2021 Heralds Better Times for Retiree Income – Q3

What are the major trends in global income?

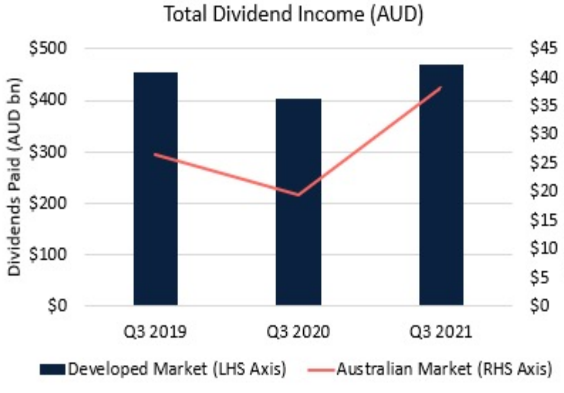
- In local currency terms, income continued to grow substantially (+19% Q3 2021 v Q3 2020), albeit from a low base last year when many companies deferred payment. On top of +24.9% growth last quarter, this reflects the continued economic and corporate improvement.

- In AUD terms dividends still grew an impressive +17% (Q3 2021 v Q3 2020). The effect of currency on dividends in Q3 was -2%, due to a slightly stronger $A compared to Q3 2020. This currency effect reduces dividends to Aussie investors and hence the AUD based growth numbers in this report.

- Global developed market companies paid out $A470bn in Q3. 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 (6.1%) has returned to levels seen pre the pandemic. As companies strengthen balance sheets, this validates our house view of growing dividends.

- The Plato Global Equity fund continues to distribute 6.1% p.a. yield since inception. This highlights the continued importance of active management in income generation and avoiding dividend traps.



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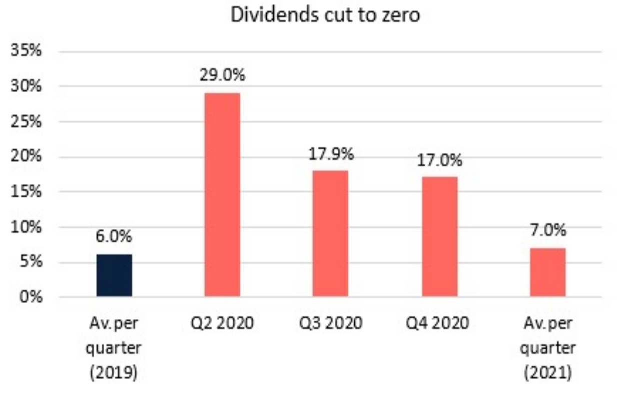

Source: Factset

- Pleasingly, 54% of dividend paying companies increased or initiated dividends compared to the same quarter last year. Additionally, the number of companies decreasing payouts is down again to 5.4%.

- We continue to see companies, that deferred or cancelled dividends in 2020, re initiate payouts. A good example in this period is US footwear retailer, Foot Locker Inc.

- North American companies were a driver of the Q3 2020 fall in dividends (-12.2% v Q3 2019). In Q3 2021 the region grew dividends +12.4%, paying out $236bn AUD.

- However, both the Asia-Pacific and European regions displayed even stronger growth, paying out in excess of 20% more income than Q3 last year. (In AUD terms: Asia +22.6% & Europe +21.2%)

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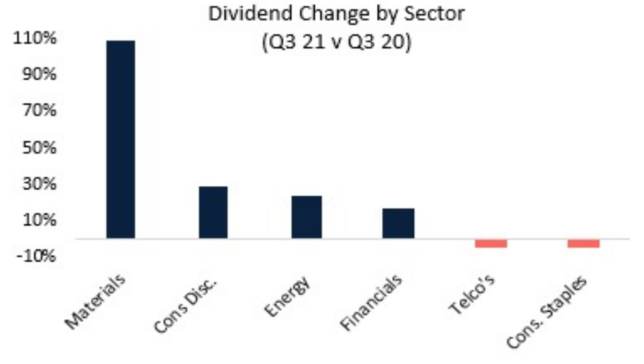
Which countries are leading the charge?

