S&P Global
Market Intelligence

Dividend Forecasting

Annual report

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US market dividend outlook for 2024

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The Take

- US market dividends are expected to grow by 5.8% year over year in line with the 10-year 5.7% compound annual growth rate.
- Dividend growth slows down in larger sectors and could surge in smaller ones.
- We have analyzed the disparity between sustainable payout ratios and the potential credit rating deteriorations posing liquidity challenges for some sectors.
- Banking dividends continue anemic growth rates in the face of headwinds.
- Projected forward yield is showing dividend growth despite a recent downward momentum in trailing yields spurred by market optimism.

About us

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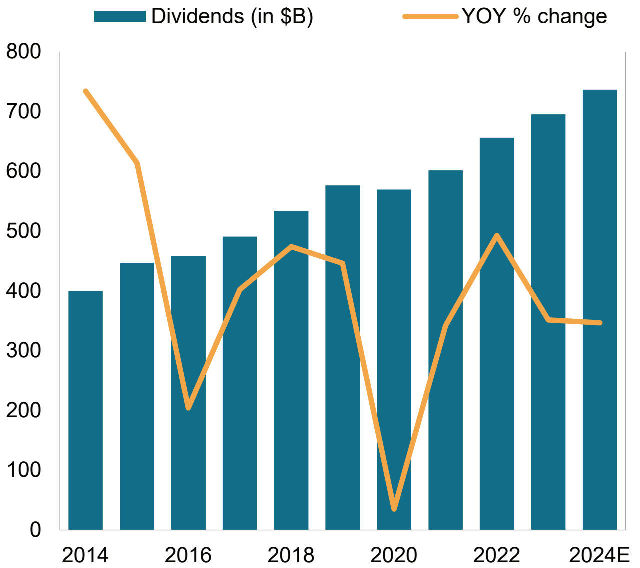
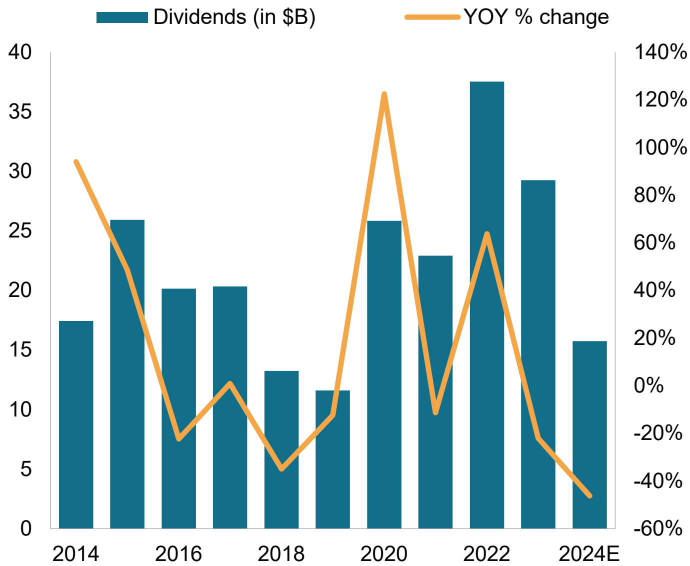
US market dividends: A new milestone ahead

US market regular dividends trend



Data compiled Jan. 2, 2024.
Source: S&P Global Market Intelligence.

US market variable dividends trend



Data compiled Jan. 2, 2024.
Source: S&P Global Market Intelligence.

The rise in inflation, attributed to monetary easing during the COVID-19 pandemic, prompted the Federal Reserve to implement corrective measures by consistently increasing interest rates throughout 2023. This decision had widespread implications, as companies experienced escalating borrowing costs amid rising interest rates and inflationary pressures. Consequently, the number of companies filing for bankruptcy surged by 59% compared with the previous year, approaching levels seen during the peak of the pandemic. Cautious optimism for the economic recovery, soft-landing anticipations and possible interest rate cuts lay the foundation for the US market dividends for 2024.

The US market's regular dividends are estimated to grow by an average of 5.8%, which stays in line with the 10-year 5.7% compound annual growth rate (CAGR) since 2014. After the 2022 boom, slow economic growth, recession concerns and the high cost of borrowing have impacted the rate of payout increases.

