S&P Global
Market Intelligence

Dividend Forecasting

Quarterly report

March 22, 2024

S&P 500 DIPs: 2024 review of annual and quarterly forecasts

Vedant Bagri, CFA, Research Analyst, Dividend Forecasting

Vika Tambaeva, Research Analyst, Dividend Forecasting

Juan Pablo Albornoz, Research Analyst, Dividend Forecasting

Table of contents

The take

- The S&P 500 Dividend Points Index is forecast to increase by 6%.
- US market dividend growth is bolstered by dividend initiation of constituents.
- Regular dividends of index constituents have a low risk for amounts and ex-dates.
- This report examines major sectors' contributors' analytics and impact on the index forecast.
- This report also analyzes the effect of mergers and acquisitions on the S&P 500 Dividend Points Index.

About us

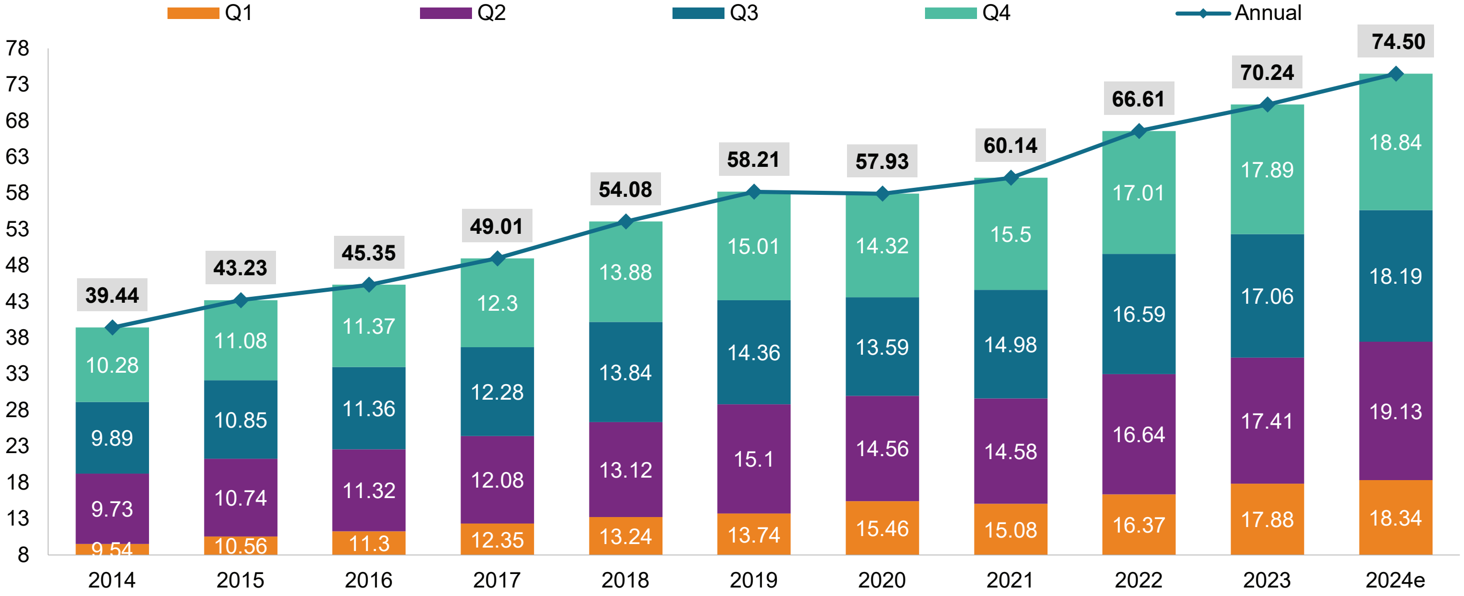
S&P Global Market Intelligence Dividend Forecasting (S&P Global MI DF) serves top-tier financial institutions with their investment decision-making and risk management through provision of timely data, insights and commentary on dividend forecasts. Powered by a global team of 40 dividend analysts closely maintaining precise forecasts on the size and timing of payments based on bottom-up fundamental research as well as a proprietary advanced analytics model, our dataset incorporates the latest company news and market developments. We pride ourselves in an unmatched coverage that spans over 28,000+ stocks across the globe and our analysts are always available to engage in discussion and address users' queries.

To learn more or to request a demo, contact dividendsupport@spglobal.com or visit https://www.spglobal.com/marketintelligence/en/mi/products/dividend-forecasting.html.

S&P 500 Dividend Points Index (Annual) performance

The S&P 500 Quarterly and Annual Dividend Points Index is an effective tool to hedge against or take a view on dividends for the US market. The index tracks the accumulation of regular cash dividends on a quarterly and annual basis and resets to zero after the expiration of the quarterly or leading December contracts.

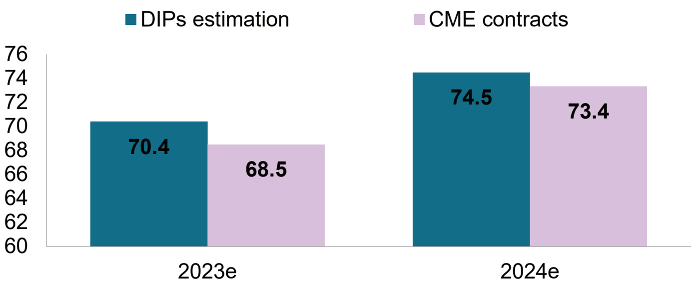
S&P 500 Dividend Points Index evolution



Data compiled March 7, 2024.
e = estimated.
Source: S&P Global Market Intelligence.

In the US market, aggregated dividends are forecast to grow by 5.8% in 2024. S&P 500 constituents pay more than 80% of total dividends. The annual S&P 500 Dividend Points Index has maintained a compound annual growth rate (CAGR) of 6% for the last decade. It is projected to rise by another 6% in 2024, resulting in a 6.2% 10-year CAGR. In 2024, dividend sustainability is fueled by dividend resumption and initiation in the media and entertainment (M&E) sector and supported by continued dividend increases in the largest sectors, such as energy, real estate and banks. However, this positive trend is tempered by the consumer-related sectors.

DIPs forecast comparison, 2023e–24e



Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

As provided in the 2023 *S&P 500 Report* publication from May, we estimated the dividend index points (DIPs) at 70.4, while the CME contract was at 68.5 points. Last year's DIP estimations included a forecast of The Walt Disney Co.'s dividend reinstatement of US$0.43 per share, which accounts for 0.094 point to annual DIPs.

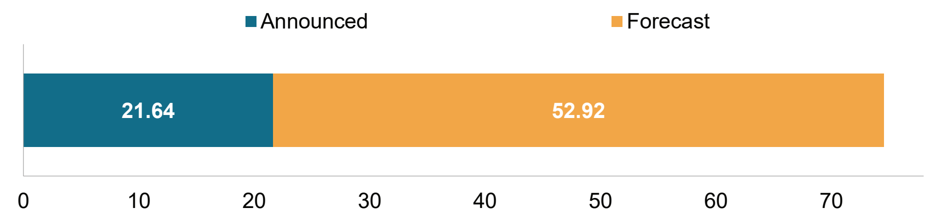
The onset of 2024 saw a surge of market optimism driven by the deceleration of inflation and anticipation of forthcoming interest rate cuts. Companies across various industries are tackling their strategies for years to come, adapting to the market growth uncertainty, the timing of expected interest rate cuts and the complex geopolitical environment. Responding to these dynamics, companies in sectors such as energy, banking and technology are engaging in mergers and acquisitions (M&A) activity. Meanwhile, sectors like technology, media and telecommunications (TMT) attract investors with dividend initiations. Conversely, concerns have arisen within the retailing and consumer durables sectors, particularly highlighted by the significant dividend cut of Walgreens Boots Alliance Inc. at the start of the year.

