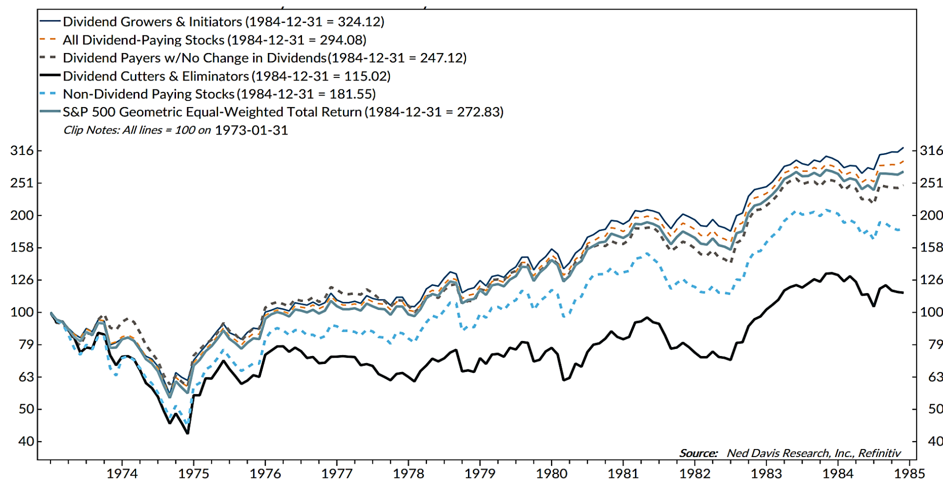
History, Inflation, and Dividend Growth

The Lead | June 2022

Returns of S&P 500® Stocks by Dividend Policy (1973-1984)



Returns Based on monthly equal-weighted geometric average of total returns of S&P 500 component stocks, with components reconstituted monthly.

Portfolio Performance Statistics
Analysis Dates: 1973-01-31 - 1984-12-31

Portfolio	Gain/Annum %	Growth of $100
Dividend Growers & Initiators	10.4	324.1
All Dividend-Paying Stocks	9.5	294.1
Dividend Payers w/No Change in Dividends	7.9	247.1
Dividend Cutters & Eliminators	1.2	115.0
Non-Dividend Paying Stocks	5.1	181.6
S&P 500 Geometric Equal-Weighted Total Return	8.8	272.8

Source: Ned Davis Research

Over the past several months, we have discussed the value of companies that pay growing dividends in periods of rising interest rates and inflation. While we have discussed the ability of companies to raise their dividends ahead of the rate of inflation due to their leadership positions, strong brands, and pricing power, the question is how this ability has translated into stock price performance. In the chart above, we provide data from Ned Davis Research that shows the performance of dividend growers during the same decade we cited last month where there was a period of high, sustained inflation. Just as we wrote last year at this time, dividend growers outperformed during periods of rising interest rates over the most recent two decades. This goes back five decades and uses the same data – dividend growers appear to enable investors to beat actual inflation and 'the market' when inflation ranges between 4% and 13% annually.

