

# TalkingPoints

## S&P Dividend Monarchs Index: A New Generation Born out of the Dividend Aristocrats



**Jason Ye, CFA**  
Director  
Strategy Indices  
S&P Dow Jones Indices

The S&P Dividend Monarchs Index is designed to track long-standing companies in the U.S. market that have consecutively increased dividends for at least 50 years. The S&P Dividend Monarchs Index constituents have endured more than a half a century's market turbulence and demonstrated resilience in dividend growth and stock performance. As a new generation from the flagship S&P Dividend Aristocrats® Index Series, the S&P Dividend Monarchs Index constituents push the threshold of being an elite group of dividend-paying companies to the next level.



**Izzy Wang**  
Senior Analyst  
Strategy Indices  
S&P Dow Jones Indices

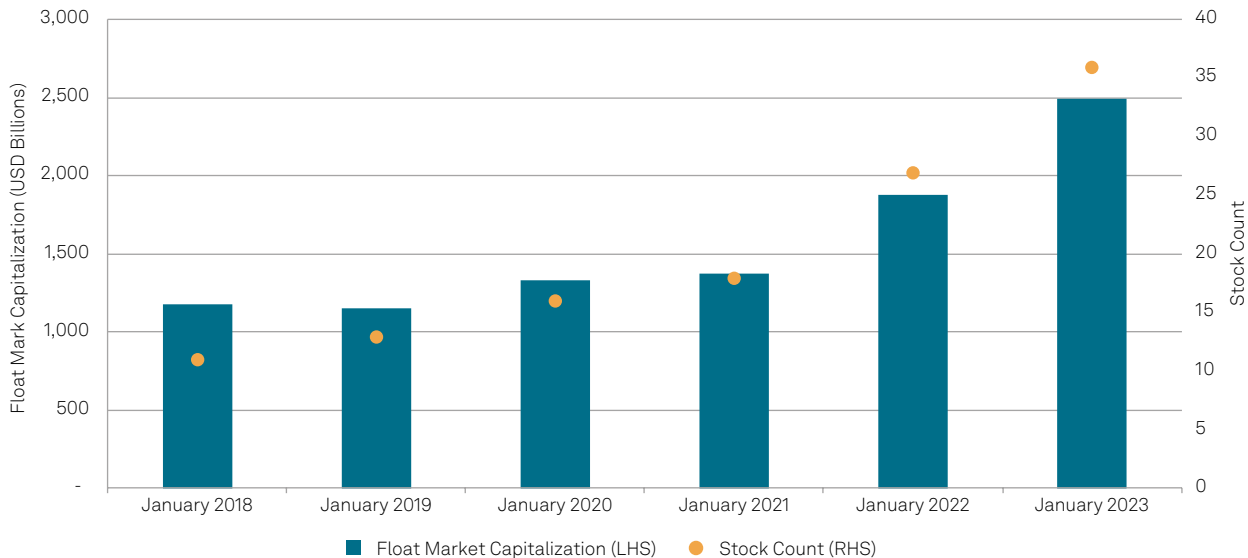
### 1. Why was the index introduced?

As a leading dividend index provider, S&P Dow Jones Indices pioneered in developing a dividend growth strategy. Since the early 1980s, our research team started to monitor U.S. companies that increased dividends for at least 10 years. In the early 2000s, as more companies were able to consecutively increase dividend payments, we raised the observation list threshold to 25 years, which then became the initial basket of "U.S. Dividend Aristocrats." In May 2005, the S&P 500® Dividend Aristocrats<sup>1</sup> was officially launched, which soon became one of the most well-recognized dividend growth strategies in the market. Since then, we have extended the S&P Dividend Aristocrats Series to cover the mid- and small-cap universes and other global markets. As of April 2023, more than USD 40 billion of ETF assets were tracking the S&P Dividend Aristocrats Indices.

