# **Indexing Dividends:**

**Transparent Tools for Understanding Income Strategies** 

Investors in search of diversified performance and income amid today's volatile market are seeing the potential benefits of dividend index strategies of different types, says Jason Ye, director of factors and thematics indices in APAC at S&P Dow Jones Indices (S&P DJI).

By S&P Dow Jones Indices

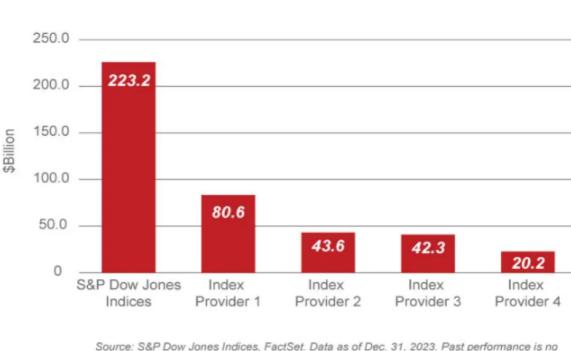
appetite for dividend-paying stocks has been a constant in this time. This is evident by looking at the global dividends ETF market. The assets

Given so much market uncertainty over the past few years, investor

under management of dividend-related ETFs grew from around USD 100 billion to around USD 500 billion over the past decade.1 Within the dividend ETF market, USD 223 billion of assets were tracking the dividend indices offered by S&P DJI as of Dec. 31, 2023. Perhaps most notable is the fact that these flows have remained despite

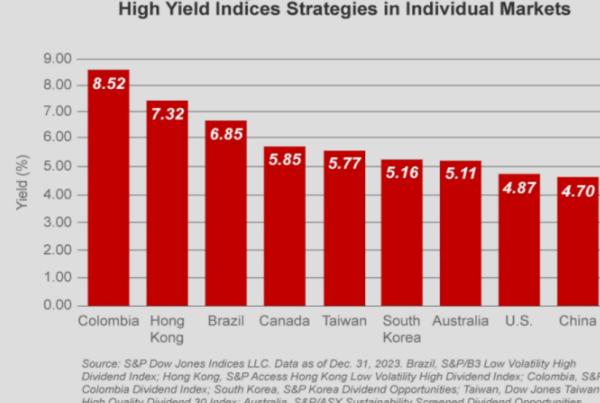
a dip in the performance of dividend index strategies in 2023 – which has followed a bounce back in technology stocks. Regardless, high levels of investor demand are reflected in 2023 inflows to some dividends ETFs that track S&P DJI indices in the multiple billions of US dollars.

"Despite performance, we still see very strong inflows to dividend index strategies," said Jason Ye at S&P DJI. "Investors in the US have also been buying international dividends ETFs."



Source: S&P Dow Jones Indices, FactSet. Data as of Dec. 31, 2023. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Global Dividend ETF AUM by Index Providers



Trailing 12-month Dividend Yield of

Dividend Index; Hong Kong, S&P Access Hong Kong Low Volatility High Dividend Index; Colombia, S&P Colombia Dividend Index; South Korea, S&P Korea Dividend Opportunities; Taiwan, Dow Jones Taiwan High Quality Dividend 30 Index; Australia, S&P/ASX Sustainability Screened Dividend Opportunities Index; Canada, S&P/TSX Composite Low Volatility High Dividend Index; China, S&P China A-Share Low Volatility High Dividend Index; U.S., S&P 500 Low Volatility High Dividend Index. Chart is provided for illustrative purposes.

## A foundation of global investor interest in US dividends is interest in US

Capitalising on the US equities story

equities. In Asia, for example, demand has come from markets like Korea and

Japan, which are interested in US equities and see dividend indices as a natural choice in addition to the S&P 500®. Asia is also driving innovation within dividend index strategies. "This has

led to us adding a covered call overlay, which we created to offer extra income from selling options," explained Ye.

In line with investor interest, investment product issuers in the region have launched several products tracking the S&P 500 Dividend Aristocrats<sup>®2</sup>. This flagship index is designed to measure the performance of S&P 500

constituents that have followed a policy of increasing dividends every

growth and dividend income characteristics, as opposed to alternative

year for at least 25 consecutive years. It aims to reflect both capital

index income strategies that may be pure yield or pure capitalappreciation oriented. In 2023, new products were launched in both the US and Korea tracking the S&P Dividend Monarchs<sup>TM</sup> Index<sup>3</sup> which measures companies within

the S&P Composite 1500<sup>®4</sup> constituents that have followed a policy of

increasing dividends every year for at least 50 consecutive years.

Compared to the S&P 500 Dividend Aristocrats, the S&P Dividend Monarchs Index further elevates the dividend growth criteria to half a century. These types of companies have been commonly referred to as the "Dividend Kings" in the investment community.

