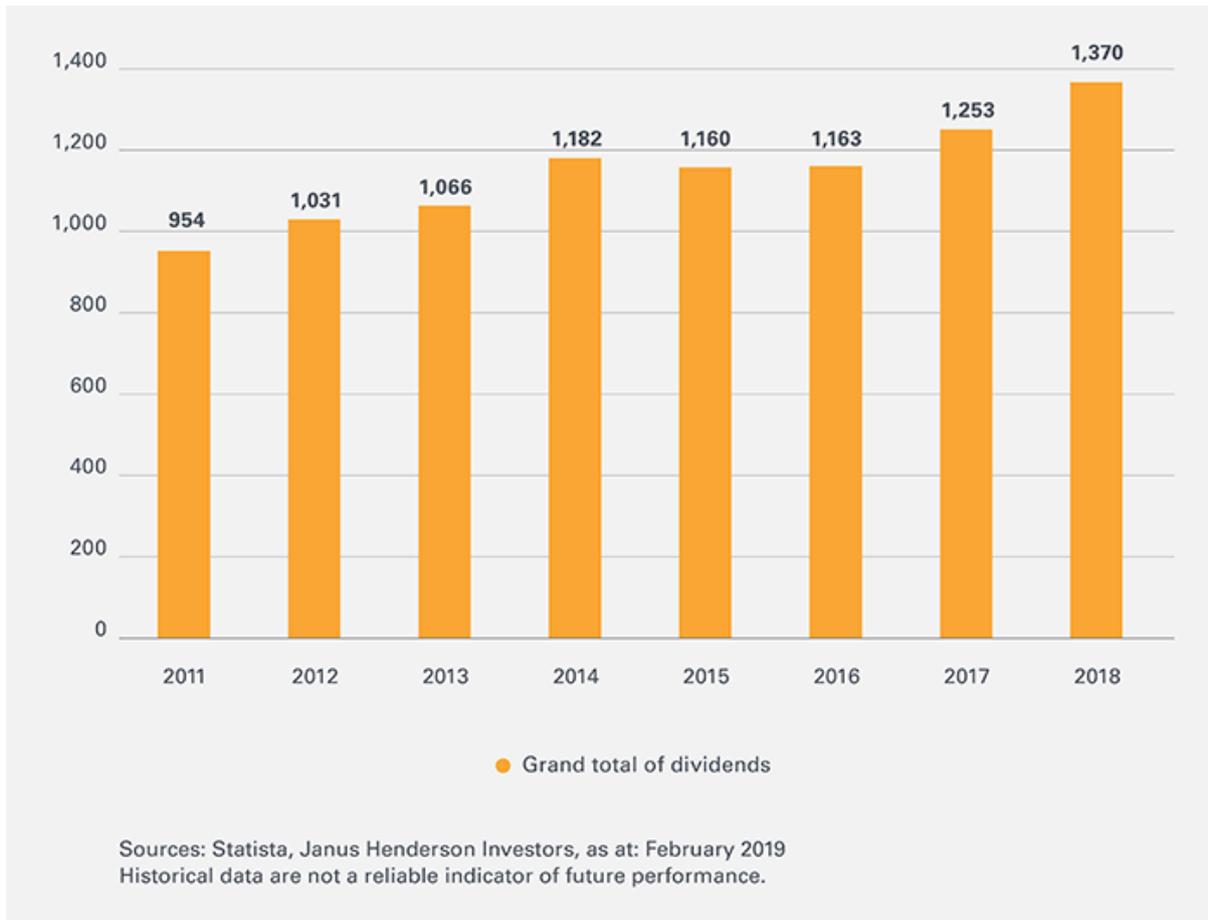


## MSCI® EUROPE: PERFORMANCE CONTRIBUTION OF DIVIDENDS AND SHARE PRICES SINCE 1974 (IN %)





## GRAND TOTAL OF WORLDWIDE DIVIDENDS (IN USDBN)



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