Fast forward to 2023, almost 20 years since the launch of the S&P 500 Dividend Aristocrats, we found that the number of companies in the index had grown from 57 to 66. In the past five years, we have noticed a growing number of companies consecutively increasing dividends for more than 50 years (see Exhibit 1), these companies exist not only in the large cap (the S&P 500) but also in the mid- and small-cap universes (the S&P MidCap 400® and the S&P SmallCap 600®). In January 2023, more than 30 companies from the S&P Composite 1500® had increased their dividends for at least 50 years. This created a diversified basket of stocks for a new index concept, prompting the introduction of the S&P Dividend Monarchs Index.

<sup>1</sup>The S&P 500 Dividend Aristocrats seeks to track stocks within the S&P 500 that have consecutively increased dividends for at least 25 years.

## Exhibit 1: Growing Number of Companies with at Least 50 Years of Consecutive Dividend Growth



Source: S&P Dow Jones Indices LLC. Data as of April 30, 2023. Chart is provided for illustrative purposes.

## 2. How does this index work?

The index construction of the S&P Dividend Monarchs Index is straightforward. The index selects companies from the S&P Composite 1500 that meet the following criteria:

- Have a float market capitalization greater than or equal to USD 2 billion;
- Have a three-month average daily value traded (ADVT) greater than or equal to USD 5 million; and
- Have consecutively increased dividends for at least 50 years.

Post-launch, the index requires at least 25 constituents; if fewer than 25 stocks are eligible, the index relaxes the dividend growth eligibility factor according to the following process.

- Select, in decreasing order of dividend growth history, stocks from the index universe that satisfy the market capitalization and liquidity eligibility factors until the index contains 25 constituents.
- Select stocks with the same length of dividend growth history in decreasing order of their indicated annual dividend yield.

Constituents are weighted by indicated annual dividend yield subject to a single stock weight capping of 5%. At each rebalancing post-launch, constituents with weights equal to or greater than 5% should be less than 50% of the total index weight. The index is rebalanced annually in January and reweighted quarterly.

## 3. What is the value of the S&P Dividend Monarchs Index?

Steadily increasing dividends are considered a positive signal for two reasons. First, when companies can boost dividend payouts for a long period, they are likely to have successful business models and disciplined financial management. These companies tend to generate solid free cash flow to support the dividend policy for many years. Second, a change in dividend policy has a signaling effect on the market, the increasing dividend payments give strong signals about the prospects of the company. This effect is even more profound with those companies increasing dividends consecutively for more than half a century through various cycles such as the 2000s Tech Bubble, the 2008 Great Financial Crisis and the 2020 COVID-19 sell-off. Thus, a dividend growth strategy is likely to provide exposure to disciplined, resilient companies with sustainable dividend payouts. The S&P Dividend Monarchs Index includes long-standing household names like Coca-Cola, Procter & Gamble and Johnson & Johnson. Exhibit 2 shows the 10 largest companies in the S&P Dividend Monarchs Index.

## Exhibit 2: 10 Largest Constituents by Market Cap in the S&P Dividend Monarchs Index

Company	GICS Sector	Float Market Cap (USD Billion)	Index Weight (%)
1 Johnson & Johnson	Health Care	428.0	3.1
2 Procter & Gamble	Consumer Staples	368.9	3.2
3 AbbVie Inc.	Health Care	267.3	4.5
4 PepsiCo Inc	Consumer Staples	262.9	3.4
5 Coca-Cola Co	Consumer Staples	249.7	3.5
6 Abbott Laboratories	Health Care	192.6	2.2
7 Lowe's Cos Inc	Consumer Discretionary	125.7	2.5
8 Becton Dickinson & Co	Health Care	75.0	1.8
9 Target Corp	Consumer Staples	72.6	3.2
10 Illinois Tool Works Inc	Industrials	67.2	2.9

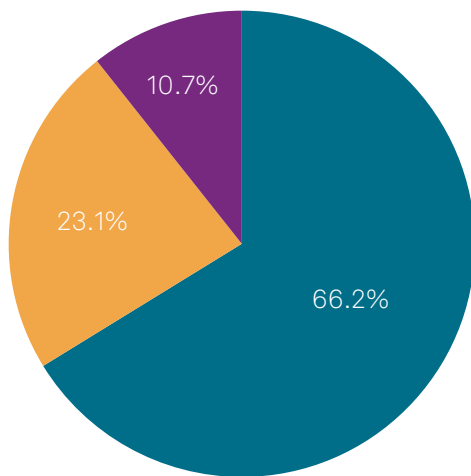
Source: S&P Dow Jones Indices LLC. Data as of April 30, 2023. Table is provided for illustrative purposes.

