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CAPITAL MANAGEMENT

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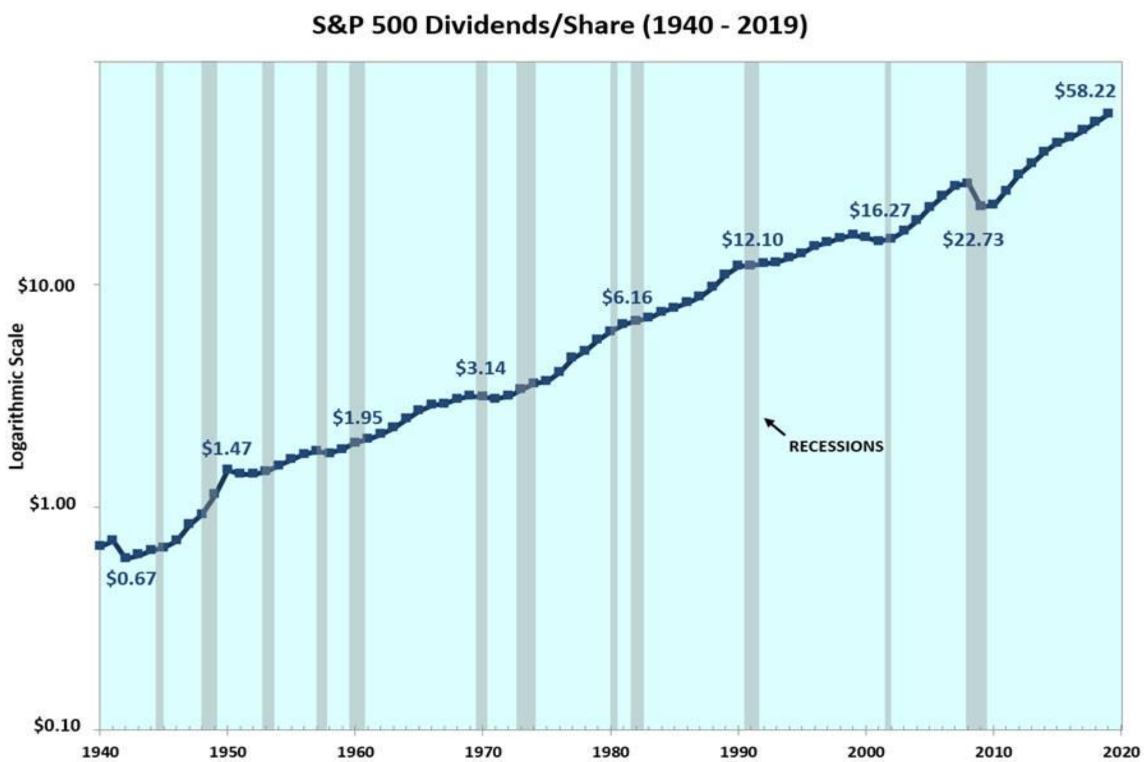
Special Report
Dividends in Recessions

You can see in the chart below how dividends have consistently grown over the last eighty years. During that eighty year span of time, you can also see twelve periods of economic recession. **It is shocking that dividends continued to go up in eleven of the twelve recessions.** The only exception was during the one brought on by the 2008-2009 financial crisis when the government's TARP forced some companies to cut or suspend their dividends.

