S&P Dow Jones Indices

A Division of **S&P Global**

The Importance of Dividends

Introduction

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The percentage of dividends as a part of personal income has steadily increased over time, making dividends an important source of income. Dividend income has climbed from 2.68% in Q4 1980 to 7.88% in Q2 2024, whereas interest income has declined from 14.58% to 7.61% over the same period (see Exhibit 1).

**Exhibit 1: Dividends and Interest as Percent of Personal Income**
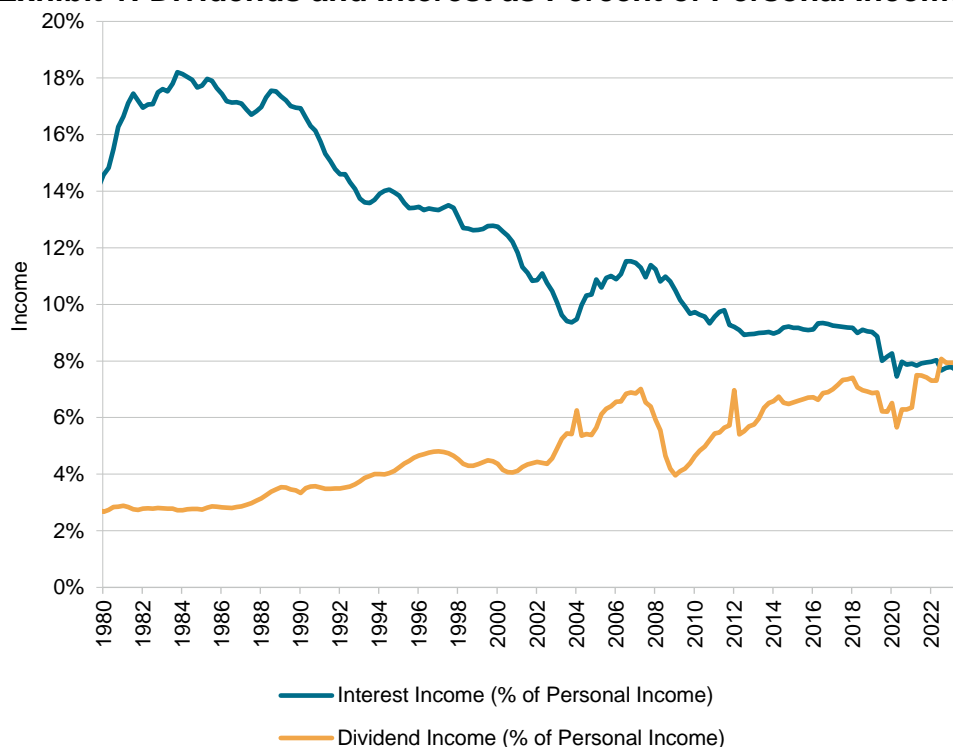
Source: Bureau of Economic Analysis, National Income Product Accounts. Data as of June 30, 2024. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

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Since 1936, dividends have accounted for more than one-third of the total equity return of the S&P 500®, with capital appreciation making up the other two-thirds. Exhibits 2 and 3 illustrate the historical importance of dividends.

Exhibit 2: Percentage of Annualized Total Return from Dividends for the S&P 500
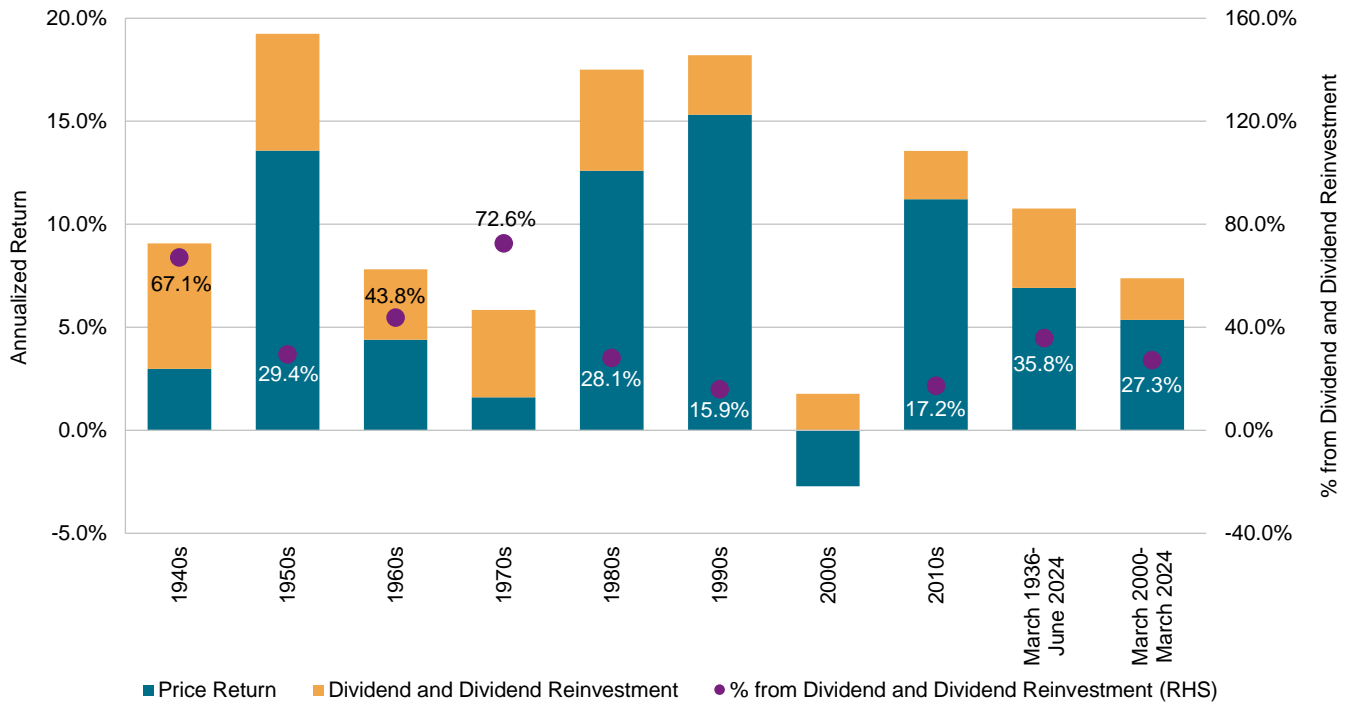
Source: S&P Dow Jones Indices LLC. Data as of June 30, 2024. The S&P 500 was launched on March 4, 1957. All data prior to such date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 3: Dividends and the Compounding Effect
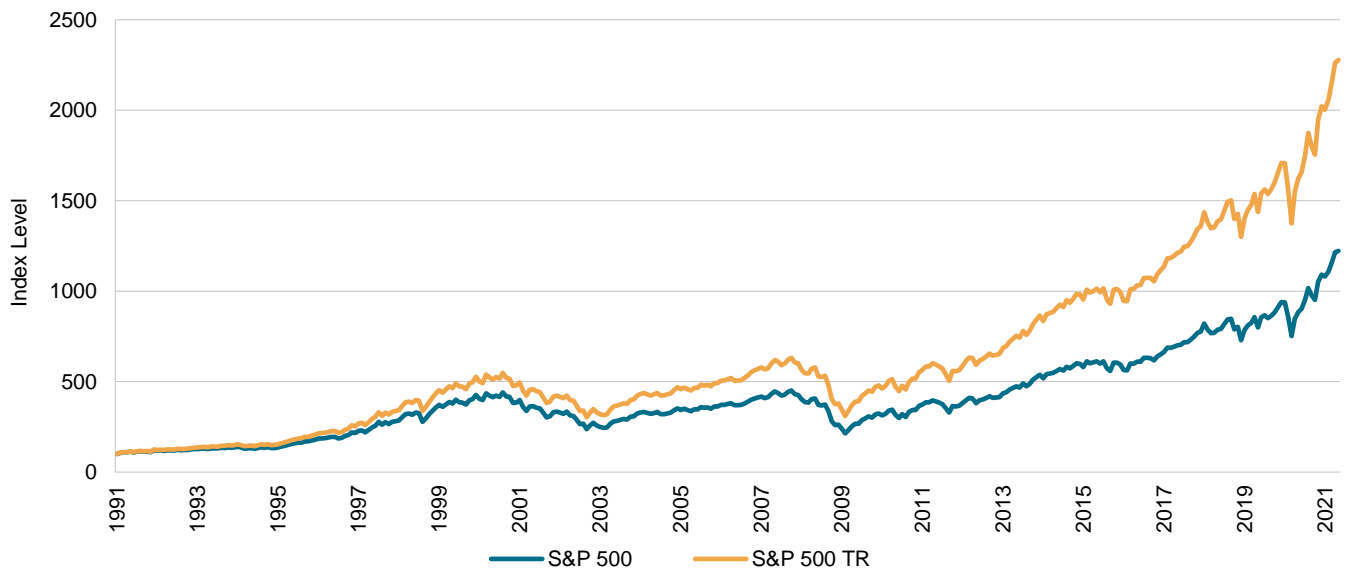
Source: S&P Dow Jones Indices LLC. Data as of June 30, 2024. Index levels were rebased to 100 on Jan. 31, 1991. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Index Education