## 4. What are the key characteristics of the index?

### Full Market Coverage

The concept of S&P Dividend Monarchs covers not only large caps but also mid and small caps in the U.S. market. Exhibit 3 shows that the S&P Dividend Monarchs Index had a 34% weight in mid and small caps, which are represented by the S&P MidCap 400 and the S&P SmallCap 600, respectively, and a 66% weight in large caps, represented by the S&P 500, as of April 30, 2023.

### Exhibit 3: Market Size Distribution of the S&P Dividend Monarchs Index



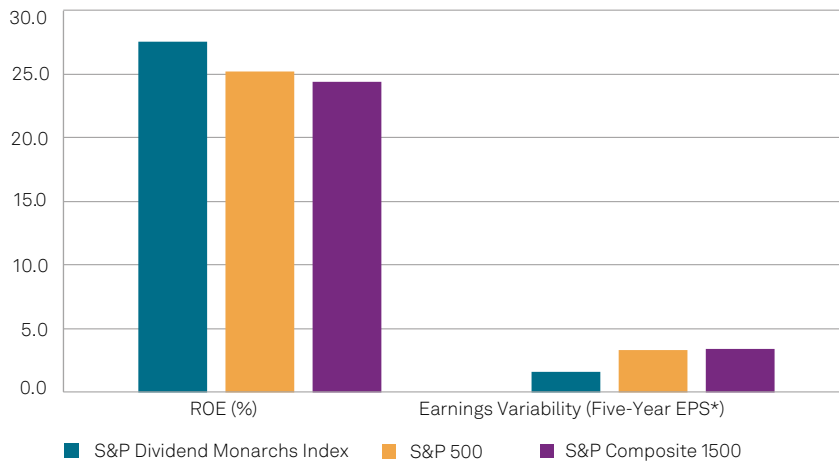
■ S&P 500    ■ S&P MidCap 400    ■ S&P SmallCap 600

Source: S&P Dow Jones Indices LLC. Data as of April 30, 2023. Index performance based on monthly total return in USD. The S&P Dividend Monarchs Index was launched April 24, 2023. All data prior to index launch 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.

### Profitability

The stringent 50-year dividend growth criteria could offer exposure to companies with strong profitability and financial resilience. Compared with the S&P 500 and S&P Composite 1500, the S&P Dividend Monarchs Index had a higher return on equity (ROE) and a lower earnings variability as of April 30, 2023 (see Exhibit 4).

**Exhibit 4: Profitability Metrics of the S&P Dividend Monarchs Index**



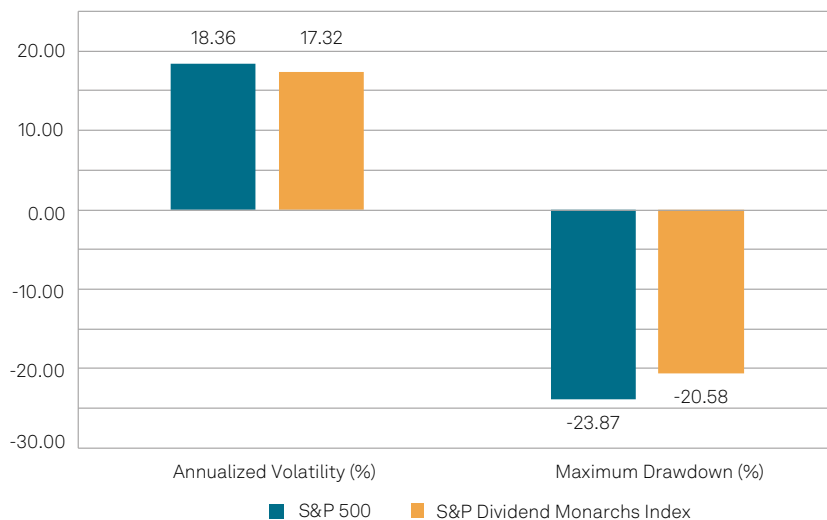
\*Earnings per share.

