

Long-term perspectives

# Dividends

A formidable source of returns



Wealth Management  
Dominion Securities

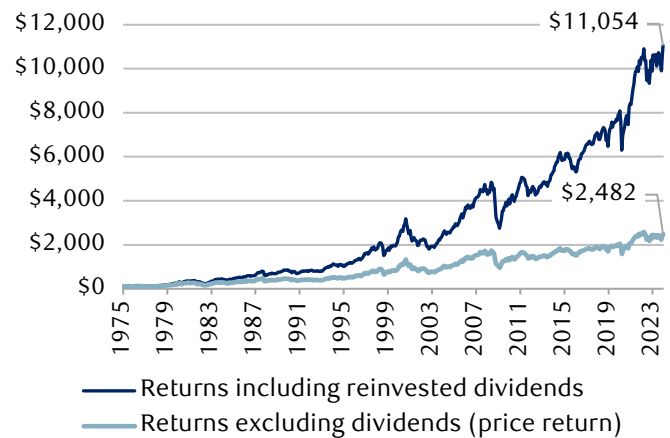
Dividends have historically accounted for a substantial portion of stock market returns. Beyond generating a steady income stream, dividend-paying stocks offer capital appreciation potential and a layer of protection against inflation.

## Don't overlook dividends

Investing in the stock market means investors will also capture the market's dividend yield as well. Over time, these dividends add up to a large portion of total returns. Over the past 50 years, dividend income has contributed an average of 32% to the S&P/TSX Composite's annual total return (see chart bottom left). The impact of dividends on equity returns can be further enhanced through reinvestment. By reinvesting these payouts into additional shares, investors can leverage the power of compounding, which helps amplify total returns over the long term (see chart top right). Another worthwhile feature of dividend-oriented investing is that income distributions have historically outpaced inflation over the long term. Since 1998, dividends on the Canadian stock market have increased at an annualized rate of roughly 6.4% per year, compared with 2.2% for inflation (see chart bottom right).

## The power of reinvestment compounding

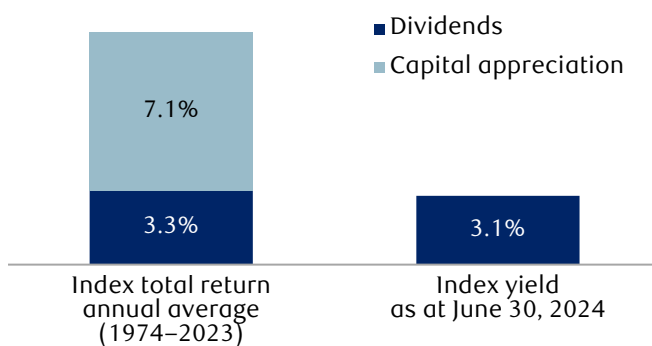
Growth of \$100 invested in S&P/TSX Composite, 1975–2023



Source - RBC Wealth Management, Bloomberg; data through 12/31/23. Returns data based on S&P/TSX Composite and S&P/TSX Composite Total Return Index

## A stable anchor component of total returns

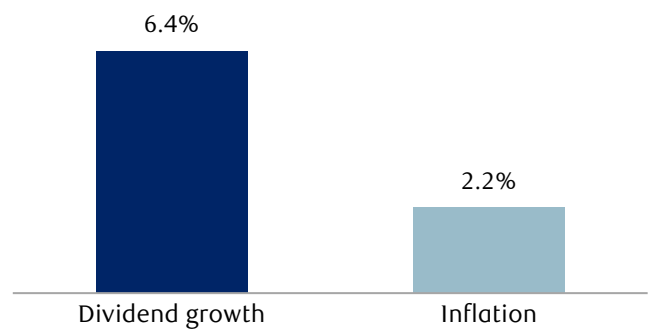
S&P/TSX Composite total return versus price return



Source - RBC Wealth Management, Bloomberg; data through 12/31/23; returns data based on S&P/TSX Composite and S&P/TSX Composite Total Return Index

## Dividends have grown faster than inflation

S&P/TSX Composite annualized dividend growth versus inflation, 1998–2023



Source - RBC Wealth Management, FactSet; data through 12/31/23. Dividend growth calculated based on weighted dividends per share of index constituents and inflation based on Canada's Consumer Price Index.

All values in Canadian dollars and priced as of June 30, 2024, market close, unless otherwise noted.

Produced: July 25, 2024 14:56ET; Disseminated: July 29, 2024 07:00ET

For important disclosures and author contact information see [page 3](#).

NOT FOR DISTRIBUTION IN THE U.S.

RBC Dominion Securities Inc.