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Index Design and Construction

The [S&P 500 High Dividend Index](#) measures the performance of 80 high-dividend-yielding companies within the S&P 500. The constituents of the S&P 500 High Dividend Index must be members of the S&P 500 and have an indicated dividend yield as of the rebalancing reference date. The index ranks in descending order the indicated dividend yield and selects the top 80 stocks with the highest dividend yield. The stocks are then equally weighted. The index is rebalanced semiannually in January and July.

Exhibit 4: S&P 500 High Dividend Index Characteristics

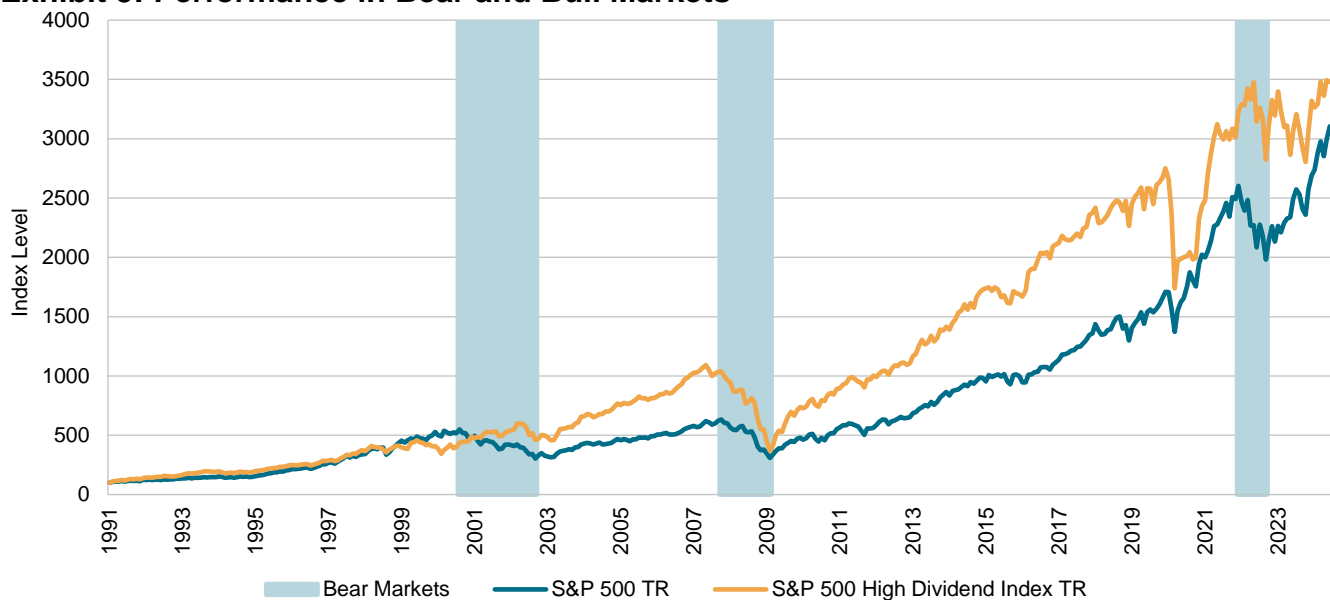| Characteristics	
Number of Constituents	76
Weight of Largest Constituent (%)	1.7
Weight of Top 10 Constituents (%)	15.5
Constituent Market Cap (USD Millions)	
Mean Total Market Cap	50,358.2
Largest Total Market Cap	302,881.7
Smallest Total Market Cap	6,729.5
Median Total Market Cap	27,629.1

Source: S&P Dow Jones Indices LLC. Data as of June 30, 2024. Table is provided for illustrative purposes.

Index Characteristics

Historical Index Performance

More than 33 years of index history could provide fruitful insights into a pure high yield strategy in the U.S. market across various market cycles. Since Jan. 31, 1991, the S&P 500 experienced three major market drawdowns that were greater than 20%. We divided the S&P 500 history into seven periods including three bear markets and four bull markets, as shown in Exhibit 5.

Exhibit 5: Performance in Bear and Bull Markets

Source: S&P Dow Jones Indices LLC. Data as of June 30, 2024. Index levels were rebased to 100 on Jan. 31, 1991. The S&P 500 High Dividend Index was launched on Sept. 21, 2015. All data prior to such date is back-tested hypothetical data. Index performance based on total return in USD. Past performance is no guarantee of future results. Table and chart are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Index	Performance (%)						
	Feb. 1991-Aug. 2000	Tech Bubble (Sept. 2000-Sept. 2002)	Oct. 2002-Oct. 2007	Global Financial Crisis (Nov. 2007-Feb. 2009)	March 2009-Dec. 2021	Post-Pandemic Recession (Jan. 2022-Sept. 2022)	Oct. 2022-June 2024
S&P 500 High Dividend Index TR	335.5	5.4	126.2	-64.6	778.3	-12.6	23.2
S&P 500 TR	448.5	-44.7	108.4	-50.9	740.0	-23.9	56.6

Historically, the S&P 500 High Dividend Index demonstrated its potential of downside protection to some extent. The index outperformed the S&P 500 in the Tech Bubble and Post-Pandemic Recession, but it underperformed during the Global Financial Crisis due to overweight in the Financials sector.

