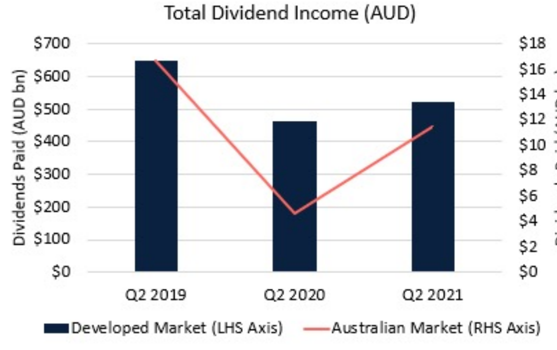
Plato
INVESTMENT MANAGEMENT

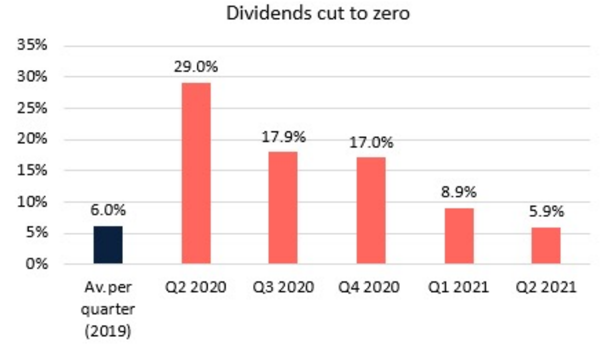
Global Income Quarterly – 2021 Q2 update

What are the major trends in global income?

- In local currency terms income grew substantially (24.9% Q2 2021 v Q2 2020), albeit from a low base last year when many companies deferred payment, reflecting the continued economic and company improvement.
- In AUD terms dividends still grew an impressive +12.5%, in Q2 2021 (v Q2 2020).
- The effect of currency on dividends in Q2 was -12.4%, due to a broadly stronger $A compared to the lows in Q2 2020. This large currency effect reduces dividends to Aussie investors and hence the AUD based growth numbers in this report.
- Global developed market companies paid out $A521bn in Q2. After a very weak 2020 we continue to see strength in dividends, inline with our previous forecasts, for the year ahead.
- The number of companies cutting to zero (5.9%) continues to fall as many companies have already been impacted or have stronger balance sheets.
- The Plato Global Equity fund continues to distribute 6% p.a. yield since inception. This highlights the continued importance of active management in income generation and avoiding dividend traps.



Source: Factset

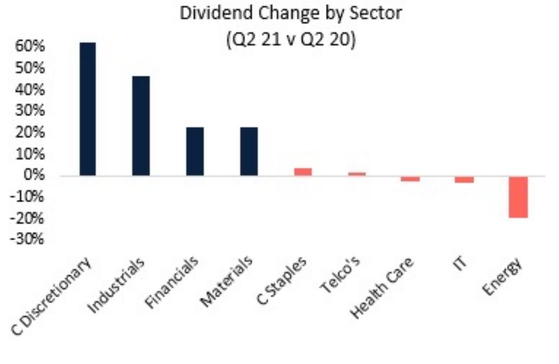


Source: Factset

- On the positive side, 46% of dividend paying companies increased or initiated dividends compared to the same quarter last year. Additionally, the number of companies decreasing payouts is down to 9%.
- Many companies deferred or cancelled Q2 2020 dividends. This year we have seen the re initiation of dividends from some large companies, for example Adidas and Volvo.
- European companies were the driver of last year's dividend fall (-47% Q2 2020 v Q2 2019). Pleasingly European, including UK, dividends rebounded strongly (+38.6% Q2 2021 v Q2 2020). Changes in dividends were not uniform. In AUD terms Asia (+8.1%) posted positive dividend growth in Q2. North America was the only negative region in AUD terms. This was driven by a stronger AUD. Dividend growth in USD was +3%.

Which countries are leading the charge?

- European countries continued to lead the charge on dividends in Q2.
- After substantial falls, some European countries more than doubled their payout, albeit from a small dollar base. Increases included France 140%, Sweden 221% and Austria 295%.
- Although the majority of countries grew dividends versus the previous corresponding quarter, there were some that reduced. There were obvious winners, including the UK which was up strongly. The largest paying country, the United States, had positive underlying dividend growth, but fell when translated into AUD (US -9%).
- Some companies contributing to strong income included LVMH , Deutsche Post and National Grid. None of these names paid in Q2 2020, all deferred but resumed paying in Q3.
- Australian dividends continued the Q1 rebound in Q2 (+147%). In line with our forecasts, there was strong payouts from the likes of Westpac, ANZ, NAB and Macquarie Group. In Q2 last year they had cancelled, deferred or just reduced their payout.



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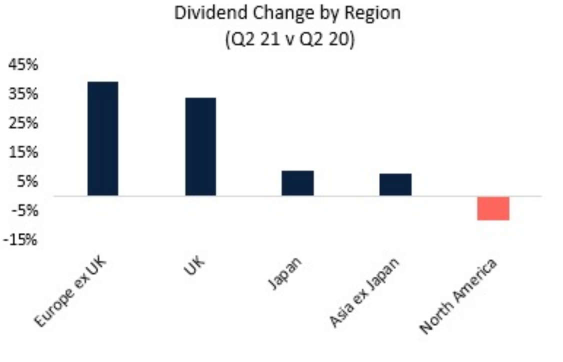

Source: Factset

What happened in global sectors?