Variable dividends are led by the energy sector as more energy companies have adopted performance-based shareholder return policies after 2019. By 2022, over 20 energy companies paid a record $20 billion in variable dividends, benefiting from high oil and gas prices. In 2023, the companies preferred share repurchases, taking advantage of lower valuation. The size of variable dividends in 2024 will be a factor of oil and gas price volatility, demand and its impact on the share prices.

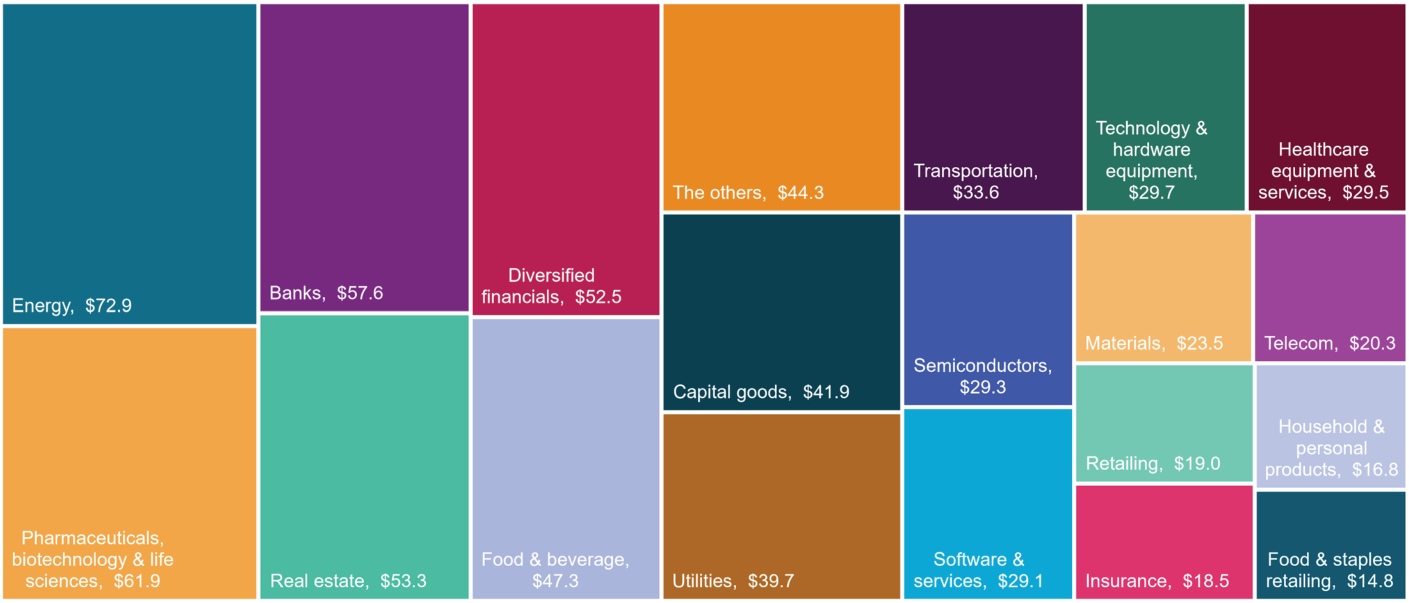
Dividend-paying companies — part of various index constituents

	US market	S&P 400	S&P 500	S&P 600
Payers	1,530	262	402	347
Increase	1,026	204	307	207
Forward yield	2.57%	2.00%	2.20%	2.8%

Data compiled Jan. 2, 2024.
Source: S&P Global Commodity Insights.

Dividend dynamics: Power players and underdog sectors

Dividends across the sectors (in $B)



Data compiled Jan. 2, 2024.
Source: S&P Global Market Intelligence.

The five largest sectors collectively contribute almost 40% in total dividends and 2.05 percentage points in the 5.8% estimated growth. While real estate is required to distribute the majority of its earnings, the other top sectors offer higher total dividends because of the embedded risks and regulations within the sectors.