Source: S&P Dow Jones Indices LLC, FactSet. Data as of March 31, 2023. The S&P Dividend Monarchs Index was launched April 24, 2023. All data prior to index launch 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.

### Downside Protection

In the back-tested history since Jan. 31, 2018, the S&P Dividend Monarchs Index demonstrated defensive performance characteristics, with lower volatility and better drawdown compared with the S&P 500 (see Exhibit 5).

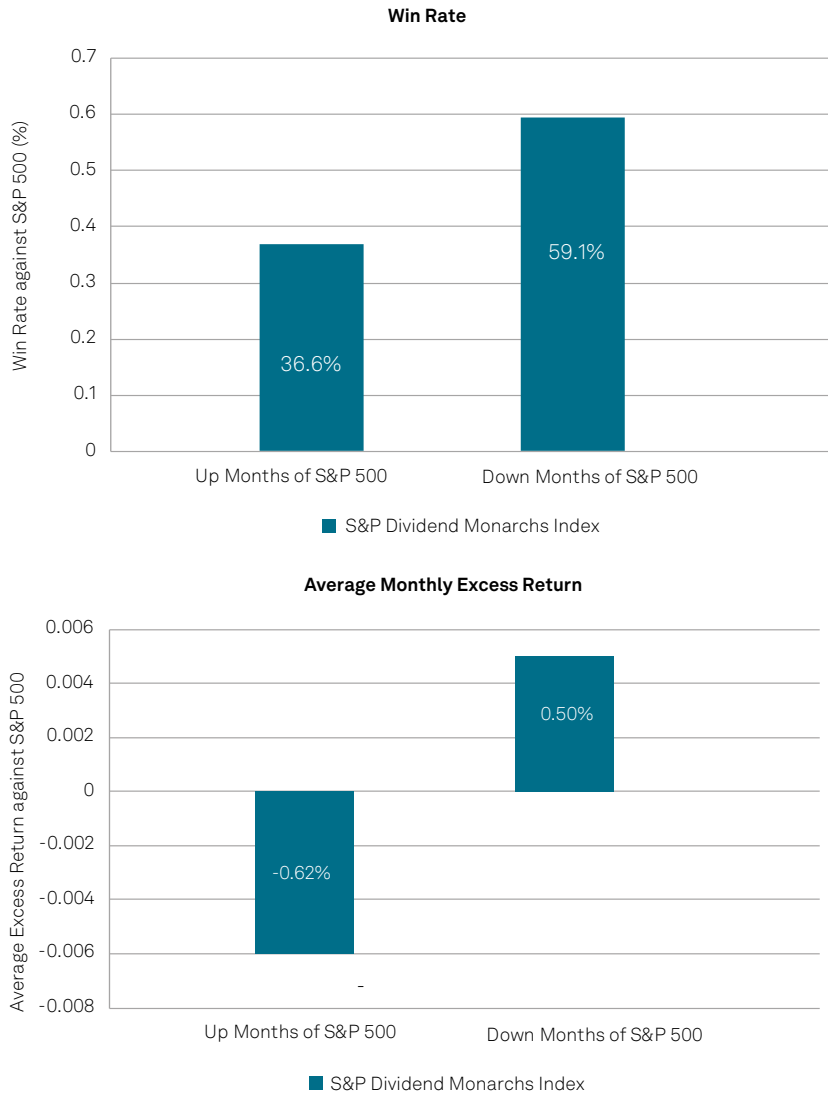
**Exhibit 5: Risk Comparison between the S&P Dividend Monarchs Index and the S&P 500**



Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 2018, to April 30, 2023. Index performance based on monthly total return in USD. The S&P Dividend Monarchs Index was launched April 24, 2023. All data prior to index launch 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.