In the recovery period after a market drawdown and the extended bull market, the S&P 500 High Dividend Index tended to recover more quickly and deliver better performance. During the five-year bull period after the Tech Bubble and the long bull market after the Global Financial Crisis, the S&P 500 High Dividend Index outperformed the S&P 500.

Finally, the S&P 500 High Dividend Index is likely to lag the broad market benchmark in a bull market lead by a technology boom due to its underweight in Information Technology and Communication Services. During the bull period before the Tech Bubble and the recent boom lead by AI technology, the S&P 500 High Dividend Index underperformed the S&P 500.

Exhibit 6 shows the historical risk/return profiles of the S&P 500 High Dividend Index and the S&P 500. In the large-cap U.S. equity space, over the 33 years starting Jan. 31, 1991, firms that paid high dividends relative to their peers outperformed the broader market. Such outperformance comes at a slightly higher volatility over the total time period and could be largely attributed to dividend contribution.

Exhibit 6: Risk/Return Profiles

Period	S&P 500 High Dividend Index TR	S&P 500 TR
Annual Return (%)		
1-Year	13.62	24.56
3-Year	4.62	10.01
5-Year	6.14	15.05
10-Year	8.05	12.86
20-Year	8.52	10.29
Since Inception (Sept. 30, 2015)	9.18	14.76
Since Jan. 31, 1991	11.21	10.83
Annual Volatility (%)		
1 Year	17.50	14.60
3 Year	18.65	17.86
5 Year	22.88	18.08
10 Year	17.97	15.31
20 Year	18.06	14.99
Since Inception (Sept. 30, 2015)	18.88	15.84
Since Jan. 31, 1991	16.61	14.80
Annualized Risk-Adjusted Return		
1 Year	0.78	1.68
3 Year	0.25	0.56
5 Year	0.27	0.83
10 Year	0.45	0.84
20 Year	0.47	0.69
Since Inception (Sept. 30, 2015)	0.49	0.93
Since Jan 31, 1991	0.67	0.73

Source: S&P Dow Jones Indices LLC. Data as of June 30, 2024. The S&P 500 High Dividend Index was launched on Sept. 21, 2015. All data prior to such date is back-tested hypothetical data. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Index Education

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Historical Performance Attribution

The past 10 years have been challenging for strategies focusing on high dividend yield due to the rise of large technology stocks. Since its launch on Sept. 21, 2015, the S&P 500 High Dividend Index underperformed the S&P 500 by 5.58% per year (see Exhibit 7). To understand the historical performance since inception, we conducted an attribution analysis.

The Brinson attribution analysis provides a sectoral perspective. Both allocation and selection effect played important roles since index inception. An underweight in Information Technology and overweight in Real Estate, along with the selection effect in Consumer Discretionary and Communication Services, could largely explain the underperformance.

Exhibit 7: Brinson Attribution Analysis

Sector	S&P 500 High Dividend Index		S&P 500		Attribution Analysis			
	Average Weight (%)	Contribution to Return (%)	Benchmark Average Weight (%)	Benchmark Contribution to Return (%)	Allocation Effect	Selection Effect	Interaction Effect	Total Effect
Health Care	4.63	7.87	13.40	25.44	7.11	15.82	-10.99	11.94
Industrials	2.57	7.53	9.02	19.45	5.17	-3.27	5.36	7.26
Energy	10.08	12.08	4.47	4.70	-0.26	4.36	-3.27	0.82
Utilities	16.71	25.11	2.94	4.49	-3.57	0.01	4.08	0.52
Consumer Staples	7.08	4.70	7.65	12.48	4.17	0.80	-5.85	-0.88
Materials	5.55	9.58	2.52	5.10	-1.43	-1.33	-1.24	-3.99
Financials	12.79	21.22	14.91	30.77	2.93	-8.04	1.11	-4.00
Communication Services	5.26	3.05	9.38	23.13	-0.78	-20.83	8.82	-12.79
Real Estate	18.89	16.65	2.71	3.18	-23.69	-0.73	-2.80	-27.21
Consumer Discretionary	8.48	-8.33	9.93	20.89	3.55	-23.49	-19.70	-39.64
Information Technology	5.29	17.10	20.24	77.45	-38.15	-26.07	18.01	-46.21
Total	100.00	119.32	100.00	233.51	-44.95	-62.77	-6.47	-114.19

Source: S&P Dow Jones Indices LLC, FactSet. Data from Sept. 30, 2015, to June 30, 2024. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Dividend Yield

During the past 13 years, the S&P 500 High Dividend Index consistently delivered a dividend yield that was higher than the S&P 500 by 2%-4% (see Exhibit 8). As of June 30, 2024, the trailing 12-month dividend yield of the S&P 500 High Dividend Index was 4.6%, in contrast to 1.3% for the S&P 500.

Since the pandemic, rising interest rates have led to a record high level of U.S. Treasury Bond rates in the past 13 years. As of June 30, 2024, the yield-to-maturity of the <u>S&P U.S. Treasury Bond 7-10 Year Index</u> reached 4.4%. Despite the recent rate spike, interest rates have stayed low for a longer time since the Global Financial Crisis. Over the past 13 years, dividend yields for the S&P 500 High Dividend Index were more stable and sustainable than the yield of the S&P U.S. Treasury Bond 7-10 Year Index.

