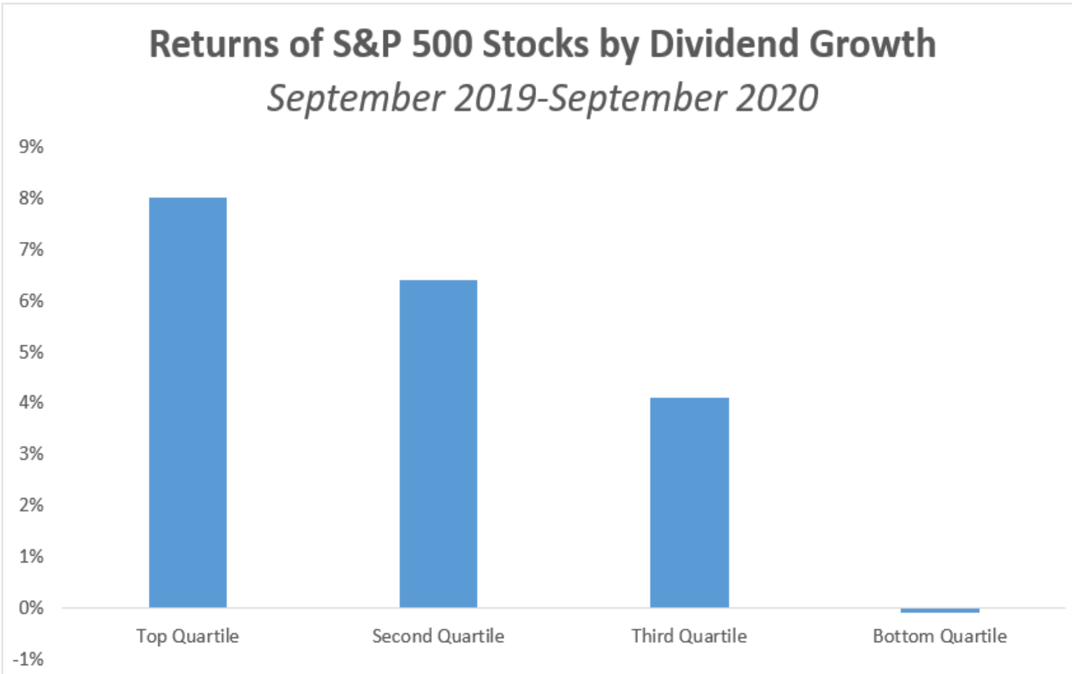
Dividend Growth in Demand



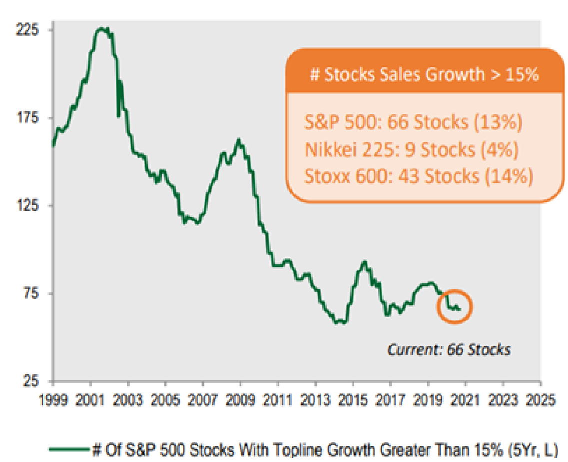
Source: Ned Davis Research

Cornerstone Macro recently commented on the "unprecedented run in 2020" for growth stocks that were up over 38% (YTD) through September 14, 2020, compared to their average annual return of 1.5% from 1991-2019. In their report, scarcity value is highlighted as one factor that may cause valuations for growth stocks to increase. As noted in the chart on the right, the number of growth stocks using their methodology declined over time. In economics, that tends to be ruled by supply and demand as less supply tends to push prices higher.

However, we would note that the quest to find growth in 2020 is not limited to earnings growth. In the chart above, we provide the returns for stocks that pay dividends in the S&P 500® Index, ranked by their dividend growth rate. Over the last twelve months, investors tended to favor those companies in the S&P 500 that increased dividends at the fastest rate.

One dynamic that may come into play is the scarcity of dividend growth in domestic markets. On the second page, we show the dividend growth rate of the S&P 500 Index each year, over the past ten years. Although there was no dividend growth for the index in 2010, the rate of dividend growth for the index grew rapidly as we exited a global financial crisis and the economic recovery was in full swing.

Cornerstone Macro Portfolio Strategy Team's "Methodology" For Growth Stocks



Source: Cornerstone Macro

Source: Bloomberg

However, recent years saw dividend growth slowed for the S&P 500, and fewer companies are raising their dividends. According to Bloomberg, thus far in 2020, 316 companies in the S&P 500 have raised their dividend, a 9% decline from 2019.

One of the hallmarks of the Sterling Capital Equity Income strategy is targeting a dividend growth rate in excess of the overall market (in addition to its overall yield above the S&P 500). We believe investing in high quality stocks that can consistently raise their dividend over time can improve the odds of long-term success for clients. Moreover, these increases can be viewed as a sign of financial strength and management's optimism regarding future prospects. In 2020, it appears investor appetite for growth includes growing dividends for companies who pay dividends.

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 an equity portfolio manager. 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. He holds the Chartered Financial Analyst® designation.