

Not Your Parents' Dividends

By: Charles Gaffney | February 28, 2024

KEY POINTS

1. 56 companies in the S&P 500 have already announced dividend increases in 2024, by a median of 6%.¹
2. For decades, large, global-branded companies were among the headline performers for dividend-paying companies.
3. A new wave of companies has begun distributing dividends and rewarding shareholders. We think it's about time.

Earlier this month, when a social media giant announced its first-ever dividend, I couldn't contain my excitement. Not since 12 years ago has a fast-growing technology company, firing on all cylinders, shocked the investment community with the initiation of a dividend! Historically, this was viewed as a sign of business maturation and, presumably, the beginning of a slower growth phase. Not this time! Shareholders embraced the news, sending the stock soaring up 20% on February 1 — the day the company announced it will pay a 50-cent dividend to shareholders at the end of March.

To be clear, while much of the Magnificent 7's investment returns have been market beating, I believe the real excitement lies in what may come. In my view, this dividend announcement may lead to a potential wave of big tech and other traditionally non-dividend-paying companies following suit. For decades, growthier names in the technology space have steered away from rewarding shareholders with a dividend — instead, reinvesting to meet growth targets, fund additional research, develop new products, and so on. However, we think the CEOs of major technology companies may face shareholder pressure in the coming quarters as to when they will be issuing dividends as well, and we can't wait.

A broader dividend trend

Technology isn't the only area where we are seeing exciting dividend news. Looking across the market, five companies in the S&P 500 initiated a dividend in 2023 and six reinstated their dividend. Toward the end of 2023, we saw a major telecommunication services provider announce its first-ever dividend. This past earnings season, a leading alternatives asset manager, which has experienced 22% dividend growth over the trailing 12 months, set guidance for 29% year-over-year dividend growth over the next 12 months — with the hopes of 39% growth in 2025 fiscal year.

We believe these are just a few significant examples of high-caliber companies with above-average cash levels and high durable free-cash-flow profiles that may be poised to offer dividends. With an increasingly confusing macroeconomic backdrop, we believe companies that demonstrate disciplined capital management will be rewarded.

As a team, we utilize a unique and flexible approach to dividend investing through our sustainers, growers and initiators framework. We've employed this framework for over 16 years, through varying environments, which has given us great insight into how companies balance the scales of growth and shareholder returns. We are confident our time-tested investment process positions us well to identify not only those companies that have demonstrated a track record of sustaining and growing dividends, but, more importantly, those that are ready to initiate a dividend.

Bottom line: Dividends potentially play a significant role in a portfolio — providing both a stream of income and a cushion for volatility — as well as aiding in compounding equity returns. Going forward, we believe more technology and growth companies are likely to initiate dividends or increase payments to investors, and we stand ready to capture this "new wave" of attractive sustainers, growers and initiators for our clients' portfolios.

1. Goldman Sachs, Portfolio Strategy Research, "US Weekly Kickstart," February 9, 2024.

Index definition:

S&P 500 Index is an unmanaged index of large-cap stocks commonly used as a measure of U.S. stock market performance.

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"In my view, a recent dividend initiation from a leading social media company may lead to a potential wave of big tech and other traditionally non-dividend-paying companies following suit."

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