Daily Macro Insights: The power of dividends

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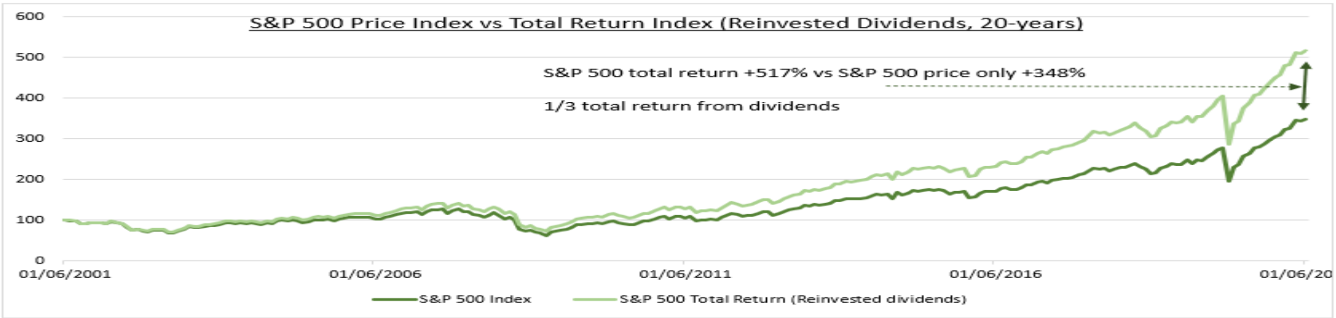
COMPOUNDING: Dividends are often overlooked, but make up at least 1/3 of long-term equity returns (see chart), equivalent to extra +170% for S&P 500 the last 20-years, highlighting power of reinvestment compounding (your dividend buys more shares, increasing your next dividend, and on). Dividends and share buybacks are rebounding from the crisis, driving returns. The US Dividend Aristocrats Index is +22% YTD and Buyback Index +21%, outperforming S&P 500.

RECOVERY TRENDS: Global dividends are seen rising +8% this year to US$1.4 trillion, as underlying profits recover (+35% yoy) and regulatory restrictions on financials sector ease. This compares to a -14% divided fall last year, as half non-US companies cut payments. Most hurt sectors, such as consumer discretionary, energy, banks, are seeing the biggest recovery now.

ROLE OF BUYBACKS: Only 14% of US companies cut dividends last year, much less than the rest of the world. This is explained by share buybacks. US companies are unique globally using buybacks to indirectly return capital to shareholders. As companies buyback and cancel shares, investors own a larger share of the company. Buybacks are as large as dividends, but were cut quickly last year to protect dividends. They are now rebounding, annualizing at over US$700bn (+40% yoy), a major market support with companies historically biggest buyers of US equities.

INSTRUMENTS: @DividendGrowth is a global group of 40 high dividend stocks, and @Utilities focuses on a traditionally high-dividend yield sector, with largest stock Spain' Endesa (ELE.MC) forecast 6% yield. There are dividend focused ETFs for US (UDVD, VIG) and international, such as EM (DEM), and high yielding markets like Russia (RSX), at 7.5%, and Mexico (EWW), 5.6%. World's largest dividends, by US$, are pharma stocks Roche (ROG.ZU) and Novartis (NVS).

TODAY: Bank of Japan left it's -0.1% policy rate, and yield curve control (YCC) to hold long term bond yields at zero, unchanged. Japan equities have struggled with poor GDP growth and slow vaccination rollout, despite one of the world's cheaper markets and help from a weakening JPY.



Source: Refinitiv, eToro calculations

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