# 2021 A strong rebound for Retiree Income – Q4

## What are the major trends in global income?

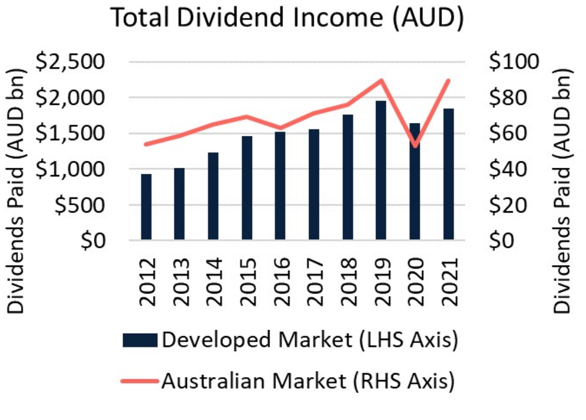
- In local currency terms, income continued to grow substantially (+22.7% v Q4 2020), albeit from a low base last year when many companies deferred payment. Building on +19% & 25% growth in preceding quarters this reflects the continued economic and corporate improvement in 2021, and provides a welcome boost to retiree income. Still below 2019 levels, we see further room for growth.

- In AUD terms dividends grew an impressive +23.2% (Q4 2021 v Q4 2020). The effect of currency on dividends in Q4 was +0.5%, due to a slightly weaker $A compared to Q4 2020. This currency effect increased dividends to Aussie investors.

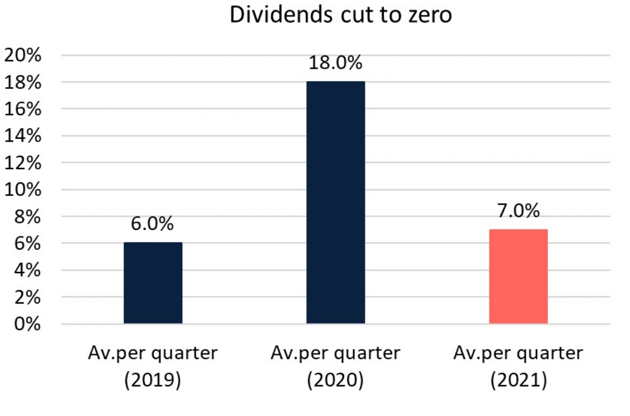
- Global developed market companies finished a strong year, paying out $A398bn of dividends in Q4. After posting strong income growth in 2021, 2020 is the only negative year in the last 10 yr.

- The number of companies cutting to zero in 2021 (7%) has returned to pre pandemic levels, as companies strengthen balance sheets,. This supports 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.




*Source: Factset*




*Source: Factset*

- Pleasingly, 56% of dividend paying companies increased or initiated dividends compared to the same quarter last year. Additionally, the number of companies decreasing payouts remains low at 7.4%.

- We continue to see companies, that deferred or cancelled dividends in 2020 re-initiate payouts. A good example in this period is UK fashion house Burberry. Some troubled sectors continue not to pay dividends, including US aircraft business Boeing Co.

- In Q4 2021 all regions posted very strong increases in income when compared to the previous corresponding period in 2020. (North America +20%, Europe +33%, Asia +26%)

- North America paid out the largest dollar amount, at 274bn AUD. This is nearly 70% of dollar income.

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Plato
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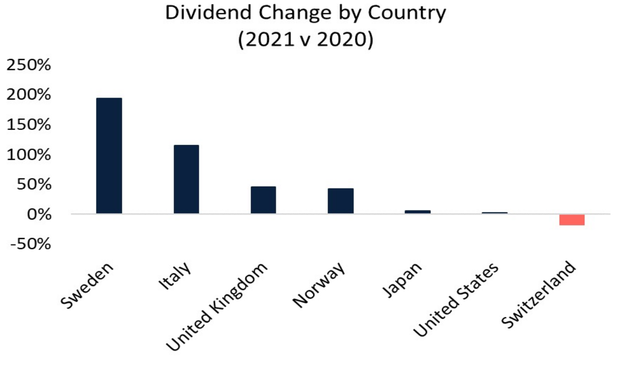
## Which countries are leading the charge?

- When comparing 2021 to 2020 all but one country increased dividends. North America & Japan were relatively flat, with substantial increases in European countries shown below (Sweden +193%, Italy +115%, UK +45%).
- This was almost a perfect reversal from 2020. It was pleasing to see significant reversal to the large dividend falls seen across European countries during the 2020 pandemic.
- Focusing specifically on Q4 countries demonstrated very different growth rates, from 921% in Italy to -97% in Germany.
- Strong dollar payouts in Australia, Italy, Canada, the UK and the US were the driver of recent yield.
- In 2021 Australian dividends grew 68.5%, when compared to 2020. In Q4 they increased 80.6% versus Q4 2020 Financials and Materials were a significant driver of the dollar increase. After cutting dividends in Q4 2020 there were substantial increases from ANZ, NAB, Westpac and Macquarie Group. This was inline with our previous forecasts after the APRA announcements.




*Source: Factset*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## What happened in global sectors through 2021?

- When comparing 2021 v 2020 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 year, and even those decreasing dividends didn't do so substantially. The three largest decreases in 2020, were the 3 most significant increases in 2021 (Materials +52%, Financials +31%, Consumer Discretionary +24%)
- Booming commodity prices earlier in the year helped strengthen balance sheets for Materials companies and resulted in a substantial increase in dividends. Examples earlier in the year include BHP group, Anglo American and Nippon Steel corp. Large dollar payers in Q4 included global chemicals supplier, Dow Inc and Canadas Barrick Gold Corp.
- Consumer Discretionary names continued to lift dividends through 2021 as vaccination rates increased, household balance sheets strengthened and economies opened up. In Q4 Strong AUD dividends were paid by Nike and LVMH Moet Hennessy Louis Vuitton.
- Financials (+30.6%) continue to be the largest 2021 dividend payer ($387bn AUD) As European and US banks move past mandated Fed and ECB restrictions there are some substantial Q4 payouts in financials, including Nordea Bank, ING Groep and Wells Fargo & Co.

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## Interesting facts in global income

- When incorporating dividend cuts and initiations, 4.6 companies increased or initiated dividends for every one company that reduced or completely cut dividends versus the previous corresponding period. This is another proof of dividends continuing to strengthen back to pre pandemic levels.
- 52% of US companies paid a dividend in Q4. Well over half of these payers actually increased payout, including those that initiated dividends, when compared to Q4 2020.
- In 2019 65% of companies paid dividends. This fell substantially to 52% in 2020, but was back to 62% in 2021.

**Global Dividend Cut Probability Monthly (2001/12-2021/12)**


*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. Due to the impact of renewed virus outbreaks, our model predicts a slight increase in the chance of global developed market dividends being cut (8%). This still remains well below the long term 12% average and as virus risks subside we would expect this probability to also reduce.

The highest risk industry groups are Telco's and Real Estate.

## 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 in both Q4 and across 2021. Markets continue to see improved performance from the more yield heavy value sectors. Economic recovery is translating into an improved dividend outlook and hence the income message remains a positive one.
- A very strong 2021 for retiree income supported our previous dividend outlook. Forecasts are a useful tool, but the current health and economic challenges make it imperative to look forwards. 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.