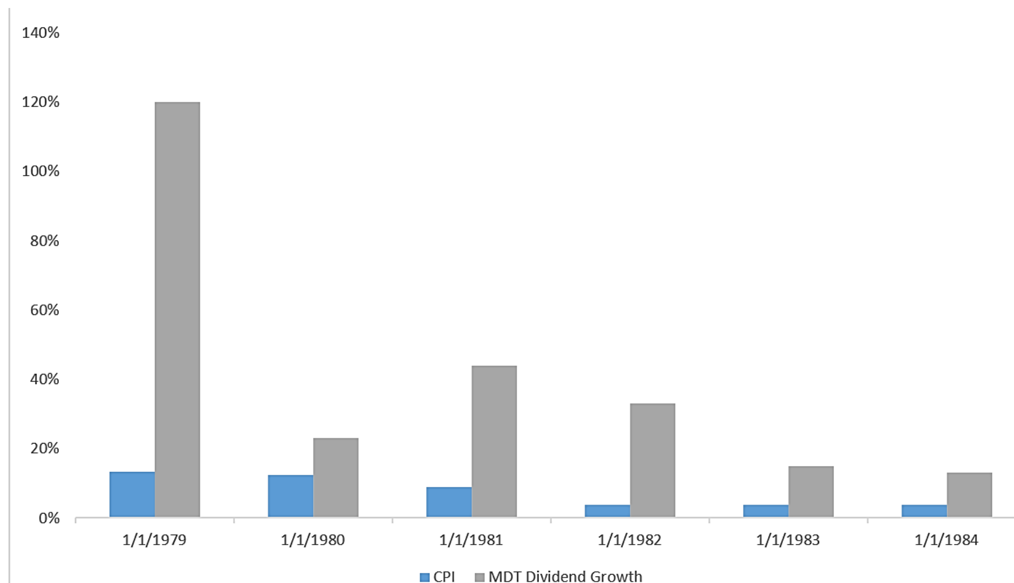
One point we made with investors this year is that owning companies that grow their dividends can be viewed as a measure of the quality of the company and its management. This is particularly important in the area of capital allocation. We would like to note that the first dividend payments were paid over 400 years ago by the Dutch East India Company that held a monopoly on trade at the time. The dividend payments were started in response to Issac Le Maire, who through his pamphlets, criticized the company's debt levels, lack of responsiveness to shareholders, and corporate governance. In response, in 1610, the company paid its first dividend in spices, and in 1612, its first cash dividend. In 1622, the company began making more regular dividend payouts in response to shareholder criticism of management's poor capital allocation. The reforms arguably helped establish the foundation for modern capital market structure, including regular company audits. For dividend investors, the historic example shows a proven method of returning capital to shareholders, as well as a useful tool to identify strong management teams and their ability to effectively allocate capital.

It was through the inflationary environment of the 1970s that another Sterling Capital Equity Income holding, Medtronic, began demonstrating their commitment to paying a regular and growing dividend as part of their capital allocation framework. We find a commitment of paying a growing dividend requires management teams to plan and invest for the long term as investments made today should have payback periods measured in years, not quarters.

Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful.

History, Inflation, and Dividend Growth

The Lead | June 2022



Source: Bloomberg

As seen by their dividend growth during the period, Medtronic was able to grow its dividend ahead of the rate of inflation, to the benefit of shareholders. This capital allocation discipline remains consistent with Medtronic paying shareholders its 45th consecutive dividend increase this year. Future dividend increases should be due to the capital allocation strategy outlined on its most recent earnings call "to prioritize our long-term investments in organic research and development, with a focus on large opportunities in future growth markets."

The example of Sterling Capital Equity Income holding Medtronic is not meant as a recommendation, but rather as an example of how a 400-year-old practice of returning capital to shareholders can be interwoven into prudent long-term capital management, in addition to a potential signal to investors of the quality of a company's management and business. Whether it is through a market cycle or the current period of higher inflation, consistent dividend growth appears to provide the right ingredient to add to any portfolio.

As always, thank you for your interest and trust managing your investments.

Charles J. Wittmann, CFA®, Executive Director, joined Sterling Capital Management in 2014 and has investment experience since 1995. Chip is co-portfolio manager of the Equity Income strategy. Prior to joining Sterling, he worked for Thompson Siegel & Walmsley as a portfolio manager and (generalist) analyst. Prior to TS&W, he was a founding portfolio manager and analyst with Shockoe Capital, an equity long/short hedge fund. Chip received his B.A. in Economics from Davidson College and his M.B.A. from Duke University's Fuqua School of Business. Chip earned the Certificate in ESG Investing, which is developed, administered and awarded by the CFA Society of the United Kingdom. He holds the Chartered Financial Analyst® designation.

Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful.

