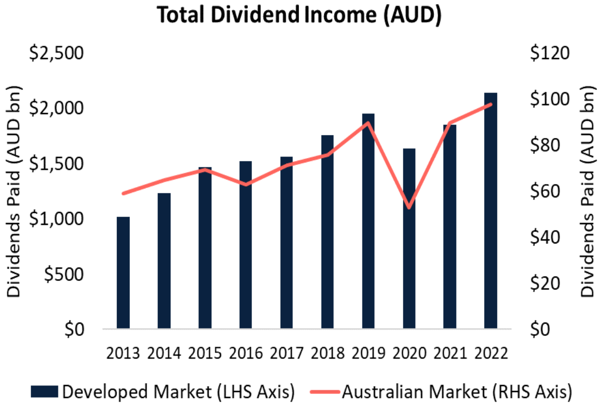
Plato
INVESTMENT MANAGEMENT

Plato Global Income Report: Q4 2022 - Continued Dividend Growth

What are the major trends in global income?

- After 2020's pandemic driven income cuts, investors have seen strong growth in dividends across 2021 (+12.8% in AUD) and again in 2022 (+15.8% in AUD), good news for retirees.
- In AUD terms income growth was positive (+6.2% v Q4 2021), although largely driven by currency movements. Dividend growth, in local currency terms, slowed in Q4 (+0.4% v Q4 2021). This reflects global inflation and concerns regarding economic growth in 2023.
- Global developed market companies had a strong quarter, paying out $A419bn of dividends in Q4. Strong dividend payouts mask significant differences across countries and sectors.
- The small number of companies cutting to zero in Q4 (6.9%) remains at pre pandemic levels. This supports our house view of future dividend strength.
- The Plato Global Equity fund continues to distribute just under 6% p.a. yield since inception, despite lower index yield. This highlights the continued importance of both income generation via active management and avoiding dividend traps.



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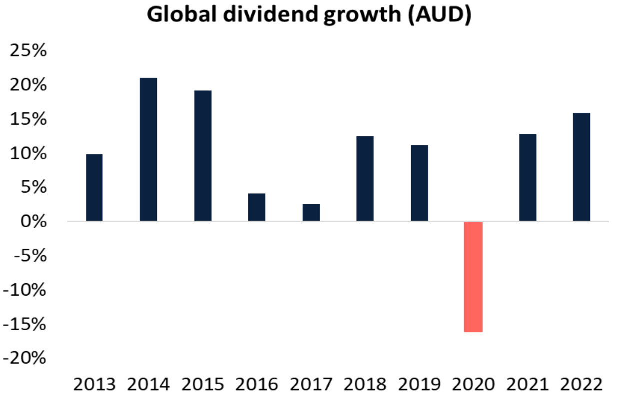

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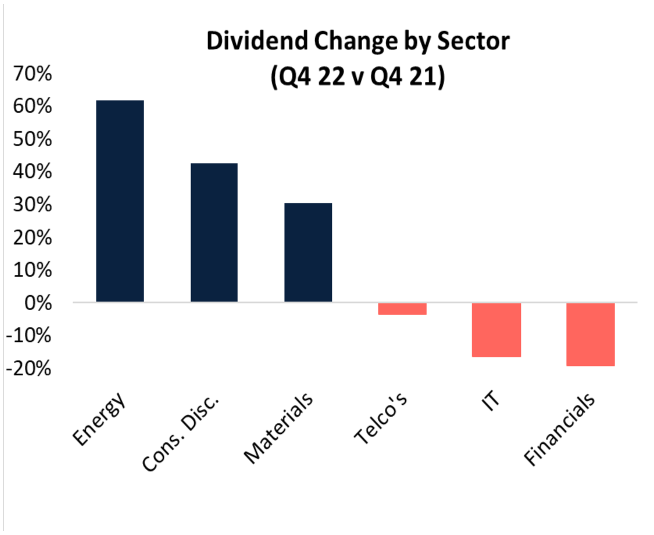
- Pleasingly, 58% of dividend paying companies increased or initiated dividends compared to the same quarter last year. The number of companies decreasing payouts, has ticked up slightly due to a challenging macro environment, but remains low at 7.9%.
- We continue to see some large companies, for example Microsoft Corp, Johnson & Johnson, and Proctor & Gamble, increase their dollar payout this year. In addition businesses, like Volkswagen AG, have paid out further special dividends.
- North America was again the only region to increase quarterly income, when compared to the previous corresponding period in 2021. (North America +9%, Europe -0.4%, Asia -1.9%)
- Although European and Asian company dividends were slightly lower, this is in comparison to Q4 2021 when both regions posted very strong growth (Europe +33%, Asia +26%).

Which countries are leading the charge?

- When comparing Q4 2022 with Q4 2021 the story varied significantly within countries. Although the US grew dividends nearly 10%, this was entirely driven by currency. Strong dividends from certain European countries, such as France and Denmark, were offset by substantial dollar value cuts in Sweden, Italy and the Netherlands.
- It's interesting to note the US buyback tax, mentioned in the previous note, comes into effect at the end of this quarter. Although not large enough to push companies towards increasing dividends, this is an important policy change as we look to future dividend levels.
- Despite falling slightly in Q4, Australian dividends recorded strong growth (+9%) in 2022 versus 2021. Dividend increases from BHP Group, Boral Limited, Woodside Energy and South32 Ltd offset the lower iron ore price driven reductions from Rio Tinto and Fortescue Metals Group.