- As a broad region Asia led the charge on dividends in Q3.
- After substantial falls, some countries continued from Q2 to substantially increase their dividends. Increases included the UK 88%, Sweden 95% and Israel 324%.
- There was a real spread in Q3, with many countries decreasing their payouts from the previous corresponding quarter. However, the strong dollar increases from Australia, the UK and the US spearheaded overall growth.
- Some companies contributing to strong income included Microsoft, Apple and British American Tobacco. All 3 companies increased their DPS from Q3 2020.
- Australian dividends continued their strong rebound (+97%) Fortescue Metals, BHP and RIO all substantially increased their payouts from Q3 2020. The latter two also paid out significantly via their UK listings.



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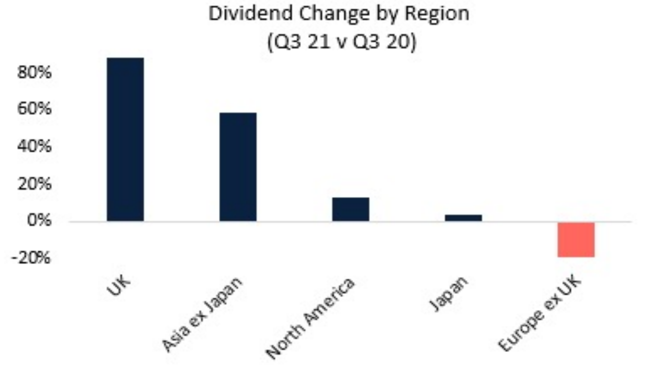

Source: Factset

What happened in global sectors?

- COVID-19 impacted sectors differently in both the drawdown and rebound of payouts. It was pleasing to see the majority of sectors were positive this quarter, and even those decreasing dividends didn't do so substantially. Consumer Discretionary names continued to improve, but the materials sector was the standout increase.
- Booming commodity prices have aided strong balance sheets for Materials companies and resulted in a substantial increase in dividends. Examples include Anglo American and the UK's Glencore.
- Consumer Discretionary names continued to lift dividends as vaccination rates increase, household balance sheets remain strong and economies are opening up. Strong AUD dividends were paid out by auto firms, including VW, Toyota, Honda and Porsche.
- The Energy (+24% v PCQ) sector finally grew its dividends after struggling in recent quarters. Exxon Mobil, Chevron and Royal Dutch Shell all paid out large dollar dividends.
- Financials (+17%) continue to be the largest dividend payer in AUD terms ($86.5bn AUD), contributing nearly 20% of the Q3 payout. As European and US banks move past mandated Fed and ECB restrictions there are some substantial payouts across regions, including JPM, HSBC bank and CBA.

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Interesting facts in global income

- When incorporating dividend cuts and initiations, 5.6 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 just over 1 at the same time last year, another sign of dividends strengthening back towards pre pandemic levels.
- 50% of US companies paid a dividend in Q3. Well over half of these payers increased, including those that initiated dividends, when compared to Q3 2020.
- 48% of companies covered paid in Q3 2021, which was up from 43% in Q3 last year. 7 countries had a payer ratio over 50%, led by Canada and Japan.

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 our model predicts a further decrease in the chance of global developed market dividends being cut (5%). This remains below the long term 12% average.

Previous high risk industries, including airlines and hotels & restaurants, remain much improved. The highest risks come from diversified telcos and textiles, apparel & luxury goods.

In conclusion

- The dividend cut model has been very accurate in predicting the magnitude of dividend cuts. Pleasingly the Plato proprietary model continues to signal a positive income outlook.
- Yields have rebounded strongly and markets continue to see improved performance from the more yield heavy value sectors. Local currency dividends are greatly improved versus Q3 2020. Economic recovery is translating into an improved dividend outlook and hence the income message remains consistent.
- 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.