DIPs 2024 forecast: Annual expiry

Forecast highlights

As of March 7, 29% of annual DIPs are announced. This amount includes Walmart Inc.'s and Garmin Ltd.'s dividend declarations scheduled for the second half of 2024. For 2024, we expect about 350 S&P 500 constituents to either increase their regular dividends or pay special dividends. About 40% of the companies have increased their dividends in the first quarter of 2024. The three largest sectors by the number of companies-constituents are capital goods, real estate and utilities, with about 41, 28 and 29 companies to grow their dividends, respectively.

S&P 500 DIPs annual expiry (2024e) progression bar



Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

The largest year-over-year growth is pinned by the M&E sector as Disney reinstated its dividend in December 2023 and Meta Platforms Inc. surprised the market with a blockbuster initiation in February 2024. As a result, the sector now holds 9 out of 16 dividend payers and is poised to almost double aggregated dividends in 2024, amounting to an expected US$12.3 billion for 2024 (versus US$6.6 billion in 2023). Interestingly, without accounting for these two constituents, the panorama for the M&E sector would have been the opposite: dividends would have been forecast to drop 1.3% in 2024. The substantial scenario divergence is mostly related to Paramount Global's dividend cut, as it slashed its dividend per share (DPS) from US$0.24 to US$0.05 to preserve cash. Nonetheless, beyond Paramount's headwinds, only five of the remaining seven S&P 500 constituents from the M&E sector, which paid dividends in 2023, are expected to grow in 2024. Meta's and Disney's announcements rapidly placed these companies among the top three M&E payers, only surpassed by Comcast Corp. Despite these initiations, the sector only accounts for 10.1% of the TMT dividend forecast for 2024.

DIPs distribution by sectors

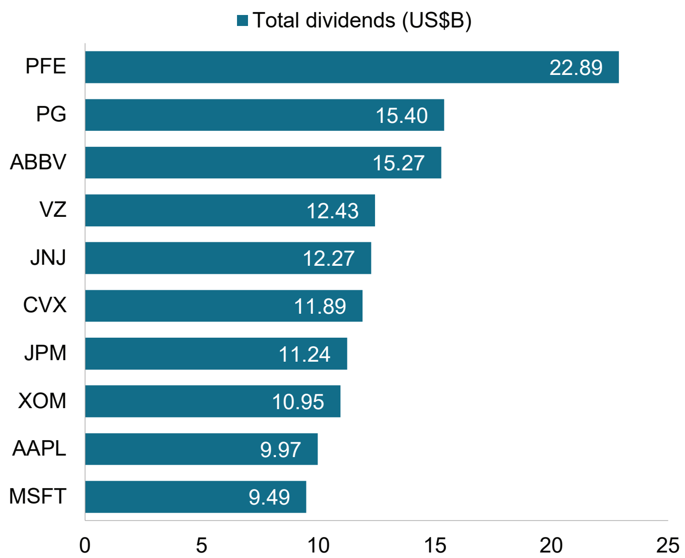
Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

Top 10 S&P 500 constituents

Security name	Ticker	Weight	DIPs weight
Microsoft-T	MSFT	7.0%	3.7%
Apple Inc.	AAPL	5.8%	2.3%
Nvidia Corp.	NVDA	5.1%	0.1%
Amazon.com Inc.	AMZN	3.7%	
Meta Platforms Inc.	META	2.6%	0.7%
Alphabet Inc.-Cl A	GOOGL	1.8%	
Berkshire Hathway Inc.-Cl B	BRKb	1.7%	
Alphabet Inc.-Cl C	GOOG	1.5%	
Eli Lilly And Co.	LLY	1.5%	0.7%
Broadcom Inc.	AVGO	1.4%	1.9%
JPMorgan Chase & Co.	JPM	1.3%	2.0%

Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

Ten largest dividend-paying constituents

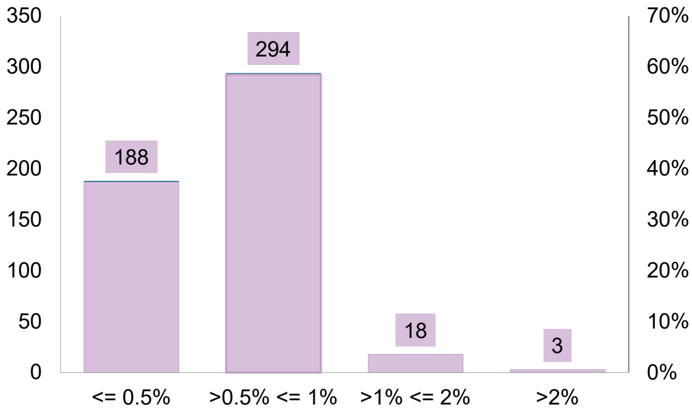


Data compiled March 20, 2024.
Source: S&P Global Market Intelligence.

Microsoft Corp. (MSFT), ExxonMobil Corp. (XOM) and **Apple Inc. (AAPL)** still reserve the top three largest DIP contributors in 2023. However, the contribution percentage gets diluted below the four-mark level as Disney reinstated its dividend in December 2023, and three more companies, constituents of S&P 500, initiated dividends in the first quarter of 2024. Collectively, Meta, Salesforce Inc. and Booking Holdings Inc. add 0.86 point.

While the key value of the S&P 500 index is a diversified exposure to industries, some dispersion can be observed among dividend-paying companies for DIPs distribution. Twenty-one companies contribute above 1% of total DIPs, accounting for 26 points (35%). Meanwhile, median DIP is 0.08 or 0.11% of the total contribution.