During the down months of the S&P 500, the S&P Dividend Monarchs Index outperformed the S&P 500 59.1% of the time with an average outperformance of 50 bps per month (see Exhibit 6).

**Exhibit 6: S&P Dividend Monarchs Index’s Relative Performance against the S&P 500**

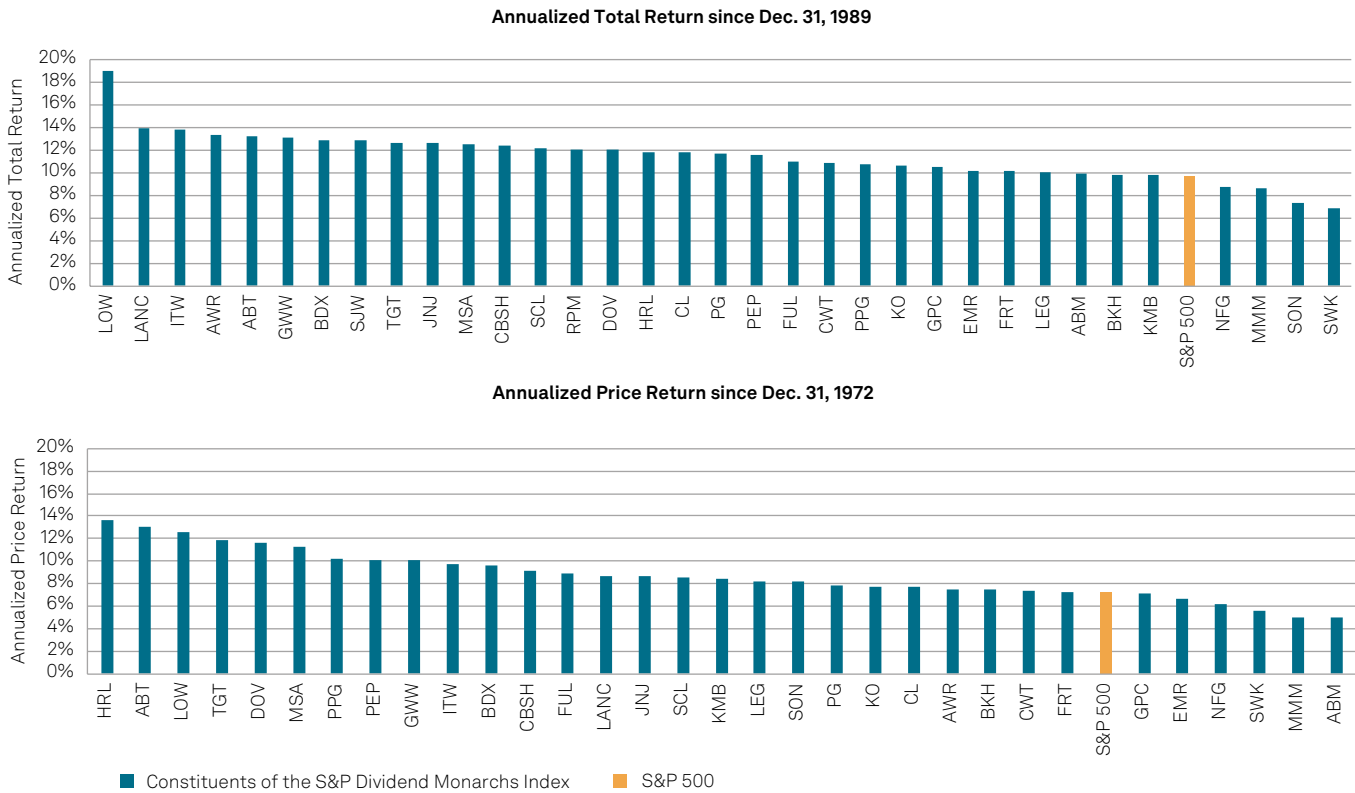


Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 2018, to April 30, 2023. Index performance based on monthly total return in USD. The S&P Dividend Monarchs Index was launched April 24, 2023. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of 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.