Exhibit 8: Historical Yield
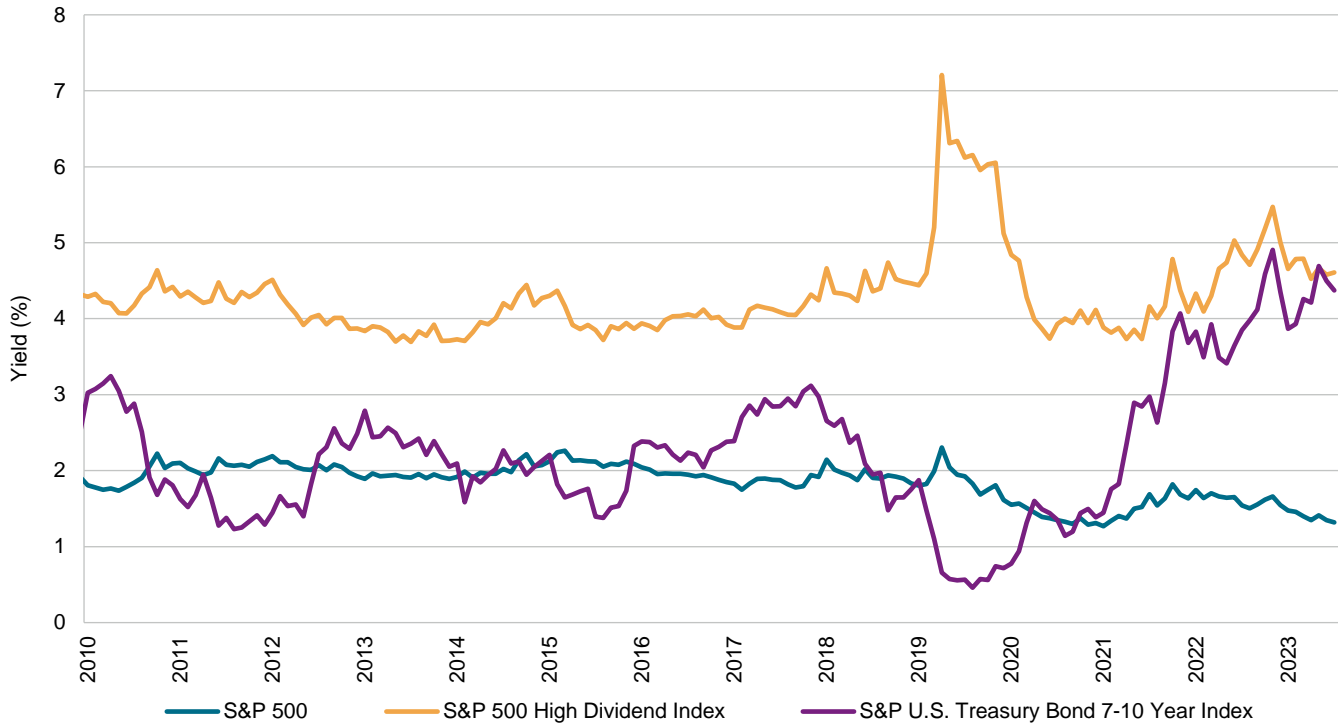
Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 2010, to June 30, 2024. The S&P 500 High Dividend Index was launched on Sept. 21, 2015. All data prior to such date is back-tested hypothetical data. Data based on monthly dividend yield. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Turnover

To reduce turnover, there is a 20% buffer rule based on the indicated dividend yield at each rebalancing. Exhibit 9 illustrates a one-way turnover, with an average turnover rate of about 33.2% at each rebalancing over the past 20 years. The highest turnover rates occurred during recessions, including from 2008 to 2011 and 2020.

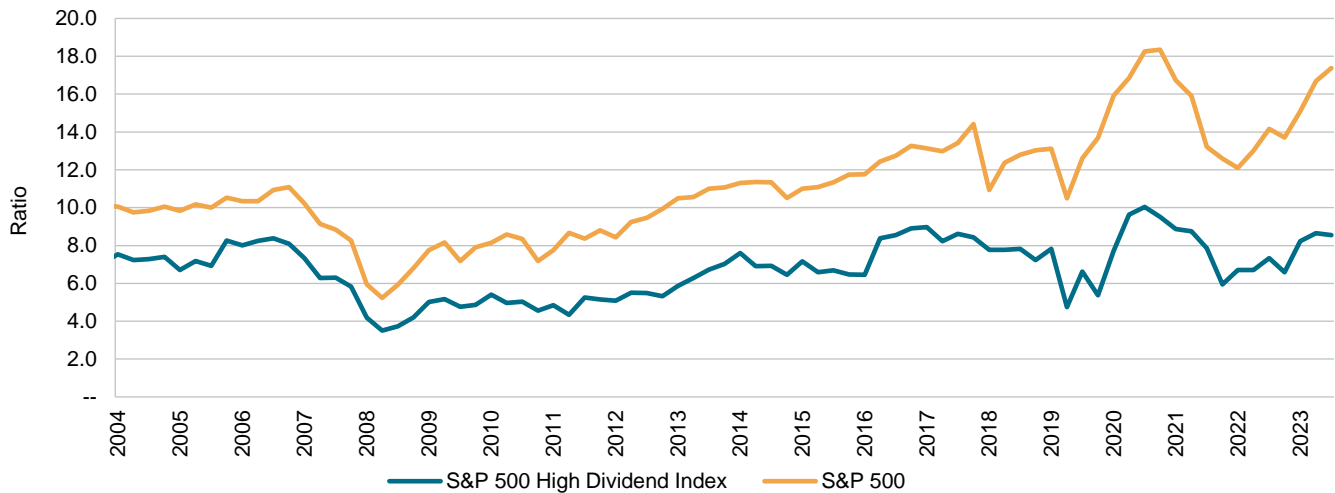## Exhibit 9: S&P 500 High Dividend Index Turnover at Rebalancing
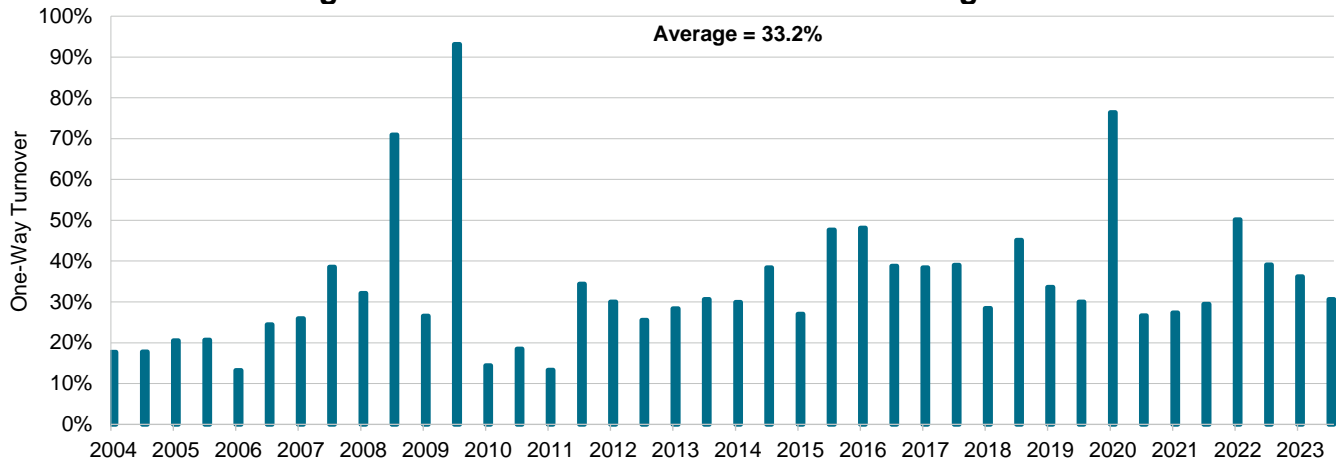
Source: S&P Dow Jones Indices LLC. Data from July 31, 2004, to June 30, 2024. The S&P 500 High Dividend Index was launched on Sept. 21, 2015. All data prior to such date is back-tested hypothetical data. Data based on annual turnover. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Sector Distribution

Since the index is based on dividend yield, it is highly concentrated in the Utilities, Financials and Real Estate sectors. Exhibit 10 shows the historical total weight comparison between the S&P 500 and S&P 500 High Dividend Index in these three sectors. The S&P 500 High Dividend Index had an average combined 50% weight in Utilities, Financials and Real Estate, while the S&P 500 had 20%. Exhibits 11 and 12 show the historical sector allocation of the S&P 500 High Dividend Index and S&P 500. Sector weight may affect the index when interest rates rise. Typically, when interest rates rise, defensive sectors such as Utilities tend to be more heavily affected.