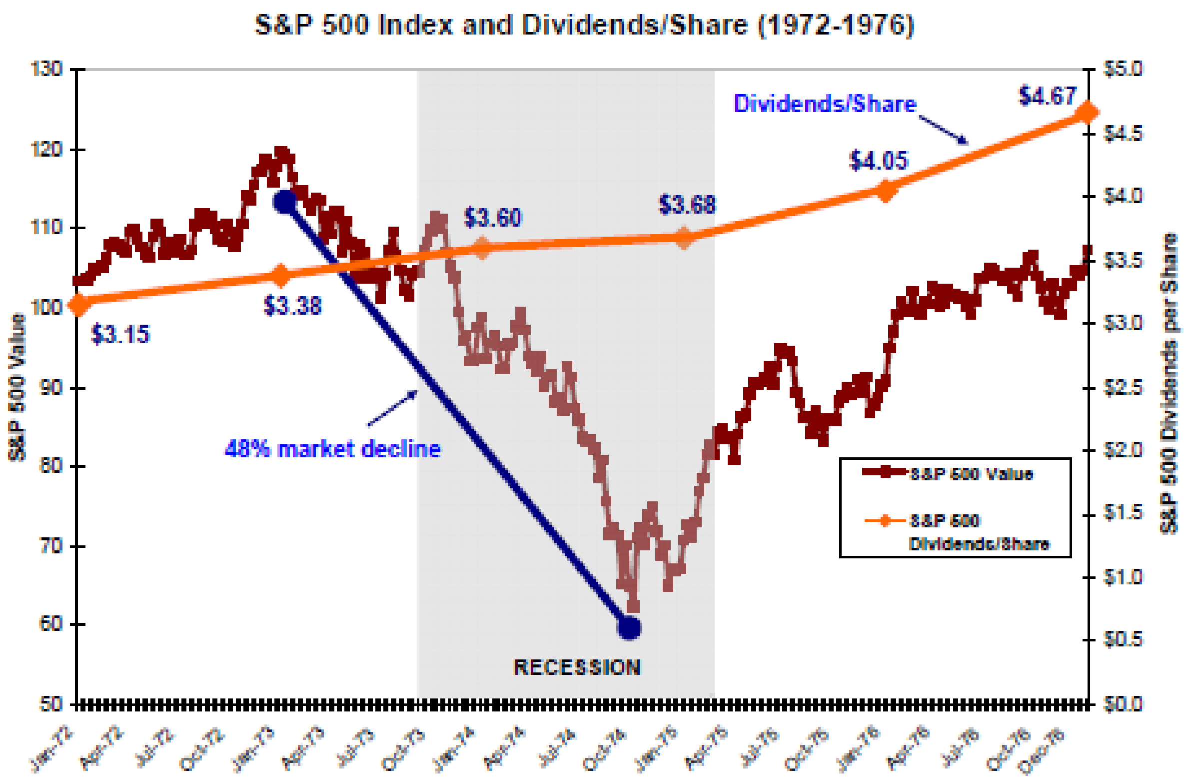
This persistent growth of dividends is especially impressive because earnings, the obvious key to dividends went down on average between 25 to 50%.



Source: Robert Shiller, Ned Davis Research, Standard & Poor's, and Morgan Stanley Research, December 2020
Past performance does not guarantee future results and dividend payments are not guaranteed. Investors cannot invest directly in an index.

The 1972-1976 Example

It is hard to grasp the reality that during all the recessions that occurred during eighty long years, dividends continued to grow. So in the chart below, we want to take a close look at one recession in particular as an example, the one that lasted from 1972 to 1976. The stock market dropped 50% from January of 1973 to October of 1974 as the economy experienced the worst downturn since the Great Depression. **Yet the orange dividend line went up steadily despite the recession. Results were similar in the other recessionary periods.**



Source: Bloomberg, December 2011

Past performance does not guarantee future results and dividend payments are not guaranteed.

The TARP Exception

The reason dividends didn't go up during the 2008-2009 recession was because many companies during the financial crisis were bailed out by a government program called TARP or the Troubled Assets Relief Program, and as a result were prohibited from paying dividends. **But you can see on the chart on the first page of the Market Letter that dividends after the recession increased dramatically.**

Summary

Every recession that follows a bear market is slightly different, and the recession we're now in may produce government programs like TARP. **However, the key for the long term investor is to focus on what dividends will look like a year from now, rather than getting whipsawed by the always unpredictable short term news about the direction of earnings and dividends.**

Right now the outlook for dividends is at one of the most attractive levels in history compared to bonds. This is because the government will keep interest rates low thanks to the huge buildup in government debt.

Jim Cullen

The **S&P 500 Index** is an unmanaged index of 500 large-capitalization publicly traded U.S. stocks representing a variety of industries. Investors cannot invest directly in an index.

There is no guarantee that any historical trend illustrated in this report will be repeated in the future, and there is no way to predict precisely when such a trend might begin.

Past performance is no guarantee of future results. Market conditions can vary widely over time and can result in a loss of portfolio value. Investing in the stock market involves gains and losses and may not be suitable for all investors. The value of an investment may move up or down, sometimes rapidly and unpredictably, and may be worth more or less than what you invested.

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