

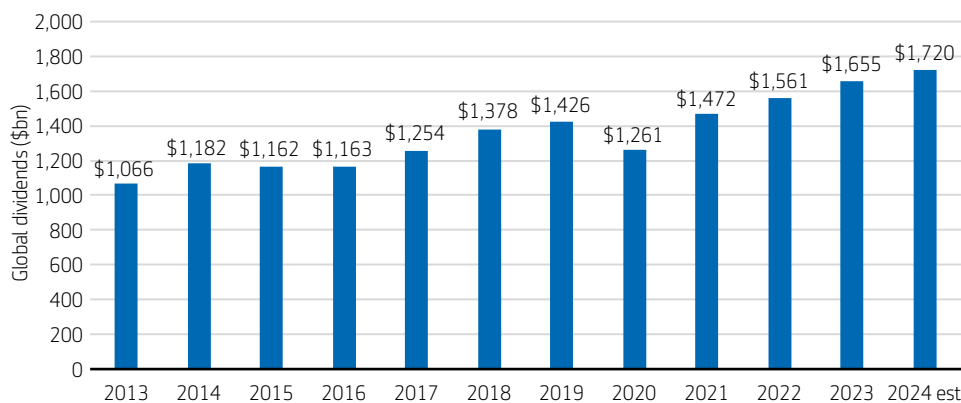
AEGON INSIGHTS

The Dividend Deluge: Part 2

Back in 2020, I penned an article titled ‘The Dividend Dilemma’. It was the depths of the Covid-induced market selloff; companies were cutting or suspending dividends left, right and center; and analysts were predicting big cuts to global dividends from which they would take years to recover. I anticipated a fall of around 30%.

Yet for all the cataclysmic predictions, payouts took just one year to bounce back. 2021 was a record-setting year for global dividends at \$1.47 trillion, a mark that was subsequently bettered in 2022 and again in 2023. We have now gone from the dividend dilemma to the dividend deluge and, with 2024 predicted to set yet another record at \$1.72 trillion, there are no signs of the momentum fading. In addition, share buyback authorizations are also at all-time highs, meaning the picture is clear – companies are returning record amounts of capital to shareholders.

Exhibit 1: Global total annual dividends are climbing (USD, billions)



Source: Janus Henderson Global Dividend Index Report, as of February 29, 2024

The past few years have seen financial markets affected by bouts of volatility caused by factors such as Covid lockdowns, spiking inflation, historically steep interest rate rises and geopolitical tensions. Through all of this, dividends have reinforced that they are typically much less variable than earnings and can provide an important source of total return, regardless of the market environment. They also have a solid track record of keeping pace with inflation, meaning there was less erosion in real terms than we saw in payouts from most other asset classes during the inflationary spike in 2022 and 2023. All in all, the importance of dividends should not be overlooked.



Mark Peden
Investment
Manager

Mark Peden, Investment Manager, is a member of the global Equities team, is the architect of our global equity income strategy and has been the lead manager of the Aegon Global Equity Income Strategy since its inception in 2011. European equities are his main area of research expertise. Mark has been in the industry since 1992 and started with the firm the same year. Over his tenure Mark has held a number of positions and managed a range of both International and European equity funds. He graduated from the University of York and the University of California (Santa Barbara) with a BSc honours degree in Economics with Politics. He is a CFA charterholder and is also a Member of both the CFA Institute and the CFA Society of the UK.

For institutional and professional investor use only.