## Exhibit 10: Total Sector Weight of Utilities, Financials and Real Estate
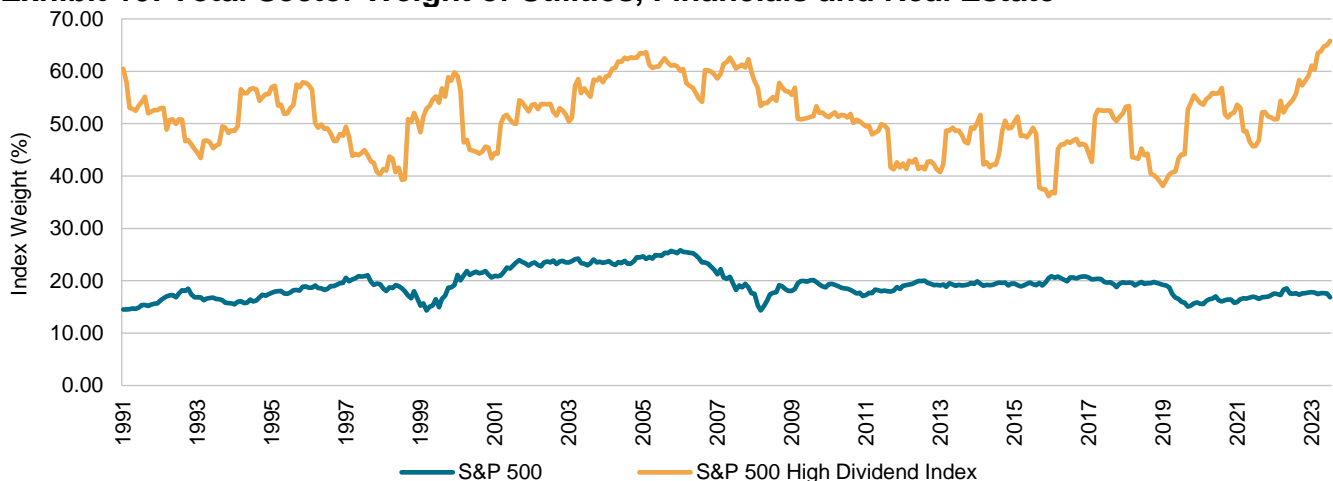
Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 1991, to June 31, 2024. The S&P 500 High Dividend Index was launched on Sept. 21, 2015. All data prior to such date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosures at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 11: Sector Weights of the S&P 500 High Dividend Index
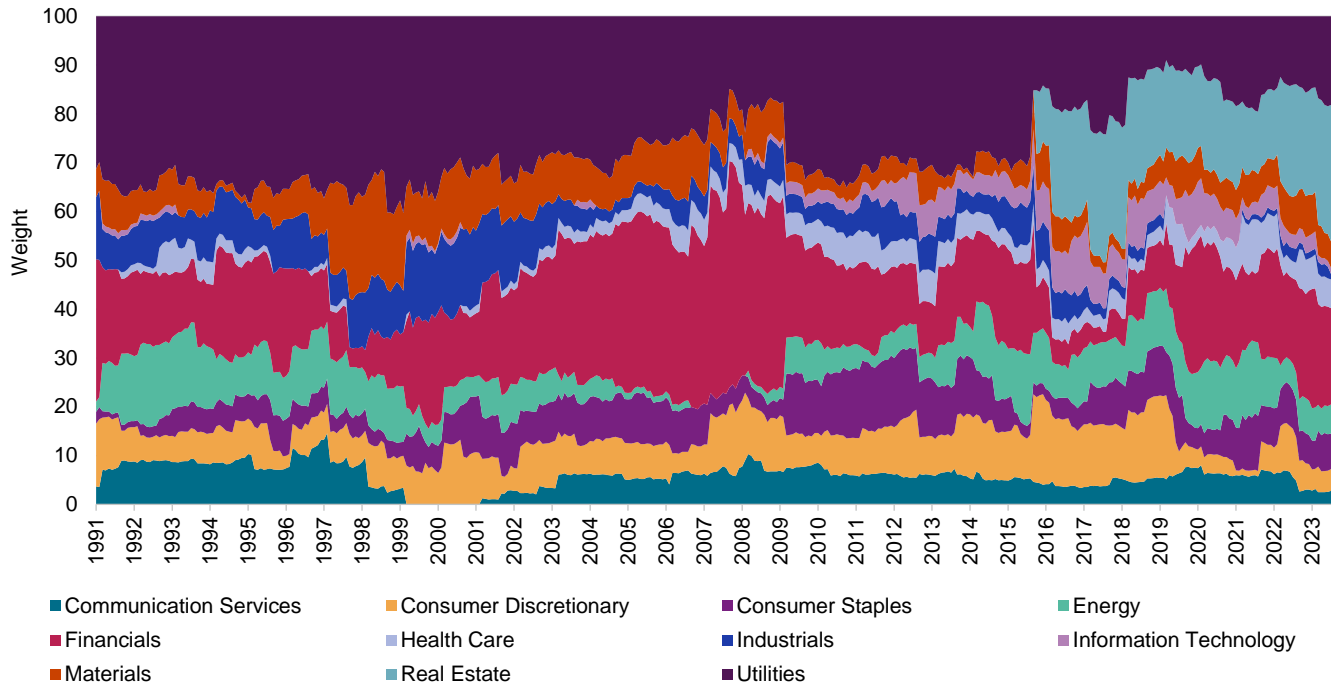
Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 1991, to June 31, 2024. Prior to September 2018, Communication Services was Telecommunication Services. The S&P 500 High Dividend Index was launched on Sept. 21, 2015. All data prior to such date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosures at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 12: Sector Weights of the S&P 500
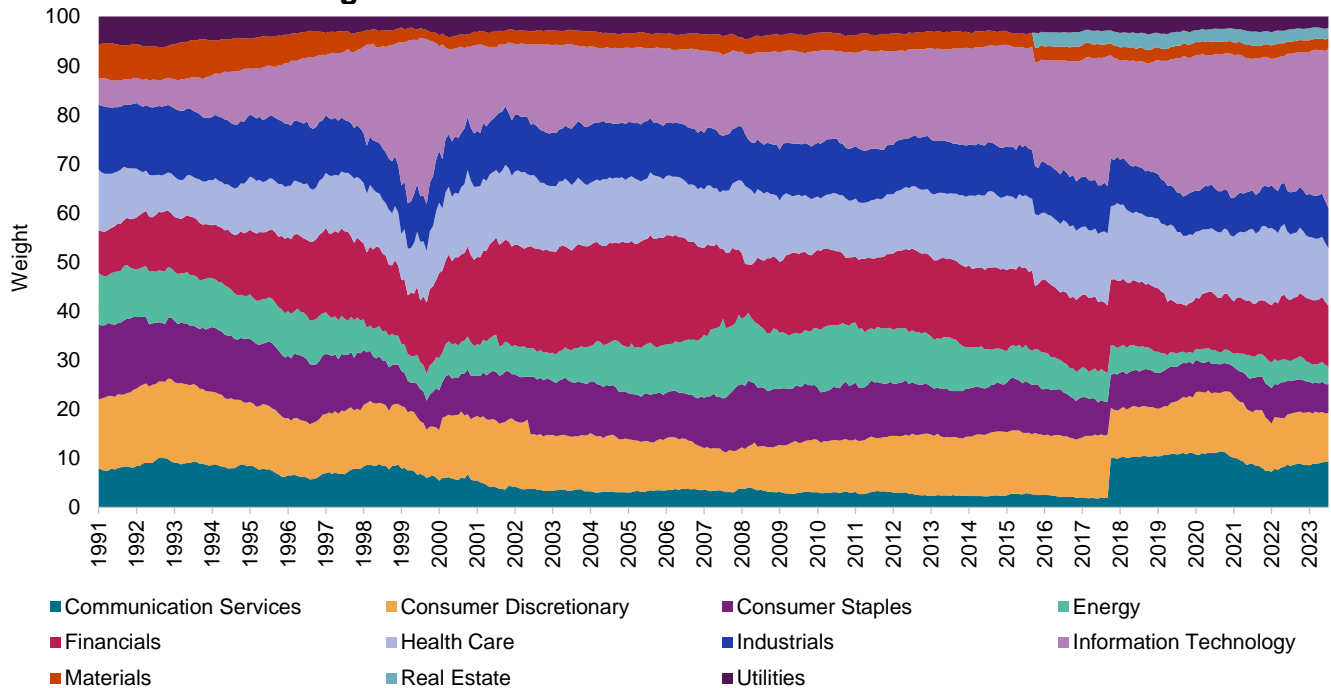
Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 1991, to Aug. 31, 2015. Prior to September 2018, Communication Services was Telecommunication Services. Chart is provided for illustrative purposes.

