

PERSPECTIVES

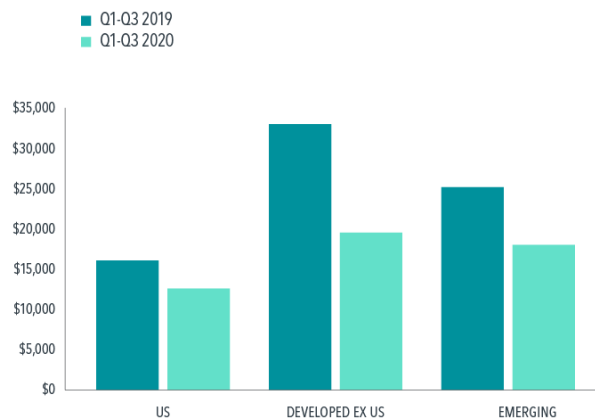
Dividends in the Time of COVID-19

Nov 30, 2020

Many investors view dividend payouts as a reliable source of income. However, those expecting to receive consistent dividend income may have been surprised to see lower-than-expected dividend payouts following the onset of the coronavirus pandemic, when both market volatility and market declines were extraordinary. In reality, recent and historical data show that changes in dividend policy are common, especially during times of higher uncertainty.

Aggregate dividend payouts fell meaningfully in the first three quarters of 2020 compared to the same period in 2019. **Exhibit 1** shows the dividends earned from a hypothetical \$1 million investment in US, developed ex US, and emerging markets in both periods. Developed ex US markets showed the most drastic change with a 41% decrease. Dividend payments in emerging markets decreased by 29% and in US markets by 22%.

Exhibit 1
Drop Zone
 Dividends from a Hypothetical \$1 Million Investment



Past performance, including hypothetical performance, is no guarantee of future results.

Source: Calculated by Dimensional from Bloomberg data. In USD. Each hypothetical investment includes all securities in the investable equity universe in the applicable region at free-float market cap weight as determined at the beginning of each year. To be included in the investable equity universe, securities must meet certain minimum capitalization and liquidity requirements. Investment companies are excluded.

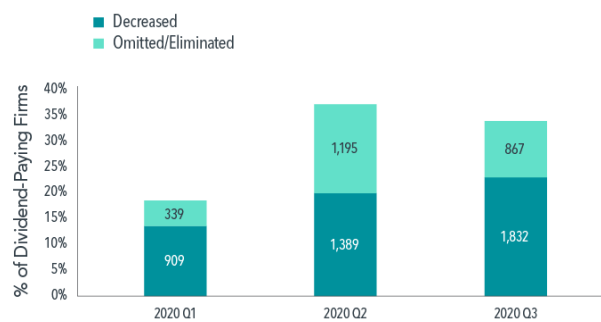
Globally, large firms have historically had the highest propensity to offer dividend

payouts,¹ but even successful, established firms were not immune to the economic consequences of a global pandemic. A few examples help illustrate this point. Harley Davidson (HOG) has been paying dividends to shareholders since the 1990s. In April 2020, the motorcycle manufacturer slashed its dividend from \$0.38 per share to just \$0.02, a 95% decrease.² Gap Inc. (GPS) suspended its dividend payments until at least April 2021³ after the economic downturn left the clothing brand with particularly poor revenues.

Harley Davidson and Gap were not the only firms to change their dividend policies. As shown in **Exhibit 2**, 38% of firms in global markets (2,584 companies) that were expected to pay dividends, consistent with their payout history, instead decreased, omitted, or eliminated their dividend payments in the second quarter, more than doubling the 1,248 firms that made similar changes to their dividend policy in the first quarter of the year. The trend continued into the third quarter: 2,699 firms made such changes.