Catering to local demand Closer to home for Asian investors, those focused on local assets tend to want dividend products that also are designed for yield and equity

# participation.

S&P DJI responded to this demand in 2023 in Australia. It launched the

performance of 50 high-dividend-yielding companies within the S&P/ASX

S&P/ASX 200 High Dividend Index<sup>5</sup>, which seeks to measure the

200 with positive 12-month forecast dividend yields.

"We have seen good demand for localised dividend index strategies in Asia," added Ye.

This index followed an earlier launch, in 2022, in Korea. The S&P/KRX ESG Dividend Opportunities Index<sup>6</sup> aims to measure the performance of

the 50 high-dividend-yielding stocks within the KOSPI 200 that meet specific ESG and dividend sustainability criteria.

Indicated Annual Dividend Yield

#### A further appeal of dividend strategies for investors comes from their potentially defensive characteristics.

landscape.

**Defensive dividends** 

The performance of the S&P 500 Dividend Aristocrats in 2022 highlighted this characteristic. Being designed to measure the

performance of blue-chip high-quality companies that have increased their dividends for 25 consecutive years has resulted in higher index performance than only exposure to the broad-based, large-cap equity market, but with lower volatility. "These types of index strategies show resilience during periods of market turbulence and uncertainty," explained Ye.

For example, based on recent S&P DJI research at different volatility levels, the S&P 500 Dividend Aristocrats Index typically outperforms its S&P 500 benchmark<sup>7</sup> when there is more turbulence in the investment

**Diversifying dividend index strategies** At the same time, not all dividend index strategies are created equal. The different dynamics of each dividend index strategy result in a dispersion

in performance. "This is related to the design in terms of index methodologies," said Ye. Some index strategies are focused on potential dividend growth and resilience to reflect stable hypothetical income, such as the S&P 500

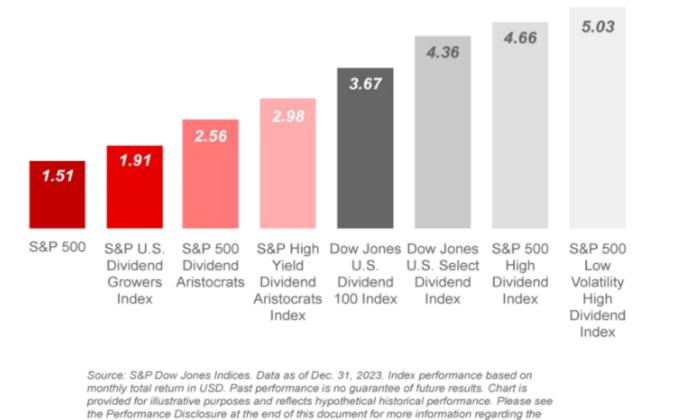
Dividend Aristocrats, he explained. On the other hand, there are strategies

that aim to deliver high yield but with consideration to quality, using a

screening process based on fundamentals that can potentially boost performance. "This highlights why investors need to pay a lot of attention to how dividend strategies are constructed," said Ye. "Nobody should just pick a product based on a high yield label."

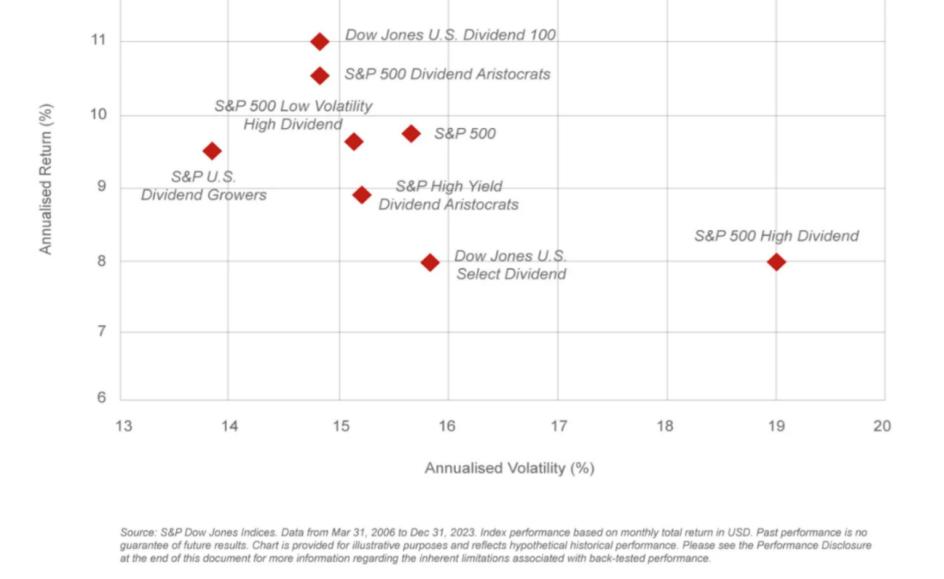
Instead, being clear on yield objectives, as well as risk/return profile, is a good starting point.