Valuation

As a pure high yield strategy, the S&P 500 High Dividend Index has historically had cheaper valuation compared with the S&P 500. Exhibits 13 and 14 show that the S&P 500 High Dividend Index has had lower price-to-earnings, price-to-book and price-to-cash flow ratios for the past 20 years. The valuation gap between the S&P 500 High Dividend Index and the S&P 500 has gotten wider in the most recent three years for all three metrics.

Exhibit 13: Price-to-Earnings Ratios
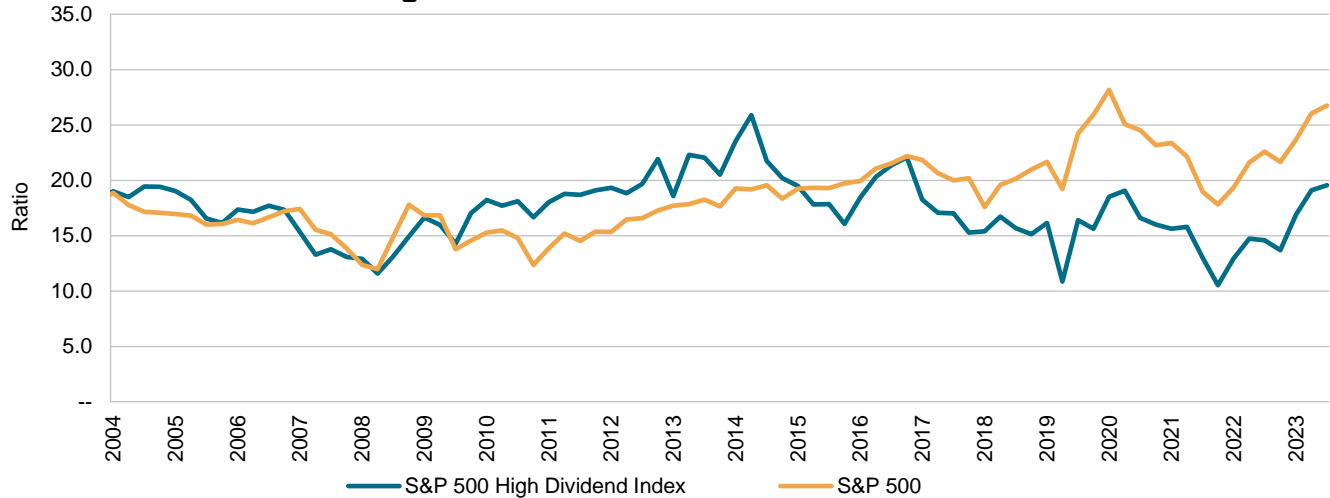
Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 2004, to June 30, 2024. The S&P 500 High Dividend Index was launched on Sept. 21, 2015. All data prior to such date is back-tested hypothetical data. Index performance based on total return in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosures at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 14: Price-to-Book Ratios
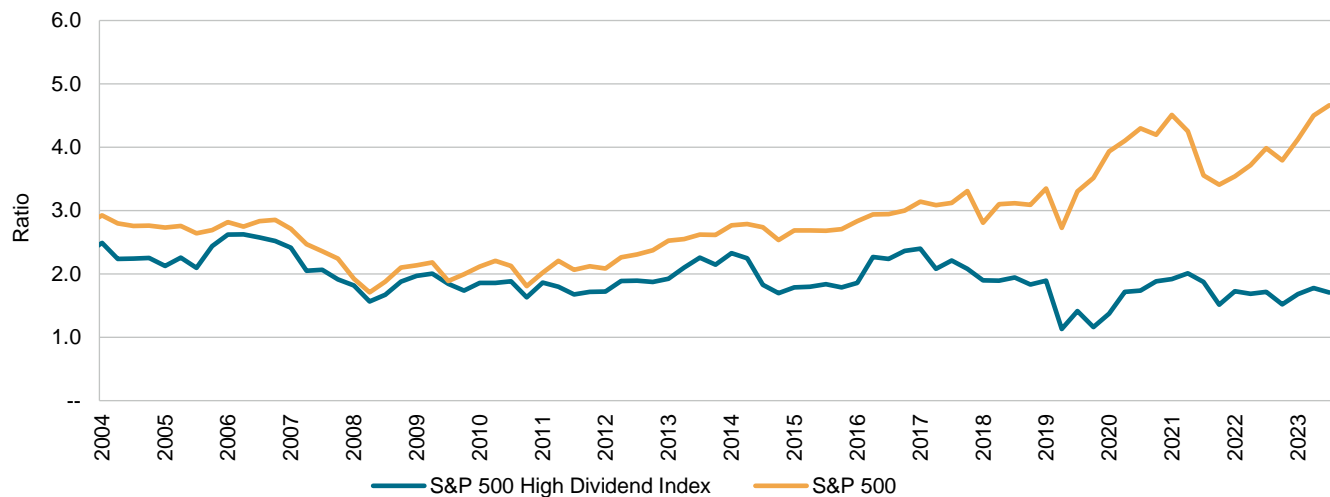
Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 2004, to June 30, 2024. The S&P 500 High Dividend Index was launched on Sept. 21, 2015. All data prior to such date is back-tested hypothetical data. Index performance based on total return in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosures at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