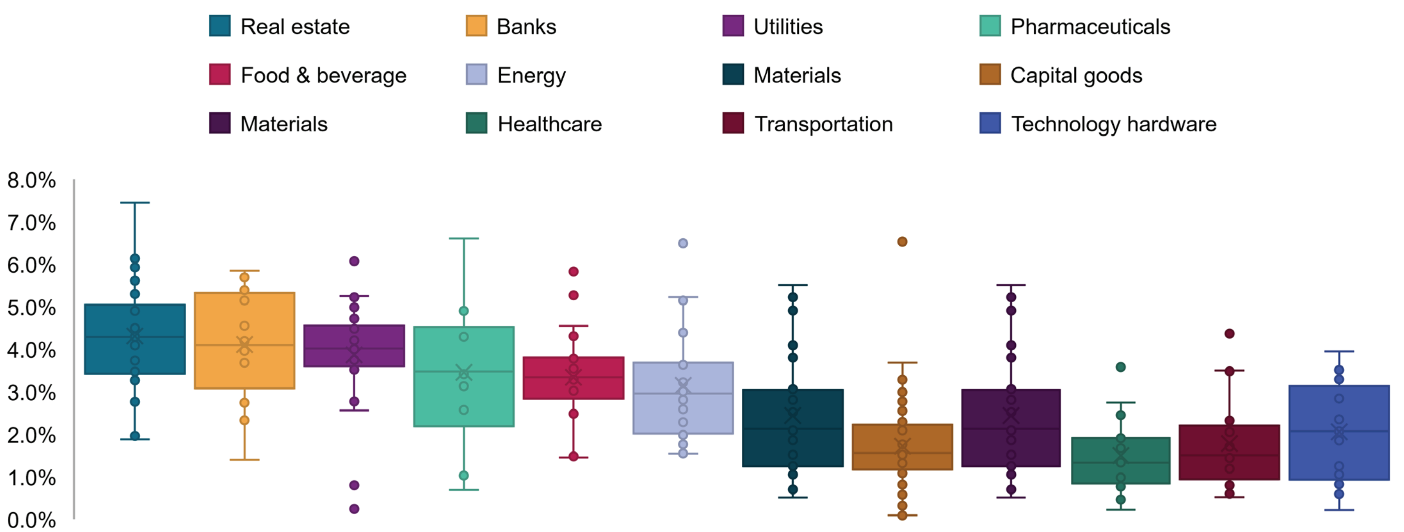
Number of companies by DIPs contribution



Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

Our forward yield calculation estimates a company's yield that accounts for variable dividends, which can be treated as regular. The median forward yield of S&P 500 dividend-paying companies increases to 2.26% in 2024, 0.13% higher than the trailing yield of 2.13%.

Forward yield dynamic by sector

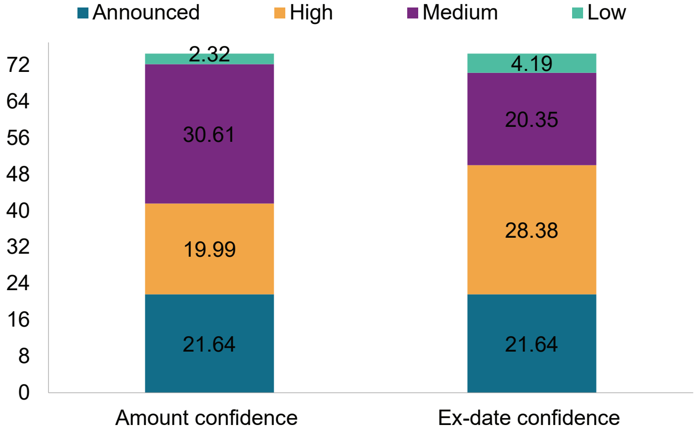


Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

Navigating the depths of risk of S&P 500 overconfidence

We have three independent confidence metrics: sustainability score, amount confidence rank and ex-date confidence rank. The metric provided on the chart offers users insight into the risk around a specific upcoming amount forecast. Assessing this metric, our customers can distinguish between high-conviction forecasts and those that are perceived as most at risk of surprise. Amount confidence reflects the confidence we have in a specific dividend amount forecast. It is determined by the analyst who covers the stock by combining a range of fundamental, market and qualitative factors.

DIPs' confidence level breakdown (annual)

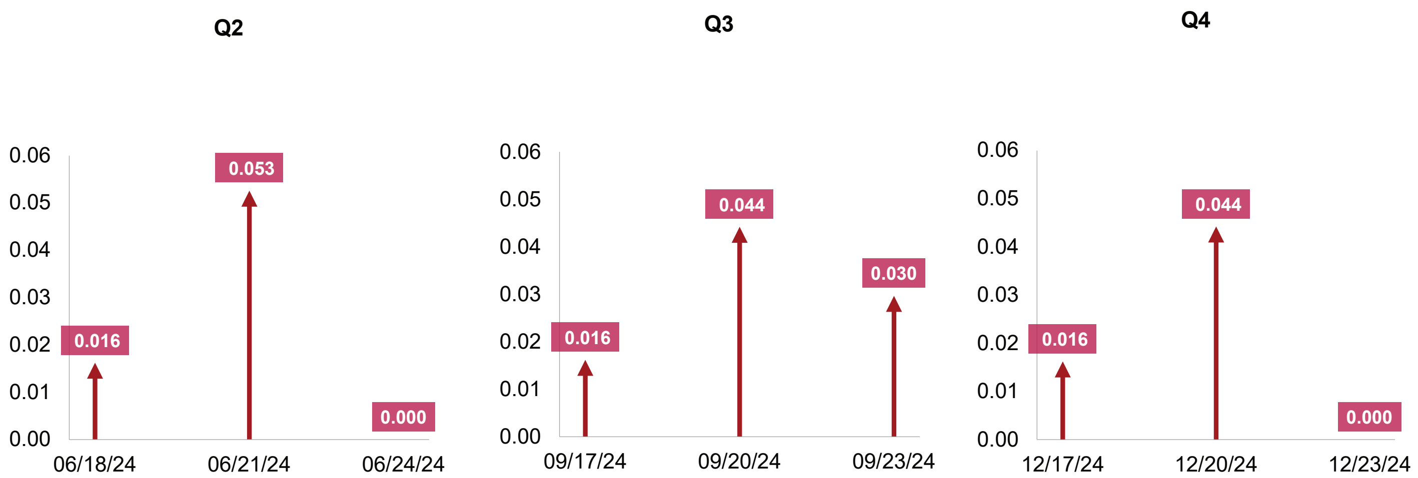


Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

Risky ex-dates breakdowns by quarter expiry

A total of 4.19 DIPs embed risks of ex-dates falling on different dates. However, if accounting for quarters near expiry dates, only five companies demonstrate low confidence in the ex-date pattern.

