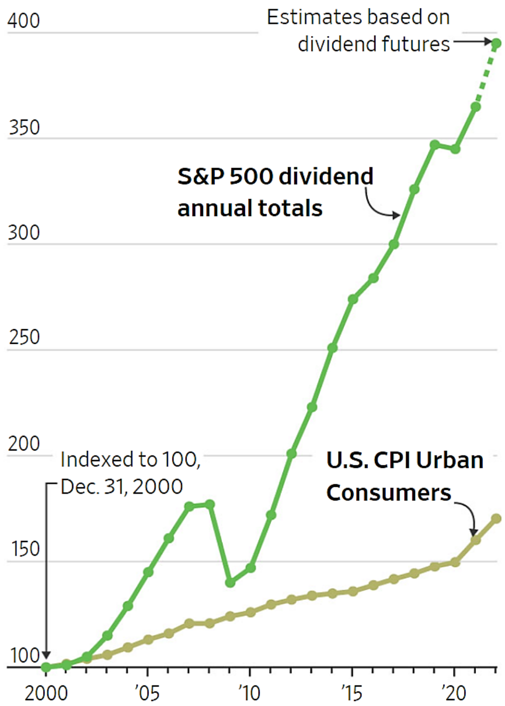
Staying Ahead of the Game

The Lead | October 2022

Dividend Growth and Inflation since 2000



Sources: S&P Dow Jones Indices (dividend); Labor Department (CPI); CME (futures) as of 07.29.2022. Inflation measured by the Consumer Price Index.

This month, The Wall Street Journal wrote an article titled "The Best Ways to Jump into Dividend Stocks." The graphic from the article does a good job of illustrating the dynamic we have been writing about for some time, namely the ability for dividend-paying stocks to buffer the effects of higher inflation. The chart above also highlights the benefits of annual and rising dividends that compound over time ahead of the rate of inflation.

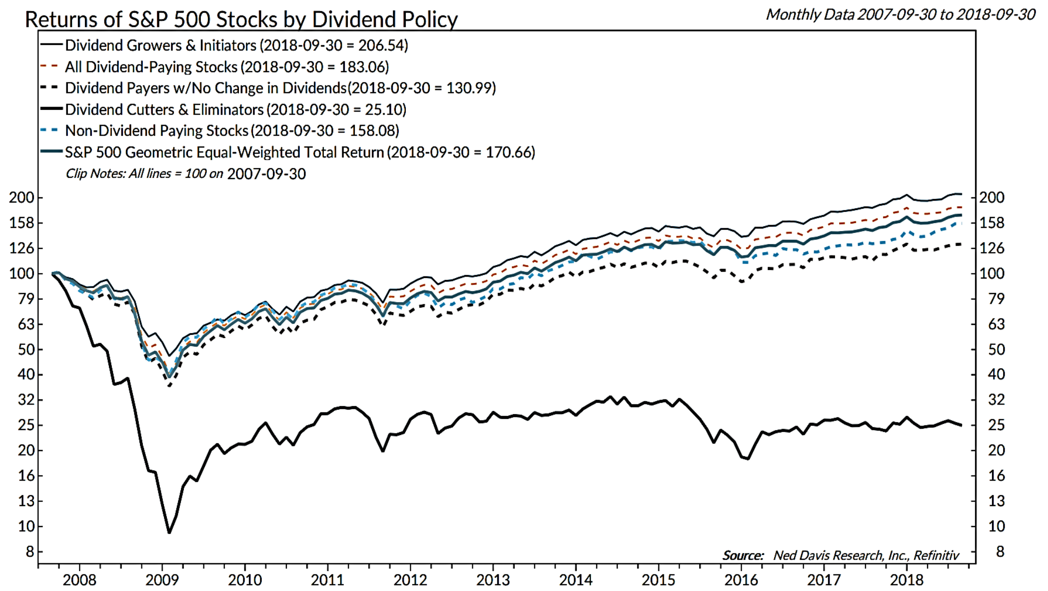
However, on recent calls with investors, they have had questions about the benefits of dividend growth stocks in the current market with the elevated rate of inflation. We went back to explore the performance of dividend growers when the inflation rate was over 3% during this century. The first period began in October 2007 and lasted for a year. We provided a table that shows the performance of dividend growers relative to 'the market' on this page. During this period, dividend growers did a good job of protecting capital and outperforming in a down market.

Performance from October 2007-October 2008 When Inflation Was Above 3.0%

Portfolio Performance Statistics Analysis Dates: 2011-03-31 - 2012-01-31		
Portfolio	Holding Period Return*	Growth of $100
Dividend Growers & Initiators	0.5	100.5
All Dividend-Paying Stocks	-1.7	98.3
Dividend Payers w/No Change in Dividends	-8.1	91.9
Dividend Cutters & Eliminators	-10.2	89.8
Non-Dividend Paying Stocks	-11.7	88.3
S&P 500 Geometric Equal-Weighted Total Return	-4.2	95.8
* Non-annualized return		

Source: Ned Davis Research.

Performance from April 2011-January 2012 When Inflation Was Above 3.0%



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: 2007-09-30 - 2018-09-30

Portfolio	Gain/Annum %	Growth of $100
Dividend Growers & Initiators	6.8	206.5
All Dividend-Paying Stocks	5.6	183.1
Dividend Payers w/No Change in Dividends	2.5	131.0
Dividend Cutters & Eliminators	-11.8	25.1
Non-Dividend Paying Stocks	4.2	158.1
S&P 500 Geometric Equal-Weighted Total Return	5.0	170.7

Source: Ned Davis Research.

The second period during this century occurred from April 2011 to January 2012, seen in the chart above. During this period, dividend growers posted strong results relative to 'the market.'

With the Sterling Capital Equity Income strategy, we believe clients can receive the benefit of compounding dividends ahead of the rate of inflation over time, but also that dividend growers can shine in periods of higher inflation if we look back in time. We also believe that owning a portfolio of stocks that, on average, are growing their dividends at a double-digit rate can buffer clients from the threat of the inflationary forces and keep clients ahead of the game.

As always, thank you for your interest and trust in 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.

Important Information

Disclosures

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.

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

Dividend-focused strategies may underperform strategies that do not limit their investment to dividend-paying stocks. Stocks held strategy may reduce or stop paying dividends, affecting the strategy’s ability to generate income.

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).

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.

Since we began publishing The Lead in 2015, our primary purpose has been to communicate our investment philosophy and process as an investment advisor in the context of changing markets. In creating portfolios that differ from our benchmarks by focusing on characteristics that have a long term history of attractive relative returns according to Ned Davis Research, the portfolios are different from the benchmarks and as a result there can be periods where results differ including below benchmark performance. Since strategies are oriented toward the long term characteristics, if those characteristics are out of favor over a period of time, the given strategy’s performance could be challenged in terms of relative performance. While Sterling believes active professional investment management that employs a consistent process with a long term orientation and aligned with client interests offers benefits, management fees to support the active approach can be higher than certain alternatives. When hiring an investment manager we believe it is important to monitor the investment risks taken including sector concentrations, portfolio turnover, and the impacts of dividend policy changes.

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