Exhibit 2 Changing Tune

Dividend Policy
Changes in Global
Markets (% of Dividend-
Paying Firms), 2020

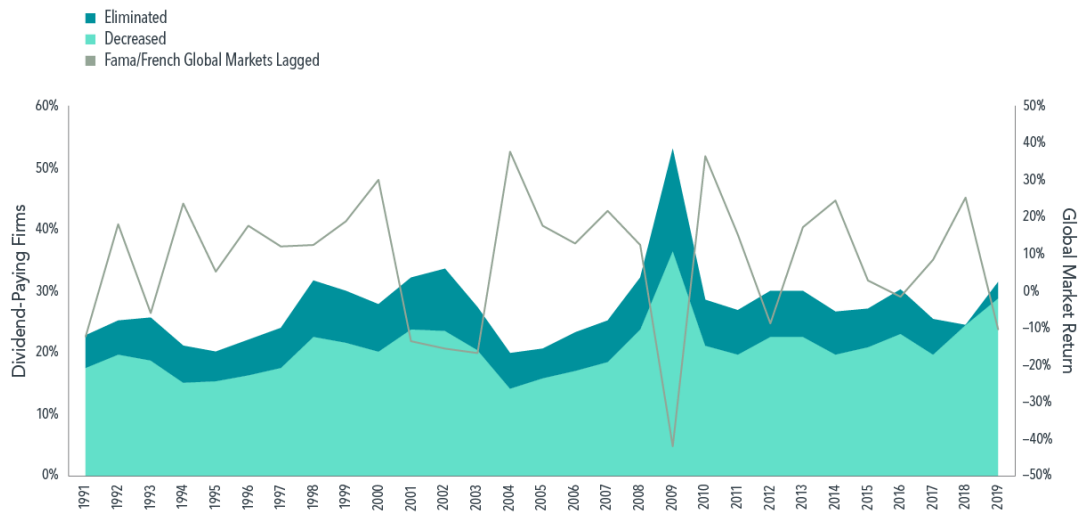


Source: Calculated by Dimensional from Bloomberg data. Dividend-paying firms include all firms that have paid a dividend in the preceding 12 months and were expected to pay a dividend in the current quarter.

While these dividend cuts may come as a surprise to some investors, history buffs may recall that, in 2009, Harley Davidson announced it was cutting dividend payouts from \$0.33 per share to \$0.10, a 70% decrease.⁴ In fact, during the Great Recession, significant changes to firms' dividend policies spiked throughout global markets. **Exhibit 3** displays Fama/French global market returns for 1991–2019 with a one-year lag and the proportion of dividend-paying firms that eliminated or decreased their dividend payouts. In 2008, for example, the global market was down more than 40%, and, the following year, many firms made changes to their dividend policies. The historical correlation between global market returns and dividends that are eliminated or decreased may suggest that firms are more likely to alter their dividend payouts during times of market instability.

Exhibit 3**In Step**

Global Market Returns
and Dividend Changes



Note: Global Market return is free-float market cap weighted average of Fama/French Developed Markets and Emerging Markets Indexes. See Index Descriptions in the disclosures for descriptions of Fama/French index data.

Source: Calculated by Dimensional from Bloomberg data. Past performance is no guarantee of future results. Dividend-paying firms include all firms that paid a dividend in the prior calendar year.

The first three quarters of 2020 remind us that dividend payouts can be inconsistent, particularly in volatile markets. Hence, investment strategies that focus on income derived from dividends may not serve investors who need a steady income stream and, moreover, might not be the most effective way to pursue long-term wealth growth. A more reliable approach is to structure equity asset allocation around the characteristics that research demonstrates drive long-term higher expected returns, namely size, relative price, and profitability, while maintaining broad diversification across names, sectors, and countries.

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1. Stanley Black, "Global Dividend-Paying Stocks: A Recent History" (white paper, Dimensional Fund Advisors, March 2013).
2. Harley-Davidson, Inc., "Dividends & Stock Splits," investor.harley-davidson.com/stock-info/dividends-and-stock-split.
3. Gap Inc., "Gap Inc. Provides Update In Response To Covid-19 Outbreak," news release, March 26, 2020, investors.gapinc.com/press-releases/news-details/2020/GAP-INC-PROVIDES-UPDATE-IN-RESPONSE-TO-COVID-19-OUTBREAK/default.aspx
4. Harley-Davidson, Inc., "Dividends & Stock Splits."

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In USD.

Index Descriptions
Fama/French Developed Markets Index: July 1990–present: Courtesy of Fama/French from Bloomberg securities data. Companies weighted by market cap; rebalanced annually in June.

Fama/French Emerging Markets Index: July 1989–present: Courtesy of Fama/French from Bloomberg and IFC securities data. Companies weighted by float-adjusted market cap; rebalanced annually in June.

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