Important Information

Disclosures

The securities described are neither a recommendation nor a solicitation. Security information is being obtained from resources the firm believes to be accurate, but no warrant is made as to the accuracy or completeness of the information.

The volatility of an index varies greatly. All indices are unmanaged and investments cannot be made directly in an index.

The S&P 500® Index is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.

Dividend Policies: Dividend Paying vs. Non-Paying: Each stock's dividend policy is determined by its indicated annual dividend. We classify a stock as a dividend-paying stock if the company indicates that it is going to be paying a dividend within the year. A stock is classified as a non-payer if the stock's indicated annual dividend is zero. Prior to July 2000, the indicated annual dividends were updated on a quarterly basis. Since July 2000, the indicated annual dividends are updated on a daily basis, so the most up-to-date information is used. The index returns are calculated using monthly equal-weighted averages of the total returns of all dividend-paying (or non-paying) stocks. A stock's return is only included during the period it is a component of the underlying index. The dividend figure used to categorize the stock is the company's indicated annual dividend, which may be different from the actual dividends paid in a particular month. **Dividend Growing, No-Change-in-Dividend, and Dividend Cutting:** Each dividend-paying stock is further classified into one of the three categories based on changes to their dividend policy over the previous 12 months. Dividend Growers and Initiators include stocks that increased their dividend anytime in the last 12 months. Once an increase occurs, it remains classified as a grower for 12 months or until another change in dividend policy. No-Change stocks are those that maintained their existing indicated annual dividend for the last 12 months (i.e., companies that have a static, non-zero dividend). Dividend Cutters and Eliminators are companies that have lowered or eliminated their dividend anytime in the last 12 months. Once a decrease occurs, it remains classified as a cutter for 12 months or until another change in dividend policy. (Source: Ned Davis Research).

Technical Terms: **Dividend Risk:** Dividend yield is one component of performance and should not be the only consideration for investment. Dividends are not guaranteed and will fluctuate. This report should not be regarded by the recipients as a substitute for the exercise of their own judgment. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager. **Dividend Yield**: a financial ratio that measures the annual value of dividends received relative to the market value per share of a security. In other words, the dividend yield formula calculates the percentage of a company's market price of a share that is paid to shareholders in the form of dividends. (Technical definitions are sourced from Corporate Finance Institute and Investopedia.)

The **Chartered Financial Analyst® (CFA)** charter is a graduate-level investment credential awarded by CFA Institute — the largest global association of investment professionals. To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.

Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful.

The opinions contained in the preceding presentation reflect those of Sterling Capital Management LLC, and not those of Truist Financial Corporation or its executives. The stated opinions are for general information only and are educational in nature. These opinions are not meant to be predictions or an offer of individual or personalized investment advice. They are not intended as an offer or solicitation with respect to the purchase or sale of any security. This information and these opinions are subject to change without notice. All opinions and information herein have been obtained or derived from sources believed to be reliable. Any type of investing involves risk and there are no guarantees. Sterling Capital Management LLC does not assume liability for any loss which may result from the reliance by any person upon such information or opinions.

Investment advisory services are available through Sterling Capital Management LLC, an investment adviser registered with the U.S. Securities & Exchange Commission and an independently-operated subsidiary of Truist Financial Corporation. Sterling Capital Management LLC manages customized investment portfolios, provides asset allocation analysis and offers other investment-related services to affluent individuals and businesses. Securities and other investments held in investment management or investment advisory accounts at Sterling Capital Management LLC are not deposits or other obligations of Truist Financial Corporation, Truist Bank or any affiliate, are not guaranteed by Truist Bank or any other bank, are not insured by the FDIC or any other federal government agency, and are subject to investment risk, including possible loss of principal invested.

Sterling Capital does not provide tax or legal advice. You should consult with your individual tax or legal professional before taking any action that may have tax or legal implications.

STERLING CAPITAL

PULSUS UT LIBERA