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Exhibit 15: Price-to-Cash Flow Ratios

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 2004, to June 30, 2024. The S&P 500 High Dividend Index was launched on Sept. 21, 2015. All data prior to such date is back-tested hypothetical data. Index performance based on total return in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosures at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Dividend Payment Schedule

The U.S. market distinguishes itself from other markets through its well-nurtured dividend culture. While annual or semiannual dividend payments dominate other major markets, the U.S. market has adopted a common practice of quarterly dividends. Among companies that paid dividends in the calendar year of 2023, 99% of dividend payers from S&P 500 paid quarterly dividends, while annual dividends were more popular in Europe and semiannual dividends dominated the Japanese market (see Exhibit 16).

Exhibit 16: Dividend Payment Frequency in the U.S., Europe and Japan
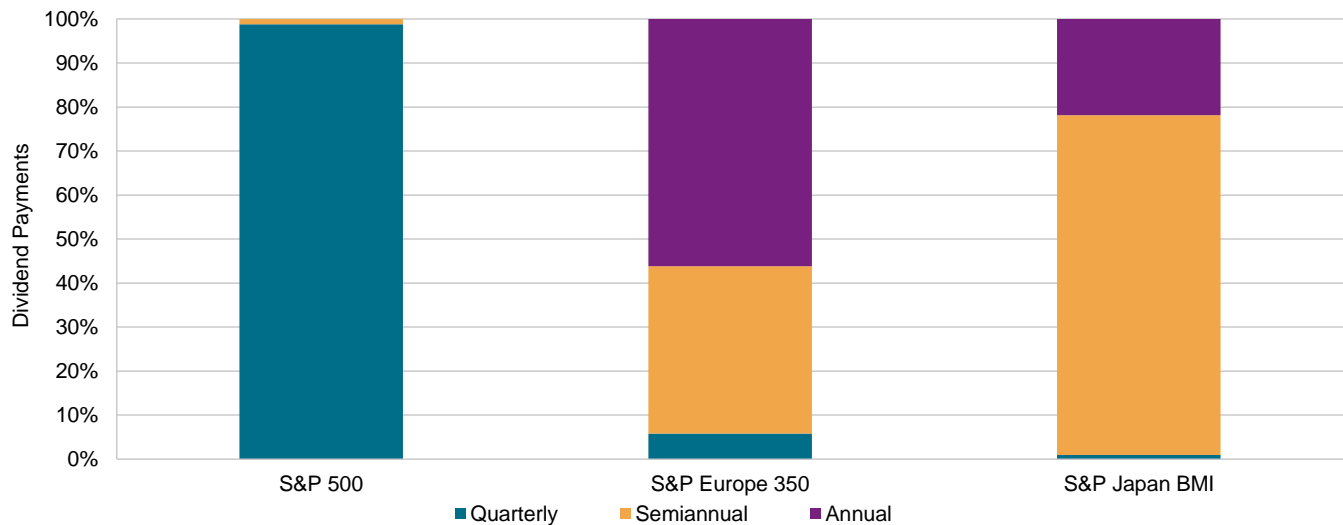
Source: S&P Dow Jones Indices LLC, FactSet. Data from Jan. 1, 2023, to Dec.31, 2023. Chart is provided for illustrative purposes.

Quarterly dividend policy helped to shape a balanced distribution of dividend events in the U.S. market for all 12 months in a year. Exhibit 17 shows the dividend events of S&P 500 companies by ex-date during the calendar year of 2023. While February-May-August-November seems to be the most popular cycle of dividend ex-dates, there is a notable number of companies that paid dividends each month. For market participants seeking consistent monthly or quarterly dividend income, the U.S. market could help to complement other markets with less frequent dividend payments.

Exhibit 17: S&P 500 Dividend Events during 2023 by Ex-Date
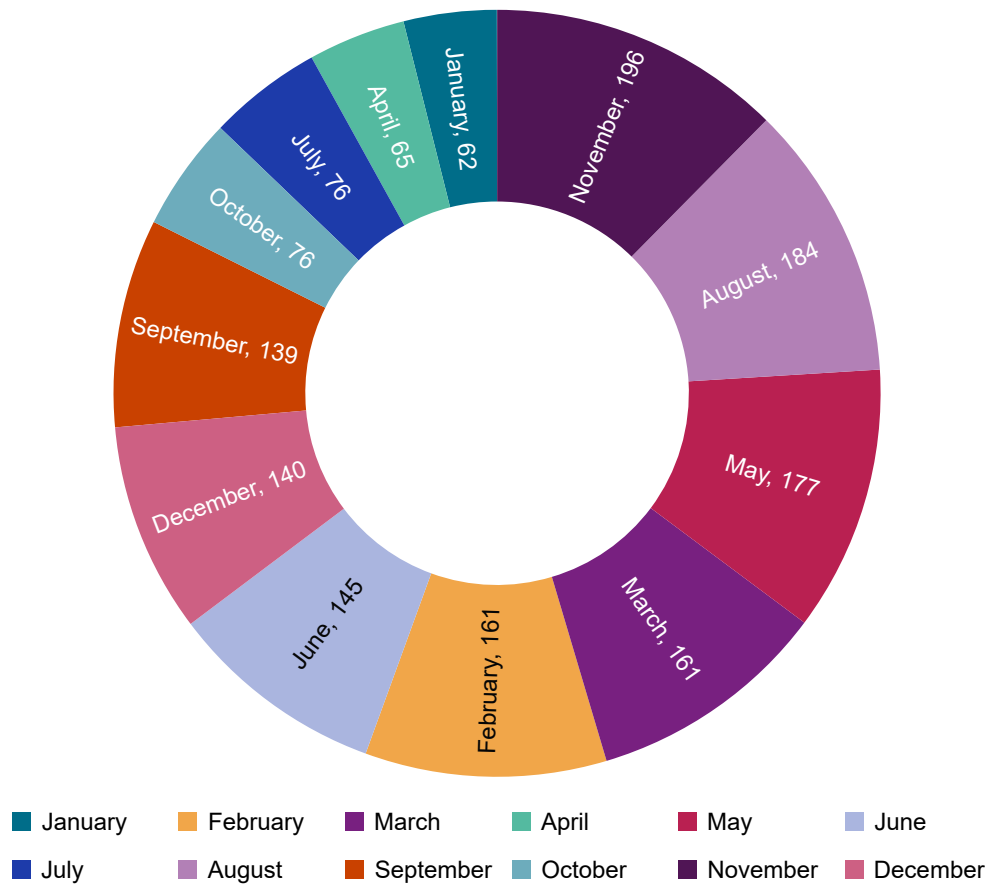
Source: S&P Dow Jones Indices LLC, FactSet. Data from Jan. 1, 2023, to Dec. 31, 2023. Chart is provided for illustrative purposes.