The smallest contribution is expected from automobiles and components. While this sector is estimated to grow by 5%, it adds insignificant weighted average growth, as only four companies pay dividends within the sector, two of which are forecast to keep dividends flat due to increasing capital expenditures.

The US Inflation Reduction Act requires pharma companies to rebate price increases exceeding inflation. These pressured the margins of these companies and turned out to be a net negative, making the sector risky.

Top five largest sectors by number of dividend-paying companies

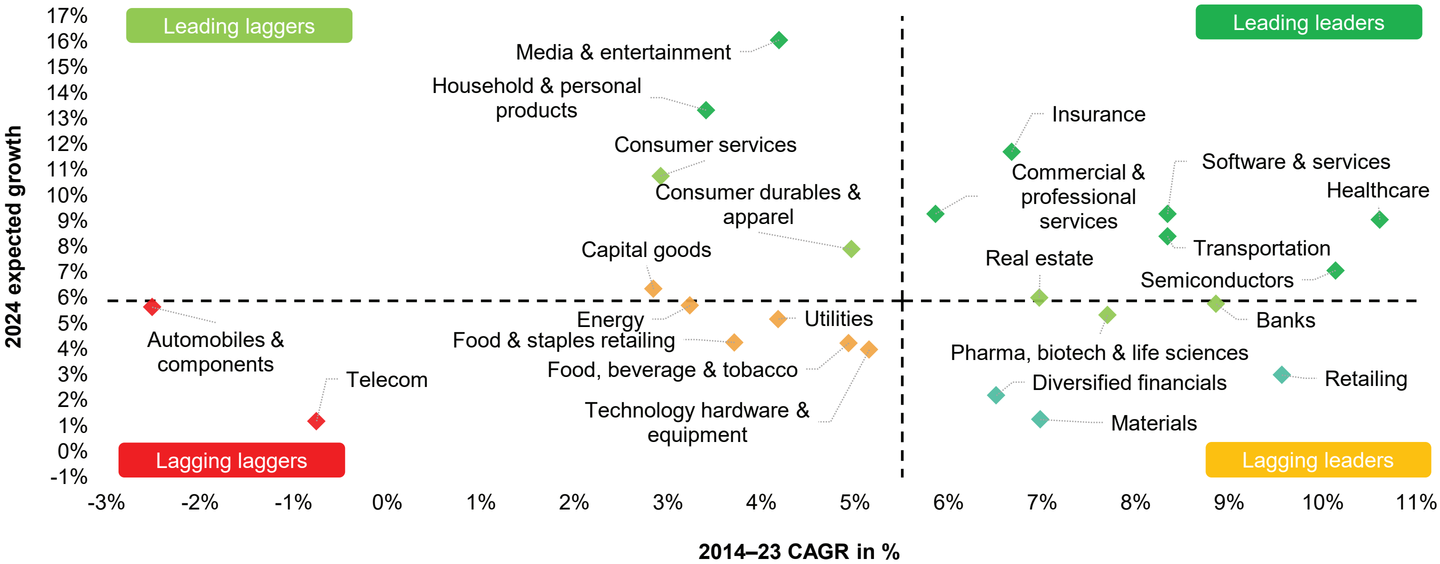
Data compiled Jan. 2, 2024.
Source: S&P Global Market Intelligence.

Notably, the pharmaceuticals, biotechnology and life sciences sector is among the top three contributors. This sector is among the least three by the number of dividend-paying companies: 14 companies, nine of which are part of the S&P 500 index. All except two companies within the sector are expected to increase dividend payouts in 2024.

Heavy lifter sectors and smaller winners

The largest sectors — banks, energy, real estate and pharmaceuticals — influence the growth of the US market dividends. The chart below illustrates that these four sectors are expected to grow at an average annual rate consistent with the estimated aggregated dividends increase. Unlike the other three, the energy sector is lagging in CAGR growth due to payout decreases in three (2016, 2020 and 2021) out of the last 10 years. The energy sector faces challenges associated with the highly fluctuating prices of oil and gas, driven by supply and demand dynamics. A significant price drop occurred during the shale boom in 2016, resulting in market oversupply, and during the sharp decline in demand in the pandemic years of 2020 and 2021. Learning hard lessons of market fluctuation, energy companies adopted capital return policies that reward shareholders with variable payouts in addition to regular dividends. Considering the flexibility of variable policy, the companies substitute variable payouts with share buybacks in times of lower market valuations.