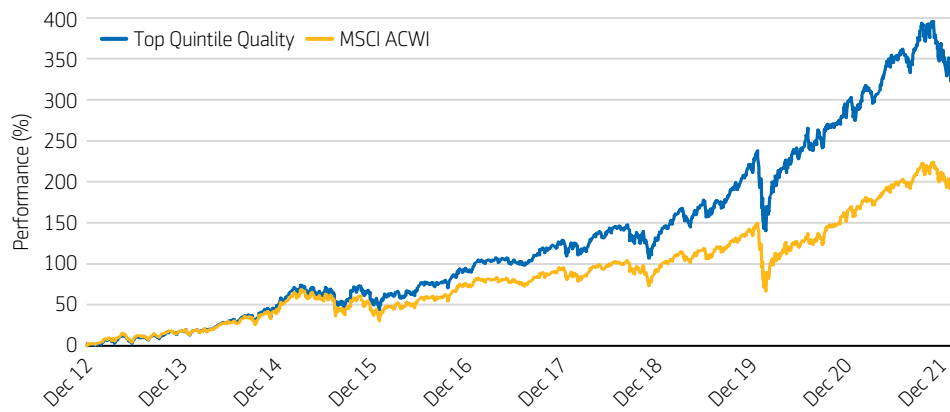
Aegon Asset Management is the global investment management brand of Aegon Ltd. See disclosures for more detail.

A focus on quality dividend-paying companies

So where does this leave us now? Deep value areas of the market, characterized by companies with lower-quality earnings and high debt levels had their day in the sun in 2022. Such rallies tend to be sharp but also short-lived, as was illustrated by the strong comeback in growth stocks through 2023. That said, the growth rally has been very narrowly driven by a handful of US-listed, mega-cap, tech-related names known as the ‘Magnificent 7’. We do not see another sharp value rally on the horizon and would question whether the narrow market leadership seen recently can continue over the longer term.

Instead, we believe a focus on ‘quality’ dividend paying companies with strong balance sheets and high returns on equity can be a powerful factor over time. As shown in Exhibit 2, the top quintile of companies, based on quality¹ within the MSCI All Country World Index, has significantly outperformed the wider market over time.

Exhibit 2: Higher-quality companies have historically outperformed



Source: Bloomberg, Aegon AM as of March 31, 2022. ¹Quality is defined by low net debt to EBITDA and high return on equity.

This quality approach will, we believe, be as important as ever in the coming months. Economic growth remains healthy in the US but is more sluggish elsewhere. Inflation has fallen back from recent peaks but the final leg of the journey back to target is proving difficult. Consequently, investors have scaled back their expectations for both the timing and scale of interest rate cuts this year. Add in geopolitical tensions and the looming US presidential election and clearly there is uncertainty out there. We believe well established companies with strong balance sheets, good returns on equity and well covered dividends have the potential to fare well, whichever path the market takes.

Indeed, despite the uncertainty in the market right now, more than 10 companies in a representative global equity income portfolio have increased their dividends by double digit percentages so far this year – well above the rate of inflation. These increases suggest companies are generating plentiful free cash flow and returning it to shareholders, signalling what we believe is a healthy confidence in their financial situation.

Companies are returning record amounts of capital to shareholders and are doing so while recording payout ratios below long-term averages.

A few examples of dividend increases include²:

Company description	Dividend increase
• Spanish fashion retailer	28%
• Norwegian bank	28%
• Taiwanese semiconductor maker	16%
• Singaporean bank	12%
• US heating & ventilation distributor	10%

²Samples are for illustrative purposes only and should not be relied upon for investment decisions. Examples are representative of the largest dividend increases across the representative portfolio year to date 2024.

What is striking about these examples is not only the magnitude of the increases but also the diversity of the companies involved, on both a geographical and sectoral basis, which implies broad-based strength.

A golden period for dividend investing

All of this suggests we may be in a golden period for dividend investing. Companies are returning record amounts of capital to shareholders and are doing so while recording payout ratios that are below long-term averages, meaning these dividends should remain even in the face of slowing growth. In the past several months, we have even seen some members of the Magnificent 7 initiate their first-ever dividends, suggesting dividends are in fashion, even for high-growth companies. While the yields on these companies remain relatively low compared to the wider market, we will monitor developments very closely to see how they progress over time.

Dividend strategies themselves tend to come into their own in more uncertain market environments, where income streams become an even more crucial part of total returns and a lower beta approach may offer some protection from volatility. With equity markets close to all-time highs in many countries and valuations looking fairly full, investors may look to incorporate these characteristics in their portfolios through a dividend focused approach. If nothing else, the shape of global dividends today should provide investors with opportunities going forward.