Risky points near expiry date for S&P 500 Dividend Points Index contracts



Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

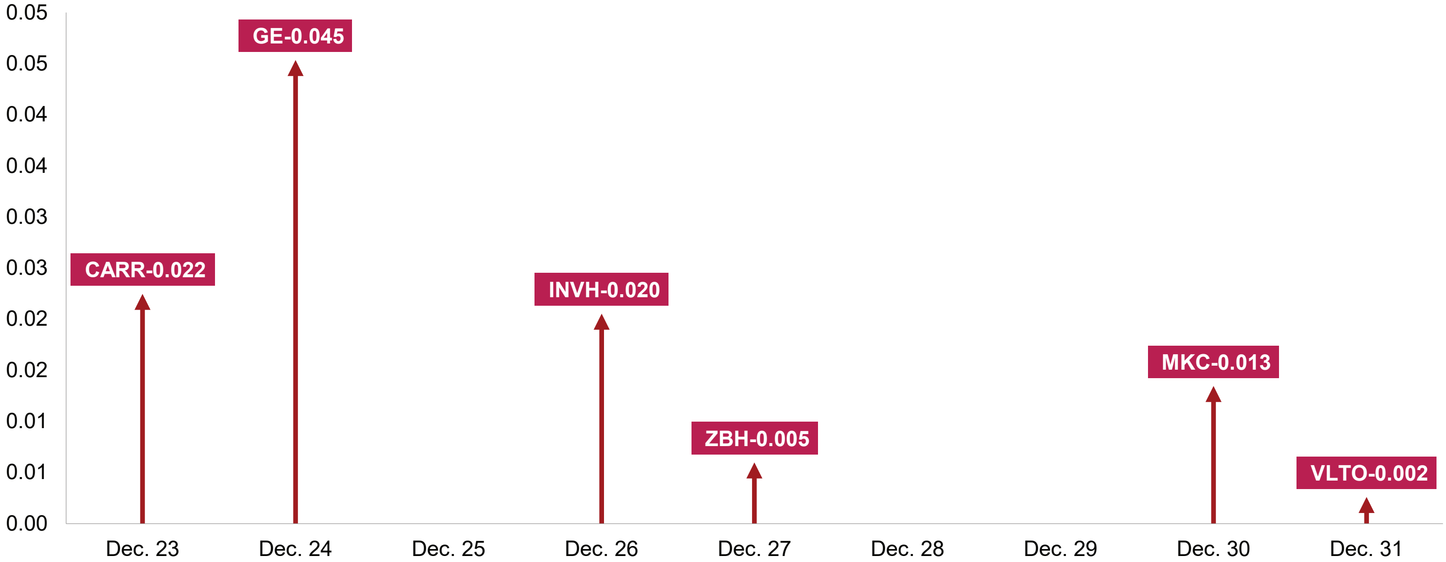
The *June 21, 2024*, expiry date is estimated to accumulate 19.129 points. A total of 0.773 point is estimated to fall on that Friday. **Seagate Technology Holdings PLC, Chubb Ltd.** and **Gen Digital Inc.** present low confidence as the companies do not historically demonstrate a distinctive pattern of the record date. The three companies constitute 0.053 point under risk.

The *Sept. 20, 2024*, expiry date is estimated to accumulate 18.18 points. A total of 0.4102 point is estimated to fall on that Friday. **Seagate Technology, Chubb** and **Eversource Energy** present low confidence as the companies do not historically demonstrate a distinctive pattern of the record date. The three companies add 0.09 point under risk for this expiry.

The *Dec. 20, 2024*, expiry date is estimated to accumulate 18.84 points. A total of 0.4337 point is estimated to fall on that Friday. **Seagate Technology** and **Chubb** remain under low confidence as the companies do not historically demonstrate a distinctive pattern of the record date. The two companies add 0.0604 point under risk.

Overall, 41 announcements with a total of 2.01 points are expected after December's third Friday expiry. Six more companies with low confidence are forecast to have an ex-date after Dec. 20 with total DIPs of 0.11.

Risky DIPs after December expiry

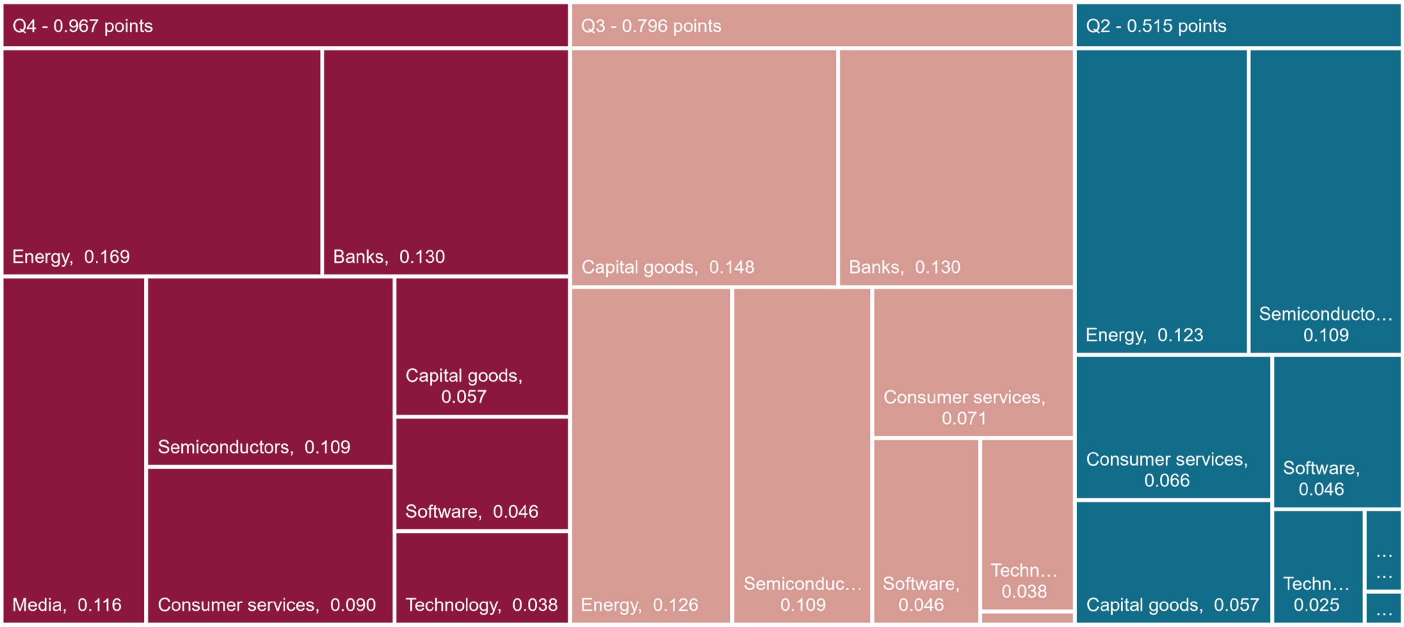


Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

Risky amounts breakdowns

As of March 7, our forecast indicates that 98 out of 1,650 annual announcements are projected with low confidence. The low confidence pertains to 38 companies, accounting for 3% of the annual DIPs. The sectors predominantly affected by this low confidence include energy, consumer services and semiconductors.

Low-confidence amount by sector



Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

In some cases, low confidence and associated risk stem from uncertainties surrounding the dividend growth rate or the timing of such increases. For instance, Citigroup Inc. reported a loss in the first quarter of 2024 and implemented staff layoffs as part of cost-cutting measures. While our forecast indicates an increase for 2024, the company's track record of not consistently raising dividends annually contributes to our low confidence in this year's forecast. Disney's dividend reinstatement is a large bet from management to regain shareholder interest. The company performance seems to be improving in recent years. Disney delivered impressive dividend growth right after its reinstatement on a semiannual basis. While this uptrend could be a one-time event, we are monitoring the possibility of Disney delivering semiannual dividend growth and hence the low confidence level.

The table below lists companies whose regular dividends are sustainable, but the increases' probability, magnitude and timing are uncertain.

Risky amounts due to company level uncertainty

Risky amounts due to increase uncertainty

Ticker	Total DIPs	Low-confidence DIPs	Trailing DPS (US$)	Forward DPS (US$)
C	0.488	0.246	2.10	2.15
PH	0.098	0.075	5.92	6.56
JCI	0.125	0.095	1.47	1.54
ADP	0.279	0.074	5.30	5.80
DPZ	0.025	-	5.14	6.19
CPB	0.035	0.017	1.48	1.52
WYNN	0.015	0.012	1.00	1.40
LUV	0.068	0.043	0.72	0.80
SJM	0.055	0.028	4.20	4.36
BF.B	0.019	0.005	0.85	0.90
LKQ	0.039	0.010	1.15	1.24
NTAP	0.051	0.026	2.00	2.12
BR	0.047	0.025	3.13	3.44

Data compiled March 7, 2024.
The table is filtered by the “Low-confidence DIPs” column.
Source: S&P Global Market Intelligence.