Sectorial leaders and laggers



Data compiled Jan. 2, 2024.
Source: S&P Global Market Intelligence.

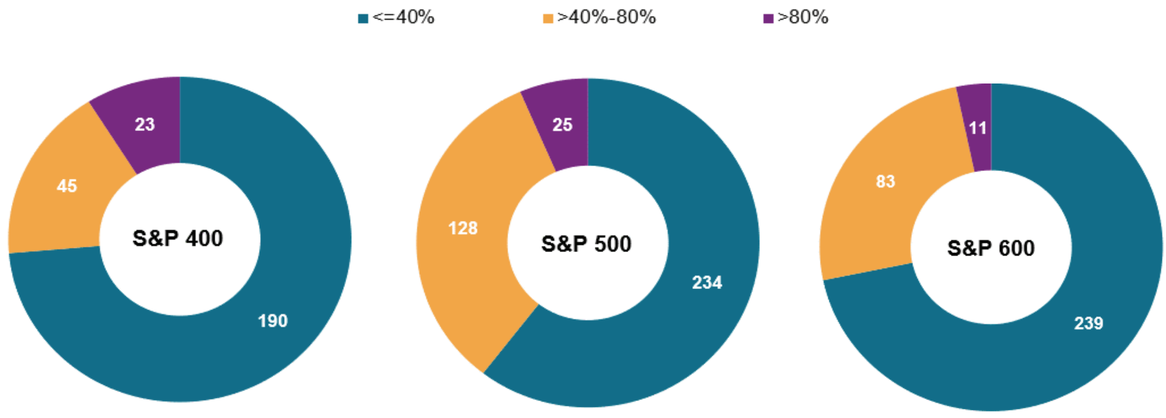
The largest 16% year-over-year increase is observed in media and entertainment, mostly due to The Walt Disney Co.'s dividend reinstatement with a forecast further increase in 2024. The sector encountered challenging years as media companies grappled with declines in revenue stemming from advertainment trends. Thus, two companies within the sector cut or suspended their dividends. Seven companies are forecast to keep their dividends flat, whereas 14 companies are expected to increase them, out of which five are constituents of the S&P 500 index.

With only nine dividend payers, telecommunications is the least-performing sector. The two S&P 500 constituent companies pay 94% of the total dividend within the sector. The new T-Mobile US Inc. dividends add 4 percentage points to the sectorial payouts and are expected to grow in 2024.

Risks embedded in specific sectors and companies

For the most part, large US companies maintain reasonable payout ratios, allowing them to cover dividends — many at levels low enough to support dividend increases. Sustaining and growing dividends remain one of the important capital allocation strategies for numerous US dividend-paying companies. We estimate that approximately 190 companies in the S&P 500 index have consistently increased dividends over the last 10 years, about 100 have done so in the S&P 400 and 60 in the S&P 600 index constituents.

Estimated median payout ratio for 2024 (excluding real estate)