About us

We are active global investors. In a complex world we think and act across traditional boundaries. We organize our teams globally by asset class, to bring the breadth and depth of our investment and research capabilities together for clients across the world. We call it investing beyond borders.

Disclosures

This material is provided by Aegon Asset Management (Aegon AM) as general information and is intended exclusively for institutional and wholesale investors, as well as professional clients (as defined by local laws and regulation) and other Aegon AM stakeholders.

This document is for informational purposes only in connection with the marketing and advertising of products and services, and is not investment research, advice or a recommendation. It shall not constitute an offer to sell or the solicitation to buy any investment nor shall any offer of products or services be made to any person in any jurisdiction where unlawful or unauthorized. Any opinions, estimates, or forecasts expressed are the current views of the author(s) at the time of publication and are subject to change without notice. The research taken into account in this document may or may not have been used for or be consistent with all Aegon AM investment strategies. References to securities, asset classes and financial markets are included for illustrative purposes only and should not be relied upon to assist or inform the making of any investment decisions. It has not been prepared in accordance with any legal requirements designed to promote the independence of investment research, and may have been acted upon by Aegon AM and Aegon AM staff for their own purposes.

The information contained in this material does not take into account any investor's investment objectives, particular needs, or financial situation. It should not be considered a comprehensive statement on any matter and should not be relied upon as such. Nothing in this material constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to any particular investor. Reliance upon information in this material is at the sole discretion of the recipient. Investors should consult their investment professional prior to making an investment decision. Aegon Asset Management is under no obligation, expressed or implied, to update the information contained herein. Neither Aegon Asset Management nor any of its affiliated entities are undertaking to provide impartial investment advice or give advice in a fiduciary capacity for purposes of any applicable US federal or state law or regulation. By receiving this communication, you agree with the intended purpose described above.

Past performance is not a guide to future performance. All investments contain risk and may lose value. This document contains "forward-looking statements" which are based on Aegon AM's beliefs, as well as on a number of assumptions concerning future events, based on information currently available. These statements involve certain risks, uncertainties and assumptions which are difficult to predict.

Consequently, such statements cannot be guarantees of future performance, and actual outcomes and returns may differ materially from statements set forth herein.

The following Aegon affiliates are collectively referred to herein as Aegon Asset Management: Aegon USA Investment Management, LLC (Aegon AM US), Aegon USA Realty Advisors, LLC (Aegon RA), Aegon Asset Management UK plc (Aegon AM UK), and Aegon Investment Management B.V.

(Aegon AM NL). Each of these Aegon Asset Management entities is a wholly owned subsidiary of Aegon Ltd. In addition, Aegon Private Fund Management (Shanghai) Co., a partially owned affiliate, may also conduct certain business activities under the Aegon Asset Management brand.

Aegon AM UK is authorised and regulated by the Financial Conduct Authority (FRN: 144267) and is additionally a registered investment adviser with the United States (US) Securities and Exchange Commission (SEC). Aegon AM US and Aegon RA are both US SEC registered investment advisers.

Aegon AM NL is registered with the Netherlands Authority for the Financial Markets as a licensed fund management company and on the basis of its fund management license is also authorized to provide individual portfolio management and advisory services in certain jurisdictions. Aegon AM NL has also entered into a participating affiliate arrangement with Aegon AM US. Aegon Private Fund Management (Shanghai) Co., Ltd is regulated by the China Securities Regulatory Commission (CSRC) and the Asset Management Association of China (AMAC) for Qualified Investors only. The content has not been reviewed or endorsed by any regulatory authority in China.

In Taiwan, neither Aegon AM nor any of its affiliates are registered and may not sell, issue, or offer any products or services while in Taiwan. Marketing is intended for Professional Institutional investors only and the contents have not been reviewed or endorsed by any regulatory authority in Taiwan. The content contained is for information purpose only. Taiwan residents are advised to exercise caution in relation to the proposal. If you are in any doubt about any of the contents of this marketing, you should obtain independent professional advice.

©2024 Aegon Asset Management or its affiliates. All rights reserved.

Adtrax: 5640856.4GBL
Exp date: 1/1/2050