Six companies have low confidence because they either just initiated or reinstated their dividends. For example, Booking Holdings’ dividend initiation adds 0.036 point to DIPs. While the company’s fundamentals are solid, because just-initiated dividends are not time-tested, we express low confidence in the amount and ex-date.

Risky amounts due to initiations/reinstatements

Risky amounts due to initiations or reinstatements

Ticker	Total DIPs	Low-confidence DIPs	Trailing DPS (US$)	Forward DPS (US$)
CRM	0.186	0.139	0.40	1.65
BKNG	0.146	0.109	8.75	36.00
MAR	0.066	0.051	2.08	2.32
LVS	0.044	0.035	0.60	1.10
VLTO	0.009	0.007	0.09	0.37
PAYC	0.009	0.007	1.50	1.50

Data compiled March 7, 2024.
The table is filtered by the “Low-confidence DIPs” column.
Source: S&P Global Market Intelligence.

The next list covers companies where dividend sustainability is undermined due to financial performance or events that might imply the risk leading toward dividend cut or suspension.

Risky amounts due to fundamentals/specific events

Risky amounts due to fundamentals or specific events

Ticker	Total DIPs	Low-confidence DIPs	Trailing DPS (US$)	Forward DPS (US$)
C	0.488	0.246	2.10	2.15
INTC	0.251	0.188	0.50	0.51
DIS	0.211	0.113	0.75	1.04
NXPI	0.124	0.093	4.06	4.72
GE	0.112	0.091	0.32	2.08
DFS	0.092	0.071	2.80	3.20
IP	0.076	0.057	1.85	1.87
PFG	0.072	0.054	2.65	2.77
HES	0.065	0.051	1.75	2.28
STX	0.081	0.049	2.80	2.80
MU	0.060	0.045	0.46	0.46
JNPR	0.034	0.025	0.88	0.88
HAS	0.044	0.022	2.80	2.80
ZION	0.029	0.022	1.64	1.64
PARA	0.012	0.009	0.20	0.20

Data compiled March 7, 2024.
The table is filtered by the “Low-confidence DIPs” column.
Source: S&P Global Market Intelligence.

- Despite a solid balance sheet and sound liquidity ratios, **Micron Technology Inc. (MU)** is exposed to end-market weakness and industry-specific inventory mismatches. MU’s EBITDA plummeted from 54.4% in fiscal year 2022 to 14.2% in fiscal year 2023. MU might prioritize profitability metrics normalization over increasing shareholder returns.
- **Intel Corp. (INTC)** cut its dividend in the second quarter of fiscal year 2023 from US$0.365 per share to US$0.125 per share after a rough year (with a 14% decline in sales and 79% reduction in earnings). Despite an improvement in expected topline performance and margin recovery, large capital expenditure needs and modest cash flow from operations leave little room for dividend growth.
- **Hasbro Inc. (HAS)** eliminated about 1,000 global full-time positions in 2023. This move, combined with ongoing systems and supply chain investments, puts the company on track to achieve its US$250 million-US$300 million annual run-rate cost savings by year-end 2025 to drive profitability and reinvestment in core brand growth. HAS’ sales have declined in the last few years and will continue dropping in the upcoming year, according to consensus. Overall, the deterioration of financial performance combined with an increasing payout ratio causes potential risks for the dividend.
- **International Paper Co. (IP)** persists with dividend payouts. However, its free cash flow cover approached 90%, exceeding its target of 50%.

- **Seagate Technology Holdings (STX)** continued inventory digestion on an industry and company level. Dividends have remained flat since fiscal year 2022 and, according to our assessment, are at high risk of suspension. Nevertheless, management's commitment to the dividend, the company's reliable track record in previous years, its improved performance in the first quarter of 2024, product updates and optimistic consensus estimates for fiscal year 2025 onward support our flat dividend scenario.

Events: Companies under the tickers **JNPR, HESS** and **DFS** undergo M&A deals and are analyzed in respective sections of this report. Meanwhile, **General Electric Co.** is on track to accomplish its plan to create three separate investment-grade companies. The company has implemented a GE Vernova spinoff. GE Vernova will trade separately from April 2, 2024, onward. The new GE Aerospace proposed a compelling dividend of 30% of net income.

Sector highlights and company insights

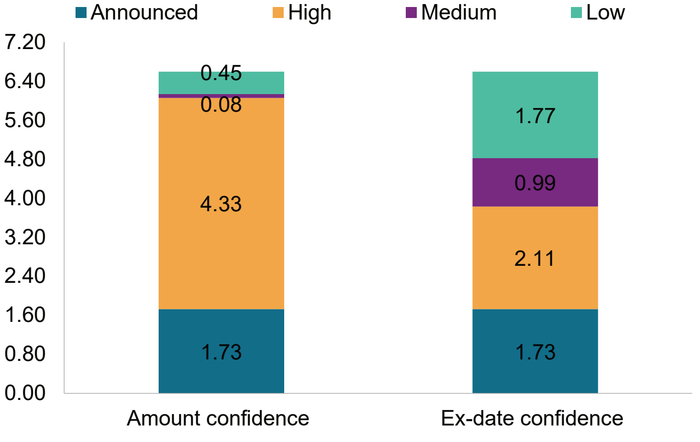
Energy continues comfortable growth

The take

- Adds 8.85% or 6.5958 points to the annual S&P 500 DIPs.
- Total dividends within the sector are estimated to grow by 7% to US$53 billion.
- Variable dividends make minimal impact of 0.57% to total annual DIPs.
- High confidence in amounts and record dates.

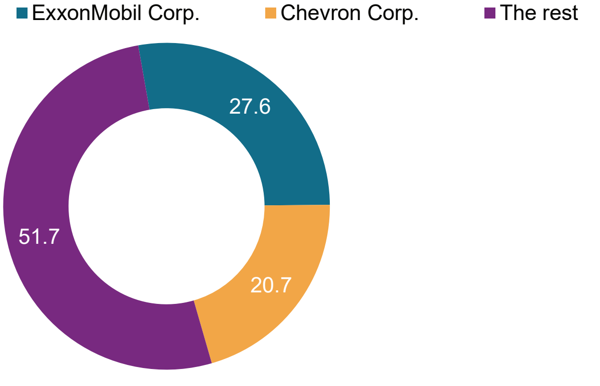
Energy is one of the top three largest dividend-paying sectors among S&P 500 constituents. The sector is represented by 23 companies contributing 8.85% of total DIPs.

DIPs' confidence level breakdown



Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

Annual % of DIPs contribution



Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

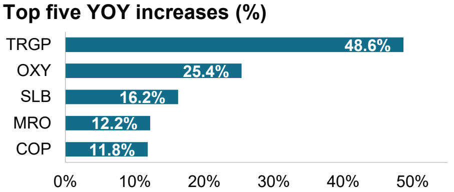
Risky ex-dates

The energy constituents of the S&P 500 index present relatively low risks for the record dates near expiry dates. As observed on the chart above, the overall low-confidence record dates result in 1.77 points, representing 25 announcements from six companies out of a total of 115 announcements. Skipping the first quarter of 2024, there are no low-confidence record dates around quarter expiries. While the December 2024 expiry falls on the 20th, the last forecast ex-date is Dec. 16. Besides, the two companies forecast for Dec. 16 are **EOG Resources Inc.** with special dividend and **Hess Corp**. Hess might merge with **Chevron Corp.** by the end of June. Notably, **ExxonMobil Corp.**'s last eight announcements diverge from the historical pattern.