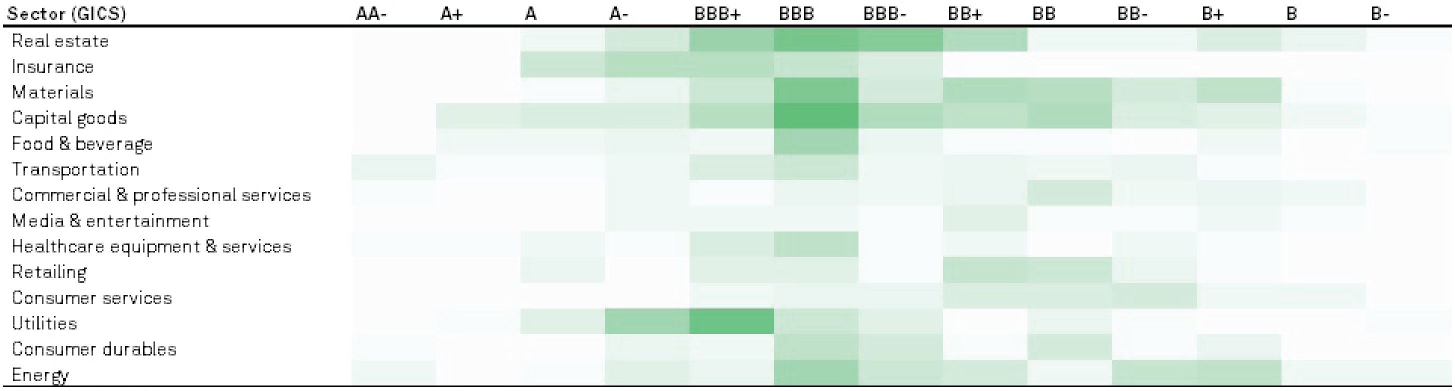


Data compiled Jan. 2, 2024.
Figure in each section is the number of companies.
Source: S&P Global Market Intelligence.

Widely perceived, the companies that have grown their dividends for many years usually continue the pattern even if it is not economically justified. While many companies have managed to grow their dividends annually for decades, some companies eventually do not survive the economic downturn and liquidity pressure, cutting or suspending their dividends. Pursuing growth opportunities is among the other reasons for dividend reduction.

The risk of dividend sustainability can be signaled by credit rating deterioration. Most of the rated dividend-paying companies possess investment-grade ratings based on S&P Global Ratings and are predominantly concentrated within the BBB+ to B+ range. Higher costs of debt refinancing and issuance of new debts might constrain discretionary cash flow and cause credit rating downgrades. Concerns persist in real estate and financials, including banks and diversified finance.

Credit rating concentration by sectors



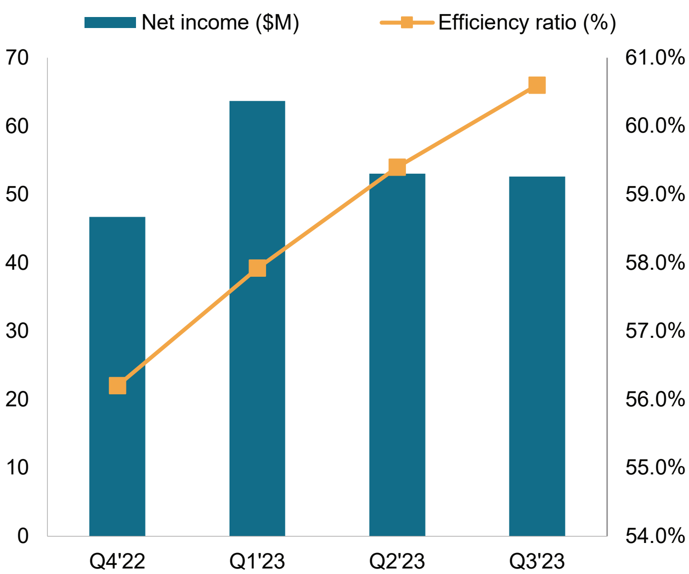
Data compiled Jan. 2, 2024.

Source: S&P Global Market Intelligence.

Financials: Given the setbacks, a steady momentum is expected for dividends

In 2023, the banking sector faced significant challenges following the collapse of SVB and Signature Bank. The failure of these banks triggered a closer examination of uninsured deposits, leading to a decline in depositor confidence and intensifying the deposits fight among banks, which started in 2022 since the start of streaks in interest rate hike by the Fed. The banks started to increase the interest rates on the deposits, which increased their funding cost. Among the different categories of banks based on asset size, large banks' funding cost came to be highest.

