Matrix Asset Advisors

10 Bank Street, Suite 590
White Plains, NY 10606
(212) 486-2004

DIVIDEND YIELDS VS. STOCK PERFORMANCE
A Review of the Strong 2023 Market [1]
A Matrix whitepaper – May 2024

Historically, cash dividends paid by stocks have been an important contributor to total stock market returns.[2,3] Dividend-oriented strategies try to take advantage of this fact by focusing on healthy dividend payors with a record of maintaining and steadily raising their dividend. Over time, these strategies have resulted in healthy positive returns, while incurring less risk and volatility than the market.[4]

Over short time periods, however, relative results can have a wide variance to the underlying index (the S&P 500®) depending on market conditions. Generally, robust up markets have been an environment where dividend-focused stocks can lag on a short-term basis.

2023 was just such a year, when the S&P 500® posted a total return of over 26%, driven primarily by a relatively small number of very large, low/no yield Tech stocks. Specifically, the Magnificent 7 stocks[5] were responsible for fully 62% of the market's total return.[6] These seven stocks had an average total return of 105%. Outside of these top performers, the recovery of Growth from the 2022 bear market also led to non- and low-dividend payors driving market returns, while dividend-focused stocks had sub-par gains.

For dividend-oriented equity investment strategies that are constrained from buying positions in low/no yielding stocks, and rather focus on high consistent

[1] Matrix acknowledges and appreciates the contributions to this whitepaper by intern Justin Moskowitz.
[2] The "market" or "stocks" refers to the S&P 500® Index as representative of U.S. stocks overall.
[3] Cash dividends paid by common stocks have been responsible for about 40% of long-term stock market total returns. As an example, see Fidelity, "The power of dividends now", 5/30/2023, which specifically addresses the period 1930-2022.
[4] One key paper on this topic is "Dividend Yields and Expected Stock Returns" by Eugene Fama and Kenneth French (*Journal of Financial Economics*, October 1988), though this has been widely studied.
[5] Seven large Technology stocks exposed to the artificial intelligence frenzy: Apple, Alphabet, Amazon.com, Meta Platforms, Microsoft, Nvidia, and Tesla.
[6] SPGlobal.com, "U.S. Equities Market Attributes December 2023"

dividend payors, this kind of environment made for a singularly difficult performance comparison in 2023.

This study is a deep dive that examines the relationship between dividend yield and stock returns for the 2023 period.

In the fullness of time, we expect that dividend-oriented equity strategies, typically with lower volatility than the market overall, can provide strong risk-adjusted returns and be a core component in the asset allocation for conservative, long-term investors.

OVERVIEW:

The purpose of this study is to highlight the difficulty faced by dividend-oriented investors in 2023, when the overall market return was dominated by a few very large companies that pay low or no dividends. This study looks at the components of the S&P 500® index as of 12/31/2022, which we segmented by the dividend yield at that date and total return for the subsequent year.

METHODOLOGY AND OBSERVATIONS:

The starting dividend yield for each of the 500 stocks in the index was based on the stock price and the indicated annual dividend at 12/31/2022, provided by Bloomberg. The total return of each stock for the 2023 calendar year was also obtained from Bloomberg. We sorted by dividend yield and looked at performance, and also sorted by performance to look at the yield characteristics. In either case, the universe was composed of the 500 stocks in the index.

Grouped by Yield:

Of the stocks comprising the S&P 500®, a significant majority had a yield below 2.0% at the beginning of 2022.

Beginning Dividend Yield	Number of stocks	# in Top 100 performers
3.0% and above	114	9
2.5% and above	155	15
2.0% and above	206	19

This is a meaningful limitation on the investible universe for an equity portfolio where income generation is a key goal. The fact that 81 of the top 100 performing stocks had unattractive dividend yields below 2.0% and were essentially off limits may have had the effect of excluding candidates from the investible universe that otherwise may have been attractive and potentially could have boosted portfolio returns.

In fact, when grouping stocks in quintiles by yield, there was a strong and obvious relationship where the stocks' returns were inversely correlated with their dividend yields, as shown here.

Performance by Quintile, Grouped by Dividend Yield

	Average Starting Dividend Yield	2023 Total Return
Q1 – highest yield	4.24%	5.34%
Q2	2.57%	8.77%
Q3	1.56%	16.97%
Q4	0.62%	34.77%
Q5 – lowest yield	0.00%	23.04%

The highest yielding stocks as a group (top quintile) had the worst returns in 2023, while the stocks with low or no yields (bottom two quintiles) were the best performers. This is most clearly exemplified by the Magnificent 7, which had an average return of 105% with a dividend yield of no more than 1.1% (MSFT).

More generally, we can simply split the S&P 500 in halves. The data again shows that the higher yielding stocks dramatically underperformed those with lower starting dividend yields.

S&P 500 Performance, Grouped by Dividend Yield

	Average Starting Dividend Yield	2023 Total Return
Top 250 yields	3.08%	8.36%
Bottom 250 yields	0.52%	27.01%

Grouped by Performance:

Conversely, looking at the dividend yields of S&P 500® stocks stratified by 2023 total return illuminates the same inverse relationship of performance and yield. For this exercise, we sorted the 500 stocks into three groups: the top 100 performers ranked on total return, the worst 100 performers, and the 300 in the middle. The data again shows that the best performers in 2023's strong stock market paid minimal dividends. On the other hand, the remaining 80% of stocks in the index, which seriously underperformed the returns of both the overall index and the top quintile, were companies with a material dividend yield at the beginning of the year.