## Flexible strategies

Dividend-paying stocks offer strategic versatility and have historically performed well compared to the broader market with lower volatility (see charts below). The relative stability of dividends can cushion portfolios during periods of economic uncertainty and stock market volatility, providing returns even when stock prices fall. Depending on the investment objective, there are two broad approaches to consider: dividend yield and dividend growth. Strategies that fall into the former category typically focus on stocks that generate a high dividend yield (which can help fulfill income needs), while those in the latter category tend to prioritize stocks with greater growth potential in dividend distributions.

Both approaches have merit and can be complementary. A balanced approach to combining above-average current yield and future income growth potential enables investors to capitalize on opportunities across the full spectrum of dividend-paying companies.

## Desirable attributes

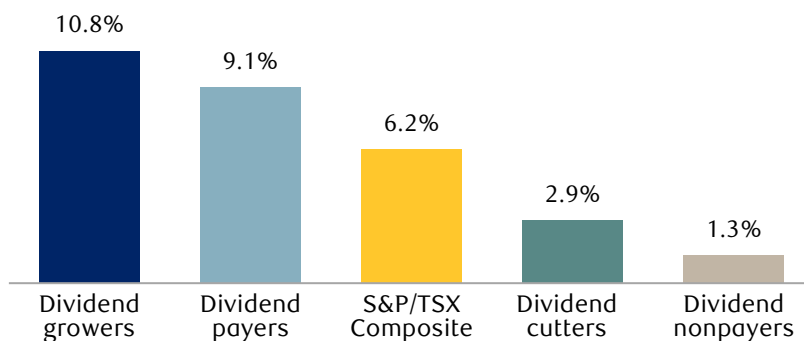
An allocation to companies that demonstrate a firm commitment to consistent and/or growing dividend payments through all market conditions potentially allow investors to capture coveted characteristics, including stronger profitability and earnings quality. Importantly, a steadfast pledge to a dividend policy can serve as a signalling mechanism, conveying pertinent information such as management's confidence in the stability and sustainability of cash flows generated by the underlying business and future growth prospects. Additionally, it can create a greater degree of capital discipline and risk management awareness among management teams, improve focus on investment project selection, and maintain a robust balance sheet.

## Approach from strength

The performance of dividend-oriented portfolios, like any investment strategy, can experience significant short-term fluctuations. Nevertheless, several strategic guidelines can help bolster the resilience and quality of dividend portfolios over the long run. The process for selecting companies should rigorously evaluate business fundamentals, valuations, balance sheet strength, cash flow generation relative to capital spending requirements, long-term returns on capital, payout ratios, and both historical and forecast dividend growth rates. In addition to company due diligence, a well-constructed dividend portfolio should broadly look to balance current dividend yield attractiveness against dividend growth prospects and long-term sustainability of payouts, with holdings adequately diversified across sectors and industries.

## Dividend-paying stocks have outperformed

Compound annual total returns, October 1986 through December 2023

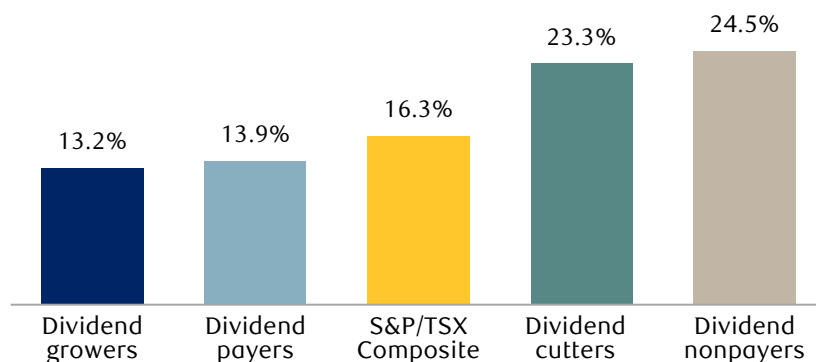


Equal-weighted, equity-only total return indexes. Dividend growers, payers, cutters and nonpayers determined annually. Growers had a positive 12-month change in dividends paid; payers paid dividends; cutters had a negative 12-month change in dividends paid; nonpayers did not pay a dividend.

Source - RBC Capital Markets Quantitative Research, RBC Global Asset Management, RBC Wealth Management

## Dividend-paying stocks have exhibited lower volatility

Annualized volatility, October 1986 through December 2023



Equal-weighted, equity-only total return indexes. Standard deviation is a statistical measure of variability (volatility) in observed returns. A larger standard deviation indicates greater variability in investment performance.

Source - RBC Capital Markets Quantitative Research, RBC Global Asset Management, RBC Wealth Management

## Author

### Joseph Wu, CFA

Portfolio Manager

joseph.wu@rbc.com; RBC Dominion Securities Inc.