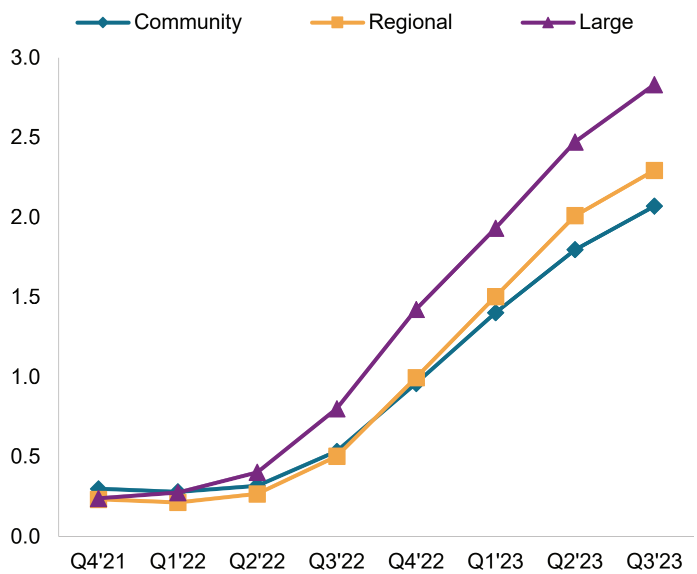
Net income and efficiency trend



Data compiled Jan. 2, 2024.

Source: S&P Global Market Intelligence.

Funding cost (%)

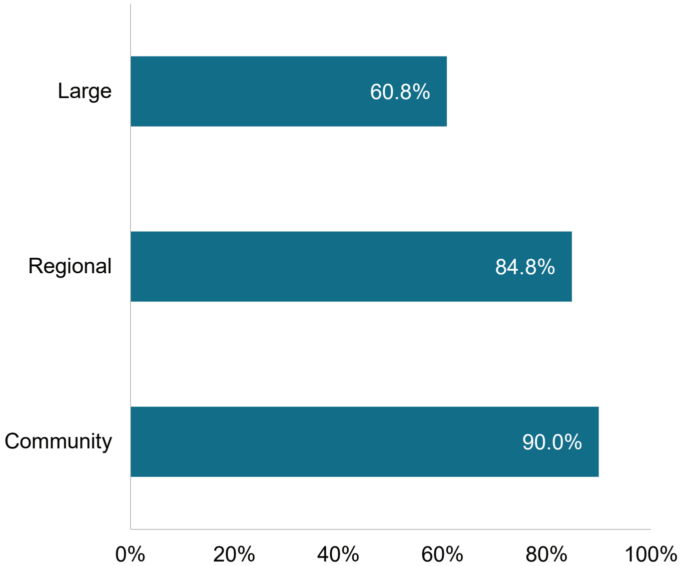


Data compiled Jan. 2, 2024.

Source: S&P Global Market Intelligence.

Initially, when the interest rates started increasing, in the hopes of earning more, banks started lending slightly aggressively. Historically, community banks remained the most aggressive lending banks, whereas large banks were the least aggressive with an average loan-to-deposit ratio of 60.8%. However, the recent loan-to-deposit ratio has narrowed down due to an increase in the ratio for regional banks. The commercial real estate bust has put pressure on the banks' loan portfolio, as they have a higher composition of the loan type which increases the risk of higher non-performing loans. As a result, most of the banks have started increasing their provisions for loan losses.

Loan-to-deposit ratio (in %)



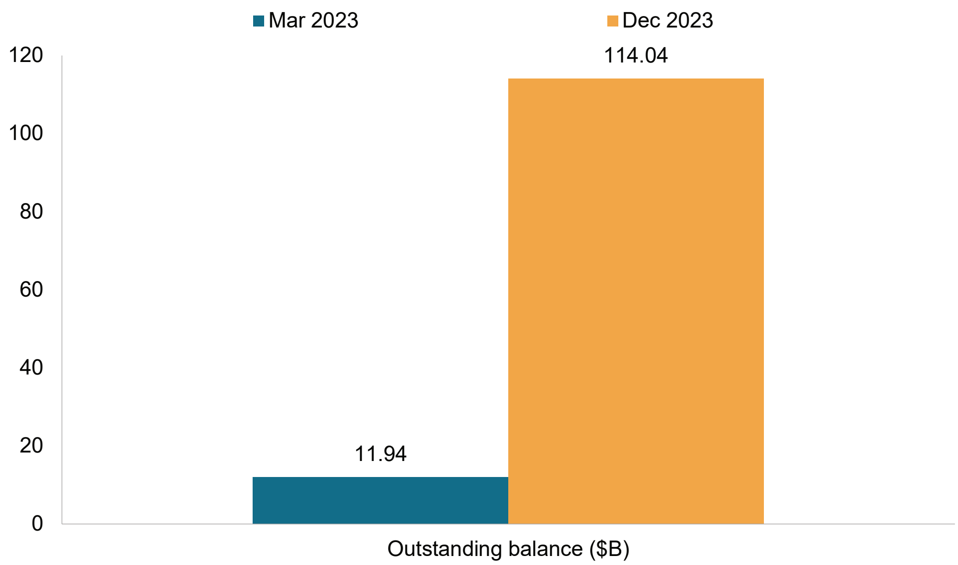
Data compiled Jan. 2, 2024.
Source: S&P Global Market Intelligence.