12



inherent limitations associated with back-tested performance.

# Risk-Return Profile of Major US Dividend Indices



Bringing more balance to portfolios Dividend index strategies are often used in the increasingly common trend of using model portfolios

## solutions that may look to incorporate an income aspect. "We see a lot of dividend ETFs being selected as part of model portfolios," added Ye, "especially by financial advisers in the US."

Beyond income, the push for diversification in Asia away from a heavy tech concentration in portfolios has led to more demand for dividends. This may be especially relevant in markets like Korea and Mainland China where many investors opt for more volatile tech plays.

10.40%

10.30%

10.20%

10.10%

10.00%

9.90%

9.80%

9.70%

9.60%

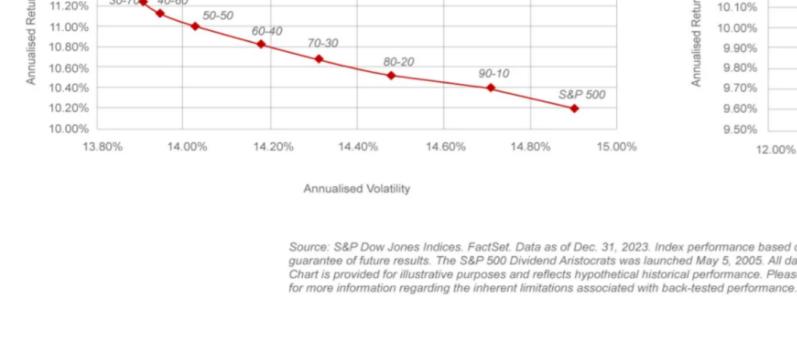
20-80

S&P 500

Dividend Aristocrats

10-90

"Based on back-tested historical data, combining a dividend index with a broad market index like the S&P 500 reduced the volatility when compared with each index and increased the historical performance," Ye explained.



S&P 500 Dividend Aristocrats + S&P 500

(From Dec. 31, 1989, to Dec. 31, 2023)

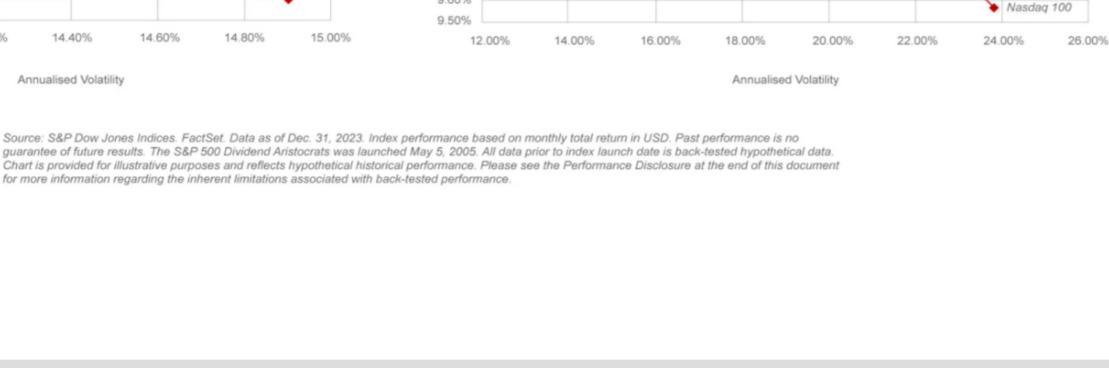
S&P 500

Dividend Aristocrats

11.80%

11.60%

11.40%



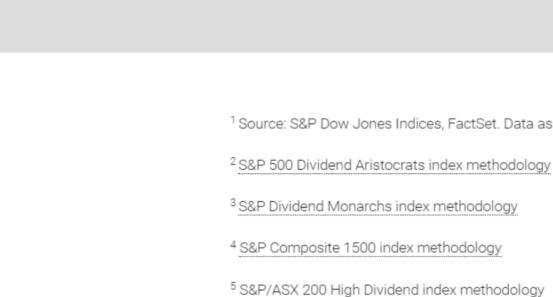
S&P 500 Dividend Aristocrats + Nasdaq 100

(From March 31, 1999, to Dec. 31, 2023)

40-60 50-50

For more information on S&P DJI dividend strategies, click on the links below:

#### Dividend Strategy with Quality Yields - The S&P 500 Dividend Aristocrats: The TalkingPoints: S&P Dividend Monarchs **Dow Jones Dividend 100 Indices** Importance of Stable Dividend Income







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S&P/KRX ESG Dividend Opportunities index Methodology

<sup>7</sup> S&P DJI Research: S&P 500 Dividend Aristocrats: The Importance of Stable Dividend Income

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