### Constituents Return Distribution

The back-tested performance of the S&P Dividend Monarchs Index is only five years as it’s an evolving concept, with the number of constituents increasing from 11 to 35 in that period. However, the history of the constituents goes back to at least 1972 with 50 years of consecutive dividend growth. Exhibit 7 shows the distribution of price returns and total returns of the S&P Dividend Monarchs Index constituents against the S&P 500. The total returns series starts from December 1989, when we have the S&P 500 Total Return Index series available, and the price return series covers the past 50 years. With a rearview mirror, we can see that the majority of the S&P Dividend Monarchs Index constituents performed better than the S&P 500.

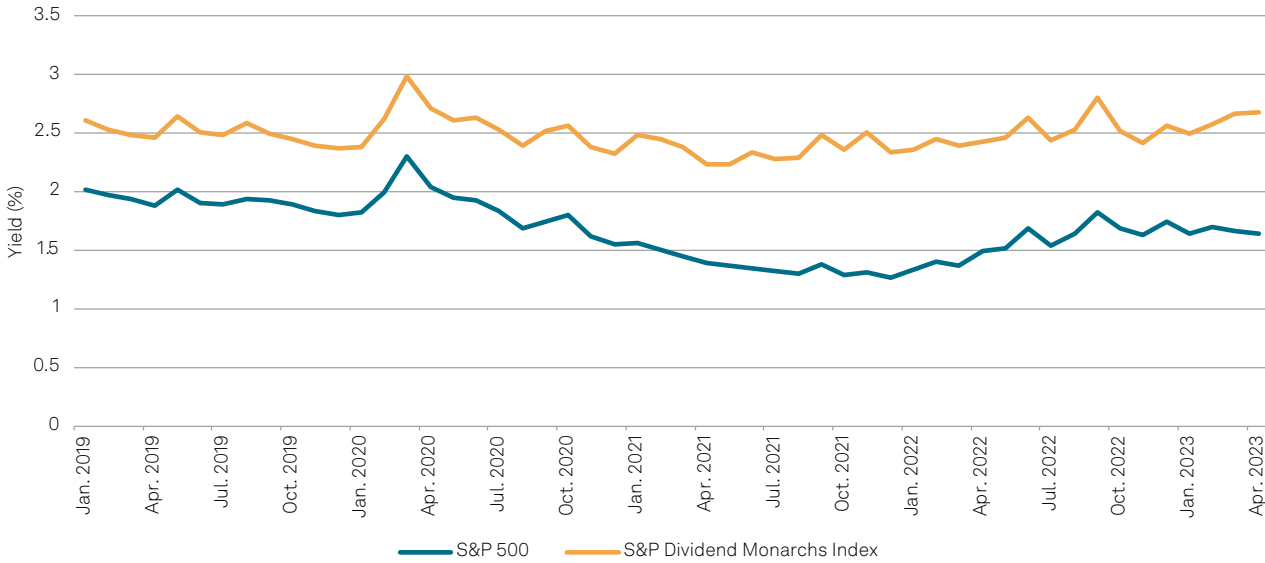
### Exhibit 7: Historical Annualized Return Distribution of S&P Dividend Monarchs Index Constituents



Source: S&P Dow Jones Indices LLC. Data for annualized total returns from Dec. 31, 1989, to April 30, 2023. Data for annualized price returns from Dec. 31, 1972, to April 30, 2023. Index performance based on monthly return in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