2023: Banks' aggregated dividends reached $54.5 billion, representing growth of 5.6%, and almost 180 companies increased their dividends per share.

2024: Dividends are expected to reach $57.6 billion, with year-over-year growth of 5.8%, with almost 170 companies expected to increase their dividends per share and 70 companies expected to maintain stable dividends.

Due to the high bond yield, the unrealized losses on the bond portfolio increased, and as a corrective measure, Federal Deposit Insurance Corp. (FDIC) introduced the Bank Term Funding Program (BTFP) in 2023 to provide short-term liquidity. The most recent balance has decreased to $114 billion from $120.6 billion but has been used a lot when the plan was originally introduced, signaling the increasing liquidity needs of banks. Also, most of the banks have adequate capital ratios and sufficient buffers in case of a stress scenario.

Bank Term Funding Program



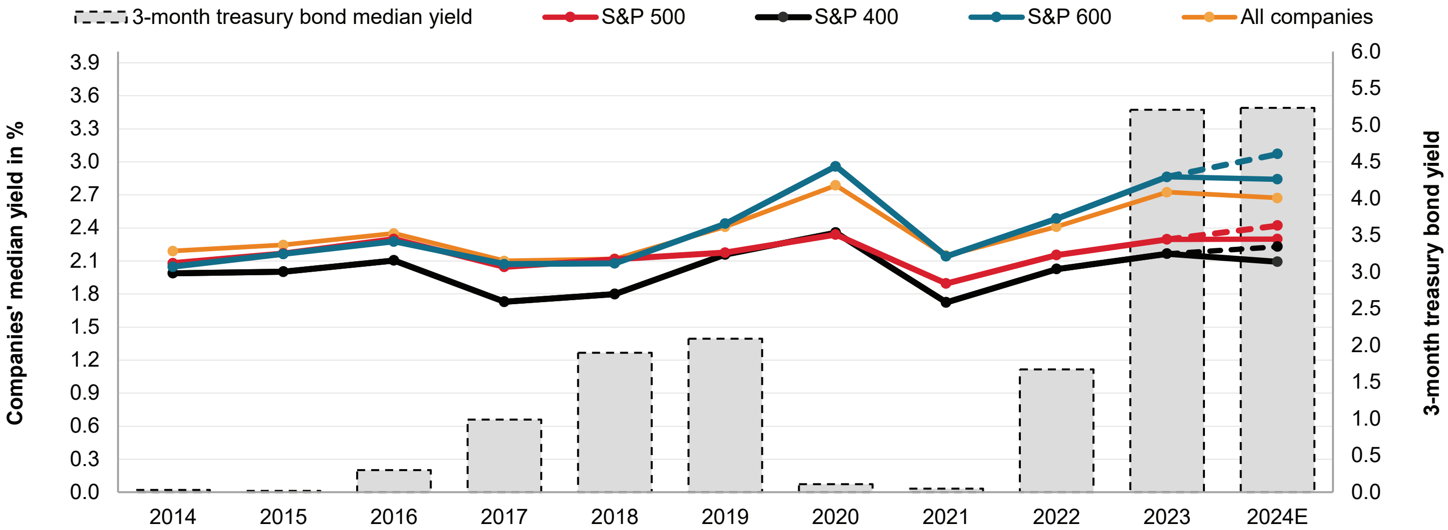
Data compiled Jan. 2, 2024.
Source: S&P Global Market Intelligence.