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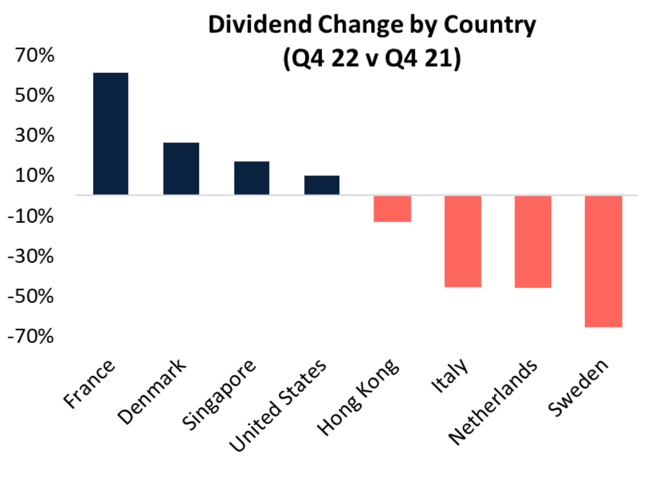

Source: Factset

What happened in global sectors through Q4?

- Mirroring the geographic trends, sectors were also mixed versus Q4 2021. The stand out increase continued to be Energy companies (+62%), followed by Consumer Discretionary (+43%). At the other end of the spectrum, IT (-16%) payouts fell as businesses struggled against a backdrop of increasing bond yields. Financials (-19%) also cut payouts significantly.
- Comparing calendar years, all but one sector increased its payout in 2022 v 2021. This was driven by significant increases from Energy (+56%), and Consumer Discretionary (+35.2%) companies across the year.
- Energy companies considerably outperformed all other sectors in 2022. Strong balance sheets, driven by the commodity rally, enabled increased payouts from businesses including Shell, BP plc and Exxon Mobil Corp.
- Consumer Discretionary yield strengthened further, driven by surprisingly strong household balance sheets. As we look to 2023 it will be interesting to see how the sector goes, given that it historically struggles when we see cost of living pressures and weakening consumer sentiment.

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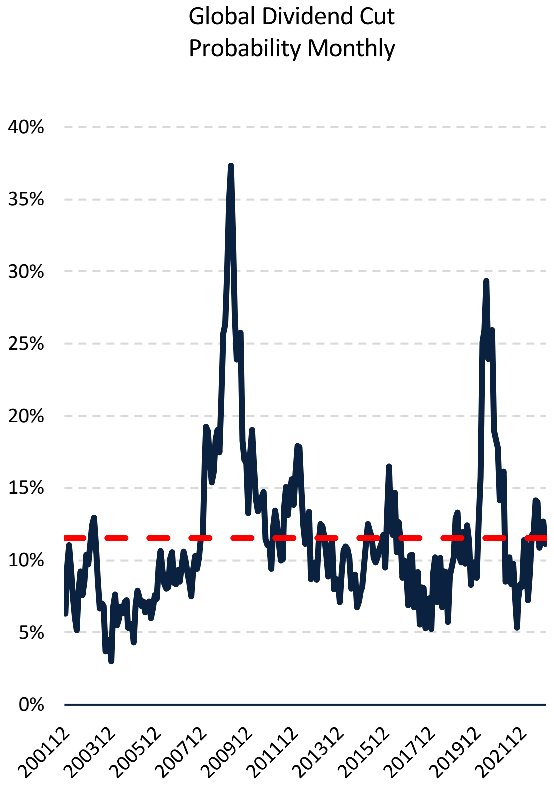
Interesting facts in global income

- When incorporating dividend cuts and initiations, 4.4 companies increased or initiated dividends for every one company that reduced or completely cut dividends versus the previous corresponding period. This is further proof of dividends continuing to strengthen.
- 46% of US companies paid a dividend in Q4. Only one other country had a higher percentage of companies paying distributions in the quarter (Canada 65%).



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.

Our model predicts a low probability of global developed market dividends being cut (11.2%). Q4 reflected a slightly lower risk than Q3, with the main concern still being around inflation and global growth. The risk to income remains just below the long term average and continues to indicate a positive outlook for retiree income.

Although not significantly elevated, Real Estate and Retail are the highest risk industry groups. The increased risk from Retail, in Q4, reflects increased concerns around consumer spending, driven by high inflation prints and rate tightening.

In conclusion

- As the 2020 pandemic appears further in the rear view mirror, it has been pleasing to see a strong recovery in global equity market payouts. However, the strong annual headline growth masks a mix of themes across quarters. This highlights the continued importance of vigilance and active management in income generation.
- As we look forwards to 2023, the low probability of dividend cuts predicted by the Plato model continues to paint a strong dividend picture for yield investors. However, avoiding dividend traps remains important, especially given the complex macro economic backdrop as we move into the new year.

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.