- COVID-19 has impacted sectors differently in the dividend rebound as it did the initial reduction. In 2020 IT & Healthcare increased the most, with Consumer Discretionary and Financial names hurting. Many of the sectors that saw big reductions have rebounded strongly.
- Strong household balance sheets and reduced lockdowns helped consumer discretionary lift dividends +62%. Names that didn't pay in Q2 last year but have paid large AUD dividends include auto names Stellantis and Daimler. Discretionary names, hit by the pandemic, that discontinued dividends include hotel chain Marriott and cruise operator Carnival Plc.
- Energy (-19%) continues to lag, as the sector struggles to keep pace with the post pandemic market. Businesses that cut included BP and the currency effect hurt payouts in AUD from US companies including Chevron and Exxon Mobil Corp.
- Financials (+22%) continued to be the largest dividend payer in AUD terms ($117.9bn AUD), contributing nearly a quarter of the Q2 payout. European financials AXA, BNP Paribas and Intesa san Paulo increased their payouts from a low or cancelled Q2 2020. After mandated cuts to European and US bank dividends, the environment has improved. The Fed recently lifted restrictions and saw future dividend increases from the likes of JPM, Morgan Stanley and Bank of America. The ECB is expected to follow suit in coming weeks.

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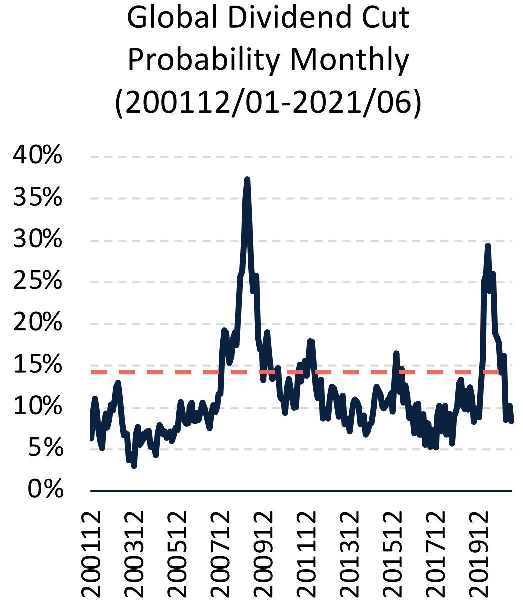
Interesting facts in global income

- When incorporating dividend cuts and initiations, 4.3 companies increased or initiated dividends for every one company that reduced or completely cut dividends versus the previous corresponding period. This is strongly up from 1.6 last quarter, another sign of dividends strengthening back towards pre pandemic levels.
- The number of US companies that pay a dividend and increased or initiated in Q2 (v Q2 2020) was up to 57%, versus 29% that remained unchanged.
- The number of companies paying a dividend fell from 2020 to 2019. However, 40% of companies covered paid in Q2 2021, which was up from 35% in Q2 last year. 7 countries had a payer ratio over 50%, led by Canada and Portugal.



Source: Plato Investment Management

What's the outlook for global income?

Plato's proprietary dividend cut model provides insights into future dividends. It represents Plato's macro view regarding the likelihood that global developed markets will cut their income.

The pandemic has already impacted many companies and consequently our model predicts the chance of global developed market dividends being cut (8%) further, to remain below the long term 12% average.

Transportation infrastructure remains elevated. However, we have seen some other high risk industries improve significantly. Airlines was over 40% in March 2020, but is <10% now. Hotels, restaurants and Leisure is also down below 10%.

In conclusion

- The dividend cut model has been very accurate in predicting the magnitude of dividend cuts. Pleasingly the Plato proprietary model is signalling a much more positive outlook for 2021.
- Yields, especially in Europe, have rebounded strongly and markets continue to see improved performance from the more yield heavy value sectors. Local currency dividends are greatly improved versus Q2 2020. Economic recovery is translating to an improved dividend outlook.
- Our dividend outlook is certainly brightening, but given the fluid environment it is important to look forwards rather than backwards. Stock selection, and avoiding dividend traps, remains key.

Methodology

1. The methodology uses dividends paid, in AUD, however the ex dividend date is used to allocate the dividends in the relevant time period e.g. Q3 2020.

2. Dividend paid ($) for each stock in each calendar quarter is calculated as the shares outstanding as of quarter end multiplied by the total gross dividend per share (DPS) paid out in the calendar quarter. The DPS paid excludes spin offs but includes capital returns and special dividends. Conversion to AUD is done using the prevailing WM/Reuters London exchange rates at the time of dividend payment.

3. Full year dividend paid ($) is the summation of dividend paid ($) from Q1 to Q4 using the methodology (1).

4. DPS movement is based on total DPS paid out (in local currencies) over each calendar quarter. DPS movement from quarter to quarter is then categorised as initiating, increasing, unchanged, decreasing or cut to zero.

5. Secondary issues are removed from the calculations to prevent double counting of income.