### Claudia Humbert, CFA

Portfolio Advisor, Multi-Asset Strategy

claudia.humbert@rbc.com; RBC Dominion Securities Inc

## Disclosures and disclaimers

### Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

This report is issued by the Portfolio Advisory Group (“PAG”) which is part of the retail division of RBC Dominion Securities Inc. (“RBC DS”). The PAG provides portfolio advisory services to RBC DS Investment Advisors. Reports published by the PAG may be made available to clients of RBC DS through its Investment Advisors. The PAG relies on a number of different sources when preparing its reports including, without limitation, research reports published by RBC Capital Markets (“RBC CM”). RBC CM is not independent of RBC DS or the PAG. RBC CM is a business name used by Royal Bank of Canada and certain of its affiliates, including RBC DS, in connection with its corporate and investment banking activities. As a result of the relationship between RBC DS, the PAG and RBC CM, there may be conflicts of interest relating to the RBC CM analyst that is responsible for publishing research on a company referred to in a report issued by the PAG.

### RBC Capital Markets Distribution of Ratings

For purposes of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories – Buy, Hold/Neutral, or Sell – regardless of a firm’s own rating categories. Although RBC Capital Markets’ ratings of Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because RBC Capital Markets ratings are determined on a relative basis.

### Distribution of ratings – RBC Capital Markets Equity Research

As of June 30, 2024

Rating	Count	Percent	Investment Banking Services Provided During Past 12 Months	
			Count	Percent
Buy [Outperform]	851	57.44	271	31.62
Hold [Sector Perform]	588	39.41	146	24.83
Sell [Underperform]	47	3.15	5	10.64

## Explanation of RBC Capital Markets Equity Rating System

An analyst’s “sector” is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst’s view of how that stock will perform over the next 12 months relative to the analyst’s sector average.

**Ratings: Outperform (O):** Expected to materially outperform sector average over 12 months. **Sector Perform (SP):** Returns expected to be in line with sector average over 12 months. **Underperform (U):** Returns expected to be materially below sector average over 12 months. **Restricted (R):** RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances. **Not Rated (NR):** The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

**Risk Rating:** The **Speculative** risk rating reflects a security’s lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

### Valuation and Risks to Rating and Price Target

When RBC Capital Markets assigns a value to a company in a research report, FINRA Rules and NYSE Rules (as incorporated into the FINRA Rulebook) require that the basis for the valuation and the impediments to obtaining that valuation be described. Where applicable, this information is included in the text of our research in the sections entitled “Valuation” and “Risks to Rating and Price Target”, respectively.

The analyst(s) responsible for preparing this research report have received (or will receive) compensation that is based upon various factors, including total revenues of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of RBC Capital Markets and its affiliates.

### RBC Capital Markets Conflicts Policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to <https://www.rbccm.com/global/file-414164.pdf> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

### Dissemination of Research

RBC Capital Markets endeavors to make all reasonable efforts to provide research content simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets provides eligible clients with access to Research Reports on the Firm’s proprietary INSIGHT website, via email and via third-party vendors.

## Dissemination of Research

RBC Capital Markets endeavors to make all reasonable efforts to provide research content simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets provides eligible clients with access to Research Reports on the Firm's proprietary INSIGHT website, via email and via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research.

## Conflict Disclosures

In the event that this is a compendium report (covers six or more subject companies), RBC DS may choose to provide specific disclosures for the subject companies by reference. To access RBC CM's current disclosures of these companies, please go to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1>.

Such information is also available upon request to RBC Dominion Securities, Attention: Manager, Portfolio Advisory Group, 155 Wellington Street West, 17th Floor, Toronto, ON M5V 3K7.

The authors are employed by RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

The information contained in this report has been compiled by RBC Dominion Securities Inc. ("RBC DS") from sources believed by it to be reliable, but no representations or warranty, express or implied, are made by RBC DS or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC DS' judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. This report is not an offer to sell or a solicitation of an offer to buy any securities. Additionally, this report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to Investment Advisors and does not have regard to the particular circumstances or needs of any specific person who may read it. RBC DS and its affiliates may have an investment banking or other relationship with some or all of the issuers mentioned herein and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. RBC DS and its affiliates may also issue options on securities mentioned herein

and may trade in options issued by others. Accordingly, RBC DS or its affiliates may at any time have a long or short position in any such security or option thereon. To the full extent permitted by law neither RBC DS nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct, indirect or consequential loss arising from, or in connection with, any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior written consent of RBC DS in each instance.

In all jurisdictions where RBC conducts business we do not offer investment advice on Royal Bank. Certain regulations prohibit member firms from soliciting orders and offering investment advice or opinions on their own stock. References to Royal Bank are for informational purposes only and are not intended as a direct or implied recommendation for investing in Royal Bank and all related securities.

RBC Dominion Securities Inc.\* and Royal Bank of Canada are separate corporate entities which are affiliated.

\* Member-Canadian Investor Protection Fund. RBC Dominion Securities Inc. is a member company of RBC Wealth Management, a business segment of Royal Bank of Canada.

®Registered trademarks of Royal Bank of Canada. Used under licence.

©2024 RBC Dominion Securities Inc. All rights reserved.