Withdrawal Scenario at Retirement Phase

When entering the retirement phase, it is crucial to establish a steady and safe income stream without sacrificing principal. The S&P 500 High Dividend Index's historical ability to consistently deliver a high dividend yield shows that it provides a measurement for stable and sustainable income, which is of paramount importance for market participants expecting retirement.

Exhibit 18 shows the change of the S&P 500 High Dividend Index level at various annual withdrawal rates. Starting June 30, 2014, when the S&P 500 High Dividend Index equaled 100, we simulated an annual withdrawal of 0%, 4% or 6% from the hypothetical portfolio on a quarterly basis. As of June 30, 2024, the index level reached 145 and 118 for the 4% and 6% scenarios, respectively. This indicates that after receiving 6% annual income, the S&P 500 High Dividend Index secured the principal and gained 1.66% annual return from June 30, 2014, to June 30, 2024. Compared with the 2.3% average yield from U.S. Treasury Bonds over the past 10 years, the S&P 500 High Dividend Index had a higher yield with a decent level of principal appreciation.

Exhibit 18: Index Level after Various Withdrawal Rates
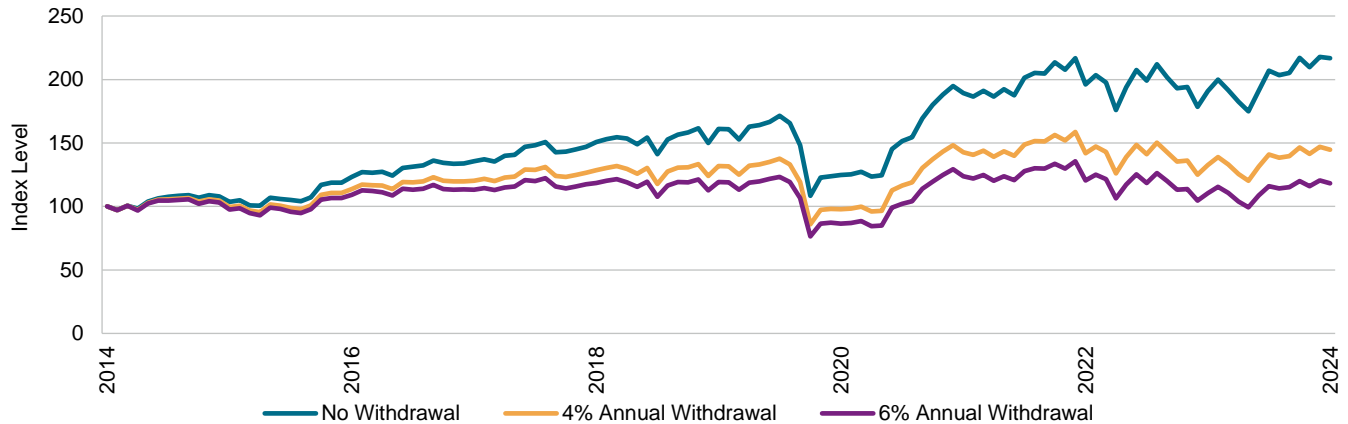
Withdrawal	Index Level on June 30, 2014	Index Level on June 30, 2024	Annual Return after Withdrawal (%)
No Withdrawal	100	217	7.98
4% Annual Withdrawal	100	145	3.74
6% Annual Withdrawal	100	118	1.66

All portfolios are hypothetical portfolios.
Source: S&P Dow Jones Indices LLC. Data from June 30, 2014, to June 30, 2024. The S&P 500 High Dividend Index was launched on Sept. 21, 2015. All data prior to such date is back-tested hypothetical data. Index levels rebased to 100 on June 30, 2014. Performance based on monthly total return in USD. Table and chart are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Conclusion

The S&P 500 High Dividend Index is more of a pure-yield-pursuit strategy, catered toward market participants who are seeking current income. As we have seen, while the index does exhibit slightly higher volatility than the benchmark S&P 500, it consistently provided a dividend yield that was 2%-4% higher than the S&P 500. Compared with yield from fixed income historically, the S&P 500 High Dividend Index's dividend yield appeared to be more stable and sustainable. For strategies focused on dividend income, the S&P 500 High Dividend Index could help to boost dividend yield and provide frequent dividend distribution across the whole year.

Performance Disclosure/Back-Tested Data

The S&P 500 High Dividend Index was launched on September 21, 2015. The S&P 500 was launched on March 4, 1957. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at www.spglobal.com/spdji. Past performance of the Index is not an indication of future results. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results. Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations. Back-tested performance is for use with institutions only; not for use with retail investors.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the index is set to a fixed value for calculation purposes. The Launch Date designates the date when the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its data feed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

Typically, when S&P DJI creates back-tested index data, S&P DJI uses actual historical constituent-level data (e.g., historical price, market capitalization, and corporate action data) in its calculations. As ESG investing is still in early stages of development, certain datapoints used to calculate S&P DJI's ESG indices may not be available for the entire desired period of back-tested history. The same data availability issue could be true for other indices as well. In cases when actual data is not available for all relevant historical periods, S&P DJI may employ a process of using "Backward Data Assumption" (or pulling back) of ESG data for the calculation of back-tested historical performance. "Backward Data Assumption" is a process that applies the earliest actual live data point available for an index constituent company to all prior historical instances in the index performance. For example, Backward Data Assumption inherently assumes that companies currently not involved in a specific business activity (also known as "product involvement") were never involved historically and similarly also assumes that companies currently involved in a specific business activity were involved historically too. The Backward Data Assumption allows the hypothetical back-test to be extended over more historical years than would be feasible using only actual data. For more information on "Backward Data Assumption" please refer to the FAQ. The methodology and factsheets of any index that employs backward assumption in the back-tested history will explicitly state so. The methodology will include an Appendix with a table setting forth the specific data points and relevant time period for which backward projected data was used.

Index returns shown do not represent the results of actual trading of investable assets/securities. S&P Dow Jones Indices maintains the index and calculates the index levels and performance shown or discussed but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the Index or investment funds that are intended to track the performance of the Index. The imposition of these fees and charges would cause actual and back-tested performance of the securities/fund to be lower than the Index performance shown. As a simple example, if an index returned 10% on a US $100,000 investment for a 12-month period (or US $10,000) and an actual asset-based fee of 1.5% was imposed at the end of the period on the investment plus accrued interest (or US $1,650), the net return would be 8.35% (or US $8,350) for the year. Over a three-year period, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.10%, a total fee of US $5,375, and a cumulative net return of 27.2% (or US $27,200).

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