For this reason, despite these challenges, banking dividends managed to grow by 5.6%. As banks enter 2024 grappling with similar concerns, it is anticipated that dividends will maintain a steady growth rate of approximately 5.8%, reaching a level of $57.64 billion.

2024 yield trends: On the rise again?

Many companies within the US market pay out reliable, quarterly dividends. Apart from price appreciation, quality companies can position investors to benefit from dividend growth and attractive yield. Our forward yield calculations provide an estimate of a company yield that, in addition to estimated regular dividends, includes variable dividends, which can be treated as regular. Variable dividends can, in turn, influence the valuations of various derivative prices.

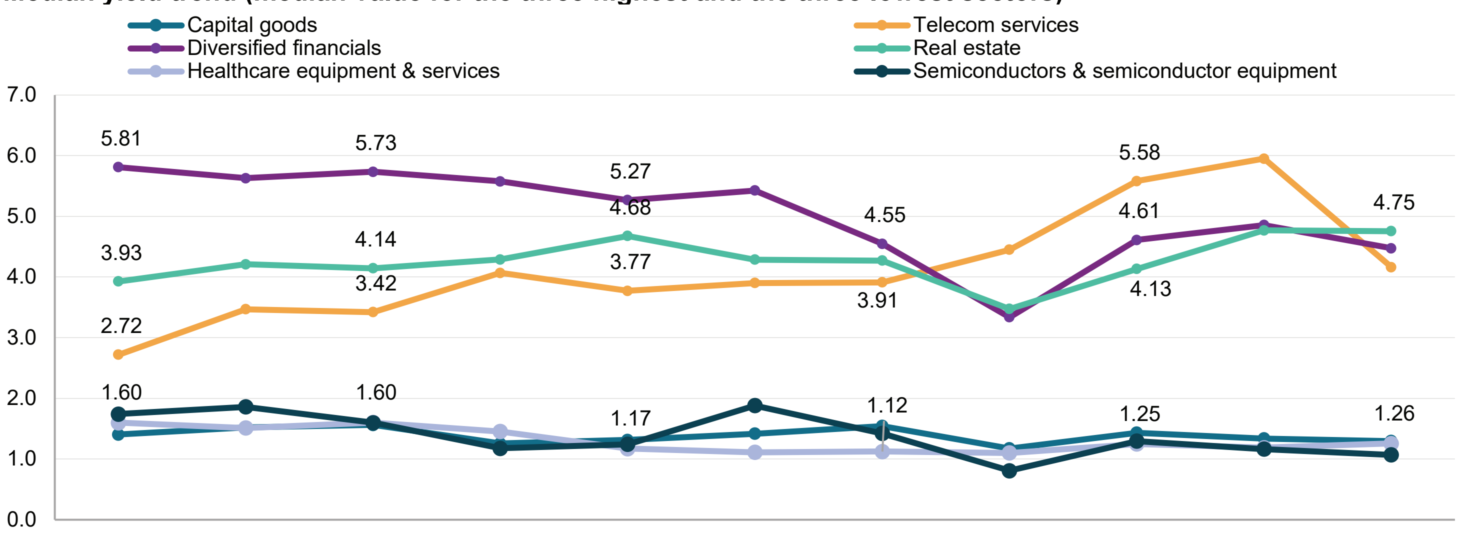
Yield trend (median value)



Data compiled Jan. 2, 2024.
The dotted lines for 2024E represent estimated forward yield.
Source: S&P Global Market Inteligence.

Optimism over interest rate cut expectations and inflation reduction spurred the stock rally, increasing market capitalization that, in turn, reduces dividend yield. As shown on the chart above, the median yield of regular dividends for the S&P 1500 index constituents trends lower than that observed in 2023. However, considering the forecast variable dividends, the median forward yield is estimated to trend higher.

Median yield trend (median value for the three highest and the three lowest sectors)



Data compiled Jan. 2, 2024.
Source: S&P Global Market Intelligence.

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