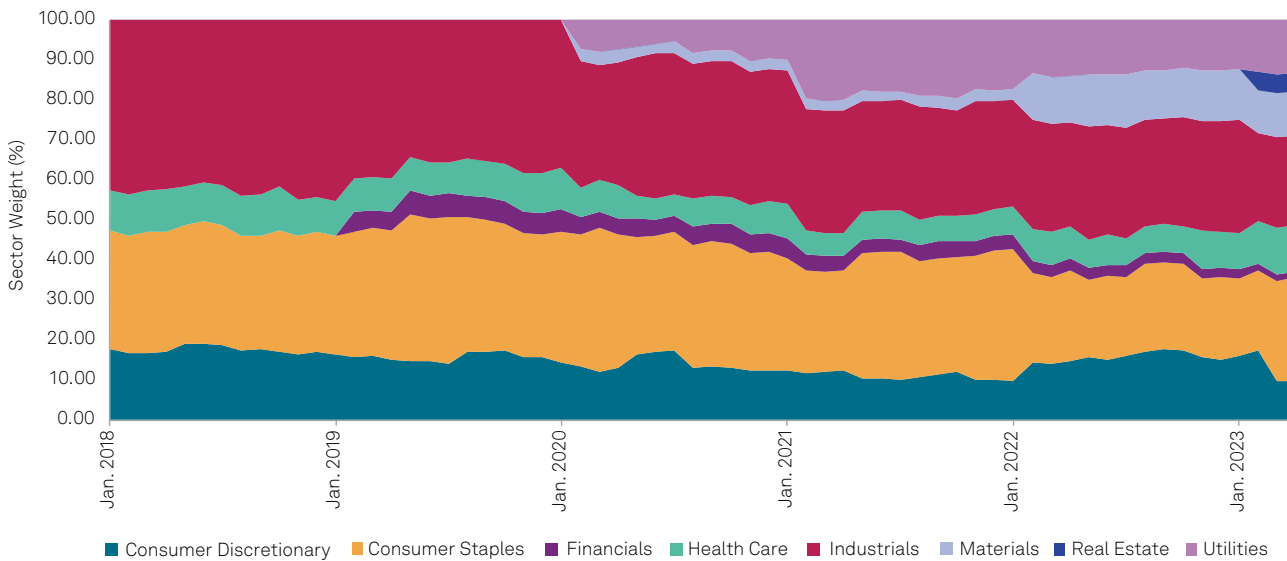
## Appendix

### Exhibit 8: Historical Trailing 12-Month Dividend Yield of the S&P Dividend Monarch Index



Source: S&P Dow Jones Indices LLC. Data from Jan.31, 2019 to April 30, 2023. The S&P Dividend Monarchs Index was launched April 24, 2023. All data prior to index launch 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 9: Historical Sector Allocation of the S&P Dividend Monarchs Index



Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 2018, to April 30, 2023. The S&P Dividend Monarchs Index was launched April 24, 2023. All data prior to index launch date is back-tested hypothetical data. 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 10: Historical Performance of the S&P Dividend Monarchs Index**

Period	S&P Dividend Monarchs Index	S&P 500	S&P Composite 1500
<b>Annualized Returns (%)</b>			
1-Year	-0.32	2.66	2.43
3-Year	12.04	14.52	14.67
5-Year	10.39	11.45	11.04
Since Jan. 31, 2018	6.85	9.62	9.31
<b>Annualized Volatility (%)</b>			
1-Year	19.50	22.01	22.14
3-Year	15.86	18.03	18.03
5-Year	17.12	18.64	18.86
Since Jan. 31, 2018	17.32	18.36	18.57
<b>Return/Volatility</b>			
1-Year	-0.02	0.12	0.11
3-Year	0.76	0.81	0.81
5-Year	0.61	0.61	0.59
Since Jan. 31, 2018	0.40	0.52	0.50
Maximum Drawdown (%)	-20.58	-23.87	-23.72

Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 2018, to April 30, 2023. Index performance based on monthly total return in USD. The S&P Dividend Monarchs Index was launched April 24, 2023. All data prior to index launch 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.



### Performance Disclosure/Back-Tested Data

The S&P Dividend Monarchs Index was launched April 24, 2023. 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](http://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.

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