Amounts

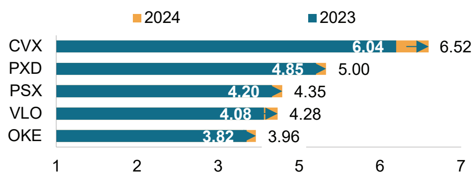
All companies, except APA Corp. and Pioneer Natural Resources Co., are expected to increase their regular dividends. The most increases (13 companies) are in the first quarter, with the rest spread among the next three quarters. The steady, resilient dividend growth continues with a combination of the five companies that have grown dividends for at least the last 10 years and the remaining companies' strong post-pandemic recovery. Despite the transition to the midcycle phase, year-over-year forecast change is up by 6.8%, twice above the sector's 10-year CAGR of 3.2%.

Top five YOY increases (%)



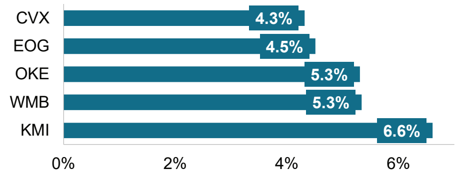
Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.
© 2024 S&P Global.

Top five by DPS (US$)



Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.
© 2024 S&P Global.

Top five by forward yield



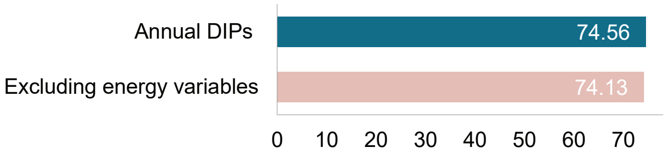
Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.
© 2024 S&P Global.

S&P 500 energy companies with variable dividend policies

Company name	Total DIPs	DIPs regular	DIPs variables	% of total DIPs
ConocoPhillips Co.	0.4469	0.3337	0.1132	0.152%
Coterra Energy Inc.	0.0752	0.0752	0.0000	0.000%
Devon Energy Corp.	0.1068	0.0672	0.0396	0.053%
Diamondback Energy Inc.	0.1510	0.0768	0.0742	0.100%
EOG Resources Inc.	0.4175	0.2528	0.1647	0.221%
Pioneer National Resources Co.	0.1752	0.1388	0.0364	0.049%
Total	**1.3726**	**0.9445**	**0.4281**	**0.574%**

Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.
© 2024 S&P Global.

DIPs excluding energy variable dividends



Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

Variable dividends add 0.4281 or 0.574% to total annual DIPs. Energy variables constitute 22% of the total variables of 1.9433 points (2.7% of total DIPs).

Food, beverage and tobacco: Less risky ex-dates

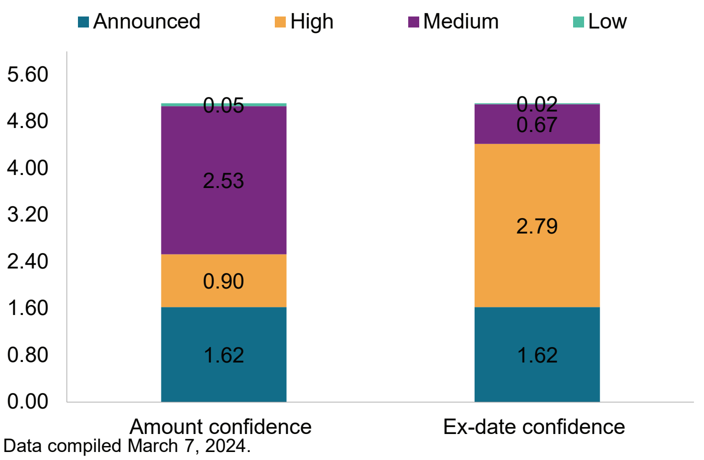
The take

- Adds 6.86% or 5.11 points to the annual S&P 500 DIPs.
- Total dividends within the sector are estimated to continue average growth of 5% to US$45.5 billion.
- The sector demonstrates less risk as record dates do not fall around expiry dates.

Food and beverage companies navigate resiliently through challenges such as supply chain disruption and surging ingredient and labor costs. The S&P 500 sector's companies evolve to continue growing, addressing consumer preference for healthier food and beverage products, increasing their online presence, scaling their brands internationally and merging with local producers. The premium pricing strategy can also differentiate companies in the market and enhance their profit margins.

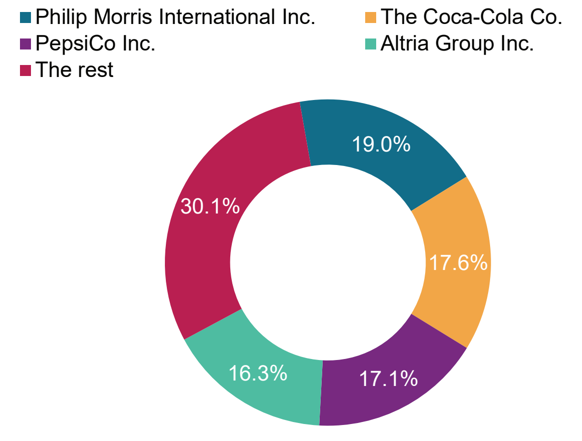
The food, beverage and tobacco sector is among the top three largest dividend-paying S&P 500 constituents and is fourth in annual DIP contribution. The sector is represented by 22 dividend-paying companies.

DIPs' confidence level breakdown



Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

Annual % of DIPs contribution



Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

Risky ex-dates

The sector's constituents of the S&P 500 present low risks for record dates near expiry. As observed on the chart above, the overall low-confidence record dates result in 0.02 point, caused by the uncertainty of a single company's record date pattern in November. Skipping the first quarter of 2024, there are no low-confidence record dates around quarter expiries.

Amounts

About 19 companies are expected to increase their regular dividends. Six companies have already increased them in the first quarter, with the rest spread over the next three quarters. The steady, resilient year-over-year sector dividend growth is sustained as 12 companies have grown dividends for at least the last 10 years. The low-confidence DIPs amount of 0.05 point is accumulated by three companies: **Campbell Soup Co.**, **The J.M. Smucker Co.** and **Brown-Forman Corp.** While overall dividend sustainability is solid, there are no clear patterns of dividend increase.