Dividend Yield by Quintile, Grouped by Performance

		2023 Return	Starting Dividend Yield
Top 100 performers:	average	66.56%	1.05%
	median	56.11%	0.56%
Next 300 performers	average	12.36%	1.95%
	median	12.62%	1.71%
Bottom 100 performers*	average	-16.31%	2.12%
	median	-12.80%	2.10%

CONCLUSIONS:

- In certain periods of robust market returns, the market is less interested in the benefits of dividends and focuses on other fundamental attributes.
- 2023 was such a period, where market drivers focused on more speculative future attributes of a company and not its current economics. In fact, in 2023

the ability and commitment to pay a dividend had a negative correlation to return. Much of the 2023 market's trends were share price reversals of the bear market trends of the prior year and a significant change in market leadership.

- The key drivers of the 2023 rally (the Magnificent 7, AI plays, and Growth stocks) generally do not pay meaningful dividends, and most other areas of the market did not participate in the rally.

- For equity investment strategies that prioritize dividend income as a key investment goal, the potential return of a dividend-oriented portfolio was severely limited by the fact that the small number of stocks responsible for most of the S&P 500's strong return were in the low/no dividend camp. The investible universe of stocks with meaningful dividend yields just did not include many candidates that were in the top tier of performers.

- It is important to note that part of the 2023 strength of non-dividend payors and relative weakness of dividend payors was simply a reversal of the 2022 trends. during the severe 2022 bear market, dividend payors held up much better than the market on average. When the two periods (the 2022 bear market and 2023 bull recovery) are combined, dividend stocks fared well and, in fact, outpaced the non-dividend Growth area of the market.

- We expect that stocks with attractive dividend yields will regain attention from investors in the future, especially in periods with more normal returns, in periods of stock market declines, or in lower interest rate environments when dividend yields are more highly valued versus fixed income investments.

- In 2023, the fundamental performance of many of the stocks with higher dividend yields was quite strong, in-line or ahead of market averages and general economic conditions. This makes the severe relative underperformance all the more notable. In our experience, this dichotomy is unlikely to persist, and we expect the gap between a company's operating performance and its stock price performance to align over time.

- We believe that dividend-oriented stocks have a meaningful place in the diversified portfolios of many conservative investors. In our opinion, stocks in this asset class generally have a number of attractive traits in common:

    - a sustainable business franchise,
    - steady operating performance,
    - conservatively structured balance sheets, and
    - management teams who are focused on shareholder returns.

  Portfolios comprised of stocks with these characteristics can provide steady returns to stockholders over a reasonable investment horizon, typically have lower volatility than the market, and commonly exhibit strong risk-adjusted returns.[7]

- Our sense is that the weak relative 2023 sets the stage for stocks that pay an attractive dividend to excel in upcoming periods and to start to recoup the relative disadvantage from the past year.

[7] Investing in stocks entails risks. Past performance is not indicative of future results.

DISCLOSURE

Investment Advisory Services are offered through Matrix Asset Advisors, an SEC Registered Investment Adviser. The information provided in this Whitepaper is for demonstrative and academic purposes and is meant to provide valuable insight on market cycles, NOT a recommendation to buy. Any investments referenced within the Whitepaper may currently be held or traded by Matrix Asset Advisors. This whitepaper is for information purposes only. No offer or recommendation is made to buy or sell any security or investment product. This is not a solicitation to invest in any investment product of Matrix Asset Advisors. Matrix Asset Advisors does not provide tax or legal advice. Consult with your tax advisor or attorney regarding specific situations. Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Investing involves risk, including the potential loss of principal. No investment can guarantee a profit or protect against loss in periods of declining value. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. Opinions and projections are as of the date of their first inclusion herein and are subject to change without notice to the reader. As with any analysis of economic and market data, it is important to remember that past performance is no guarantee of future results.

Please visit our website at www.MatrixAssetAdvisors.com for more information about our firm.

Our website includes our firm's Client Relationship Summary document.

DEFINITIONS:

S&P500® Index *is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. You cannot invest directly in an index.*
Dividends *are the distribution of a company's earnings to its shareholders and are determined by the company's board of directors.*
Volatility *is the degree of variation of a trading price series over time, usually measured by the standard deviation of logarithmic returns.*
Total Return *considers not only the capital appreciation on the portfolio, but also the income received on the portfolio. The income typically consists of interest, dividends, and securities lending fees.*
Asset Allocation *the implementation of an investment strategy that attempts to balance risk versus reward by adjusting the percentage of each asset in an investment portfolio according to the investor's risk tolerance, goals, and investment time frame. The focus is on the characteristics of the overall portfolio.*
Common Stocks *are a form of corporate equity ownership, a type of security. The terms voting share and ordinary share are also used frequently outside of the United States.*
Dividend Yield *a financial ratio that tells you the percentage of a company's share price that it pays out in dividends each year.*
Information Technology *businesses that sell goods and services in electronics, software, computers, artificial intelligence, and other industries related to information technology (IT).*
Growth Strategy *a collection of business initiatives that seek the maximization of a company's value within a period.*

Bear Market is defined as sustained periods of downward trending stock prices, often triggered by a 20% decline from near-term highs.
Operating Results show what the company has earned in connection with its business activities before deduction of interest and taxes.
Balance Sheets a statement of the assets, liabilities, and capital of a business or other organization at a particular point in time, detailing the balance of income and expenditure over the preceding period.
Artificial Intelligence the ability of a digital computer or computer-controlled robot to perform tasks commonly associated with intelligent beings.