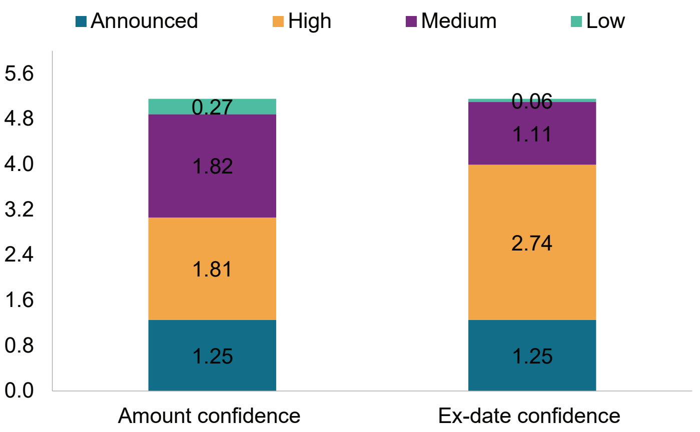
Banks: Growth despite majority of companies having stable payout

The take

- Adds 6.93% or 5.155 points to the annual S&P 500 DIPs.
- Total dividends within the sector are estimated to grow by 7% to US$44.3 billion.
- Out of 16 dividend-paying banks, 9 are expected to maintain stable dividends in 2024.

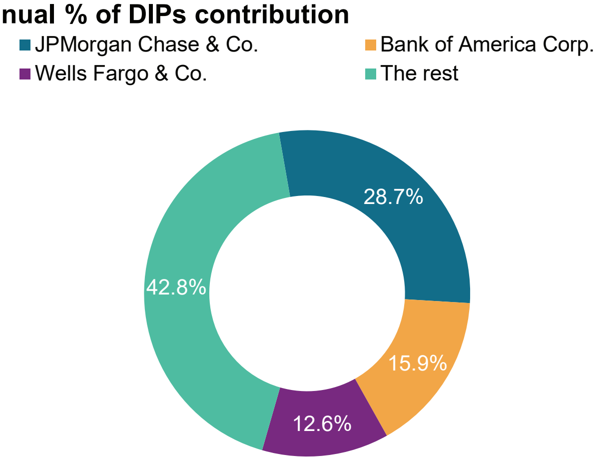
Banking is one of the top five largest dividend-paying sectors among S&P 500 constituents. The sector is represented by 16 companies that contribute 6.93% of total DIPs. With the commercial real estate (CRE) market being "underwater" along with deposit fight, banks are increasing the provisions for credit losses, reducing their free funds in hand. Also, the higher deposit cost made it tough for the sector to maintain its margins. As a result, only 7 out of 16 dividend-paying companies are expected to increase their dividends in 2024.

DIPs' confidence level breakdown



Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

Annual % of DIPs contribution



Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

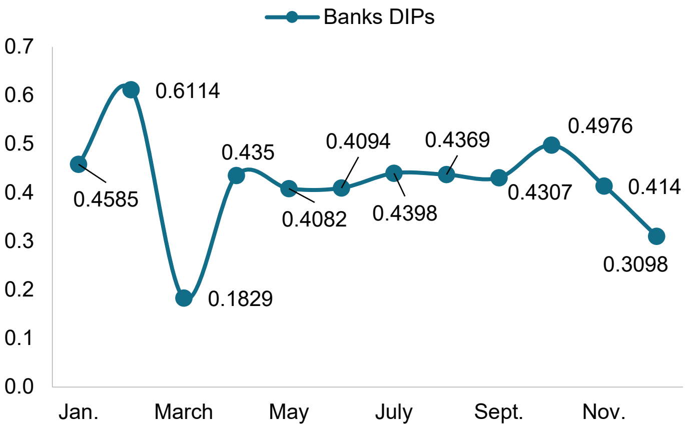
Risky amounts

Zions Bancorporation NA's (ZION) accumulated other comprehensive income loss as of Dec. 31, 2023, was US$2.7 billion due to available-for-sale securities declining in fair value. Net income has also been decreasing since 2021 and it fell by 26% year over year in 2023. Since the bank has been paying a stable dividend since 2022, sustaining the dividend with the decreasing level of income and margins will be even tougher in 2024.

The M&A of **Discover Financial Services (DFS)** and **Capital One Financial Corp.** is under investigation by regulators to see whether it is in the best interest for DFS shareholders. Since the transaction is all-stock and there is no intimation as of now by either company regarding changes in DPS, we expect an increase in DPS in the second quarter of 2024 but have low confidence on our estimates due to unanticipated M&A expenses that may affect free cash flow.

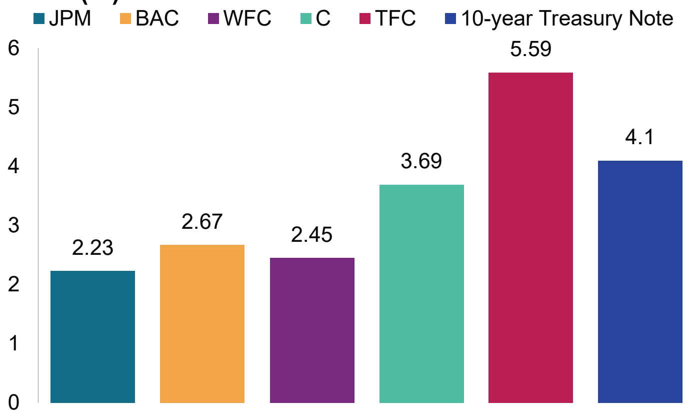
Citigroup reported a loss in the first quarter of 2024. In addition, company has laid off a huge number of staff as part of its cost-cutting measures. If the company is unable to restore its profit in the second quarter of 2024 and considering the track of not increasing the dividend every year, the bank may decide not to increase the dividend further again. Hence, we have low confidence on the forecast for 2024.

Banks monthly DIPs



Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

Top five banks by current yield vs. 10-year Treasury Bond (%)



Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

M&A: Pacing up deals and impact on DIPs

Ongoing large deals and impact on DIPs

Target	Pioneer Natural Resources Co.	Hess Corp.	Discover Financial Services	Juniper Networks Inc.
Acquirer	ExxonMobil Corp.	Chevron Corp.	Capital One Financial Corp.	Hewlett-Packard Enterprise
Transaction value	US$65.6 billion	US$62.67 billion	US$35.3 billion	US$13.6 billion
Current DPS	US$0.30	US$0.44	US$0.70	US$0.22
DPS after M&A	0	0	0	0
DPS is terminated	US$0.30	US$0.44	US$0.80	US$0.22
DIPs impact	0.175	0.065	0.092	0.034
Ex-date confidence	Low	Low	Medium	Low
Amount confidence	Medium	Low	Low	Low

Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

The energy sector has witnessed large M&A deals since 2023, and this trend is continuing in 2024. There are seven ongoing large deals (having transaction values of more than US$10 billion) in the S&P 500. However, one of the largest deals is that of Capital One and DFS in 2024.

If all of the M&A transactions close successfully, a total of 0.366 annual DIPs will be under risk. Other notable deals include the acquisition of Ansys Inc. by Synopsis Inc. and the acquisition of Catalent Inc. by Novo Holdings A/S. However, since all of these companies are non-dividend payers, no impact on DIPs is expected.

Sector DIPs

Pharmaceuticals, biotechnology and life sciences: Low risk amid slower growth

The take

– Adds 9.5% or 7.06 points to the annual S&P 500 DIPs.

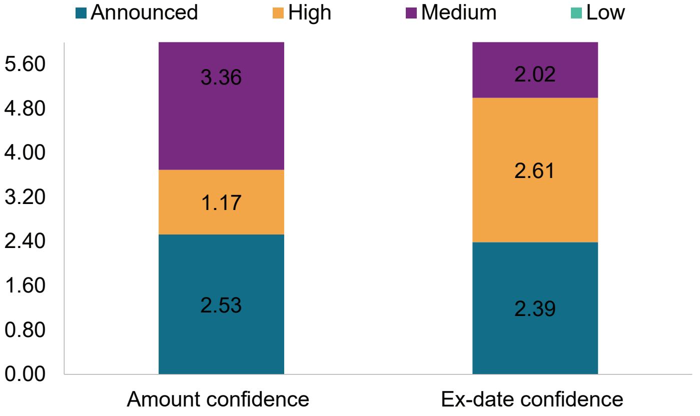
– Dividends within the sector are estimated to grow by 3.5% to US$59.7 billion, below its CAGR of 7.3%.

– The sector has grown slower — yet presents little risk to amounts and ex-dates.

US pharmaceutical companies face ongoing pressures related to the affordability and accessibility of prescription medications. Efforts to control healthcare costs, including proposed reforms such as drug price negotiations and pricing transparency measures, could affect the profitability of pharmaceutical companies. Pharmaceutical and biotechnology companies, traditionally recognized for their strong cash flows, are leaning toward building cash reserves while maintaining research and development (R&D) expenses at a stable rate compared with 2023. The year 2024 is expected to be transformative, with companies focusing on expense management and implementing market expansion strategies. The companies will likely rely on dividends and share repurchases to bolster investor confidence.

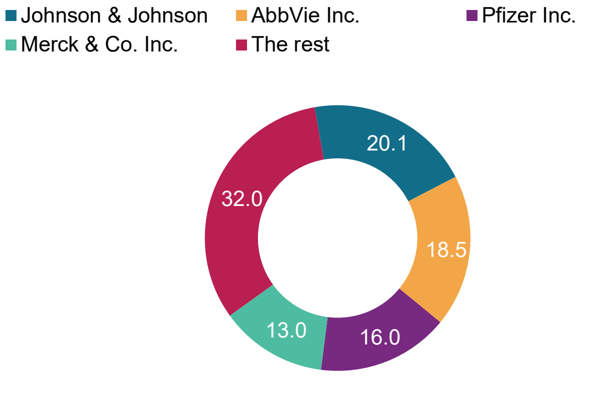
The sector, represented by 10 dividend-paying companies, is the largest dividend-paying one among S&P 500 constituents and DIPs contribution.

DIPs' confidence level breakdown



Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

Annual % of DIPs contribution



Data compiled March 7, 2024.
Source: S&P Global Market Intelligence.

Risky ex-dates

The sector's constituents of the S&P 500 present low risk for record dates near expiry. The overall low-confidence record dates result in 0.05 point, caused by the uncertainty relating to the change in the date pattern of a single company in November and July announcements.

Amounts

Seven out of 10 companies have already increased their dividends in the first quarter of 2024, with two more forecast to do so in the second and fourth quarters. All 40 announcements have a high or median confidence rank. Even though the sector indicates slower growth, regular dividends remain sustainable.

Company highlights

Disney: Is the magic back?

Disney's management decided to forgo its long-dated dividend in the first half of 2020, preserving about US$1.6 billion in cash. Simultaneously, the company trimmed its capex plans by pausing construction and refurbishment works due to the closings of its parks at the beginning of the COVID-19 pandemic. Disney's financial performance worsened before the pandemic, which accelerated trends and had a large negative impact on Disney's business, as it triggered worldwide closures of the company's theme parks and disrupted its media and film businesses. Since then, no dividend payments had been made until the end of 2023, when management announced the reinstatement of a semiannual dividend.

Regarding dates, management seems to have adopted the pre-suspension pattern. The scenario regarding amounts is less clear. Nonetheless, the low-confidence amount forecast is not related to the company's financial position; we believe that Disney has room for further dividend growth. Some measures taken by management are paying off, such as its cost-cutting efforts and ongoing direct-to-consumer (DTC) profitability improvements. There are also high expectations surrounding the sports-driven streaming bundle with Fox Corp. and Warner Bros. Discovery Inc. (WBD). Most importantly, Disney has reduced its leverage from +4.2x net debt to EBITDA in 2020–21 to 2.4x in the last 12 months (LTM). While there is still work to be done to improve its balance sheet and profitability (EBITDA and profit margins are still well below historical standards), we believe the company is headed in the right direction.

The uncertainties about amounts are related to the large and unexpected DPS hike after the reinstatement. In its most recent announcement, the second one since the reinstatement, Disney hiked its DPS by 50%. Management's decisions are all about regaining investors' confidence in the company's direction, as depicted by the comeback of a buyback program. Disney's annualized dividend is only 49% of its pre-suspension level. Similarly, its forward yield is 0.9% (compared with 1.4% in fiscal year 2019). Was this large semiannual DPS growth a one-time event, or is Disney on a fast track to return to its pre-suspension DPS?

Verizon: A long-dated and reliable dividend policy

Within the telecom sector, Verizon Communications Inc. (VZ) is not only the largest provider of wireless services in the US, but also the largest dividend payer and DIPs contributor. We forecast that Verizon's dividend payments will amount to US$11.2 billion in 2024, only surpassed by Microsoft and Apple in the TMT sector. Verizon represents 54.7% of telecom's DIPs, followed by the remaining two constituents, AT&T Inc. and new payer T-Mobile US Inc.

AT&T used to be one of the largest dividend payers in the US market until it cut its dividend in 2021. Since then, its DPS has remained flat. In contrast, Verizon has paid regular quarterly dividends uninterruptedly since 1984 and has never reduced the DPS. Moreover, since its initiation, Verizon has managed to deliver growth in 30 out of 39 years. The dividend was maintained flat during two periods: 1998–2004 (US$1.54 per share) and 2005–06 (US$1.62 per share). Verizon has grown its dividend for 17 consecutive years.

We have high amount and ex-date confidence levels for Verizon's forecast. We believe the company will continue to hike its dividend at the same pace it has in the last eight years (+US$0.0125 per share), translating into slow but steady annual growth of about 2%. Regarding dates, it has followed a strict date pattern since 1989, setting every record date on the 10th (or prior business day) of January, April, July and October. Without a doubt, from a commitment perspective, Verizon's dividend is highly reliable. But is it financially sustainable?

Telcos are characterized by their high capex needs for infrastructure maintenance or replacement (such as fiber recently). With three key players in the US, high market concentration and intense price competition pressure profitability. Verizon has a similar leverage as its two peers, although its net income margin is lower. Verizon's payout ratio is elevated but has remained within the 50%-60% band for almost a decade. Despite quite elevated net leverage, management's free cash flow guidance update supports a leverage improvement thesis for the upcoming years, although a buyback comeback given the stock's price performance poses a risk. Verizon's forward yield is about 6.8%, above AT&T's (about 6.5%). VZ not only faces competition from T-Mobile in its operational business. T-Mobile has recently initiated dividends, offering a substantially lower forward yield (1.72%) but targeting 10% annual dividend growth. Verizon's sluggish dividend growth reduces its attractiveness but supports its sustainability. We believe the company can continue with its long-dated and highly committed dividend policy.

CONTACTS

Dividend Forecasting
Europe, Middle East, and Africa: +44 (0) 134 432 8300
Americas: +1 800 447 2273
DividendSupport@spglobal.com