

Income Now or Growth Over Time?

A Comparison of Dividend Growth Versus High Dividend Yield ETFs

Key Observations

- Dividends have accounted for roughly one-third of the market's total return since 1960.¹
- Many investors turned to dividend strategies as a source of potential income during the ultra-low interest rates of the past decade.
- Not all dividend investing strategies are equal, and there are important differences between strategies targeting high dividend yield versus dividend growth.

With near-zero interest rate policies behind us, investors may want to re-evaluate their use of dividend strategies. Here, we outline three potential advantages of dividend growth strategies like the S&P 500 Dividend Aristocrats, which many consider an all-weather approach for investing in dividends.

Dividend Growth Can Provide a More Balanced Approach to Returns

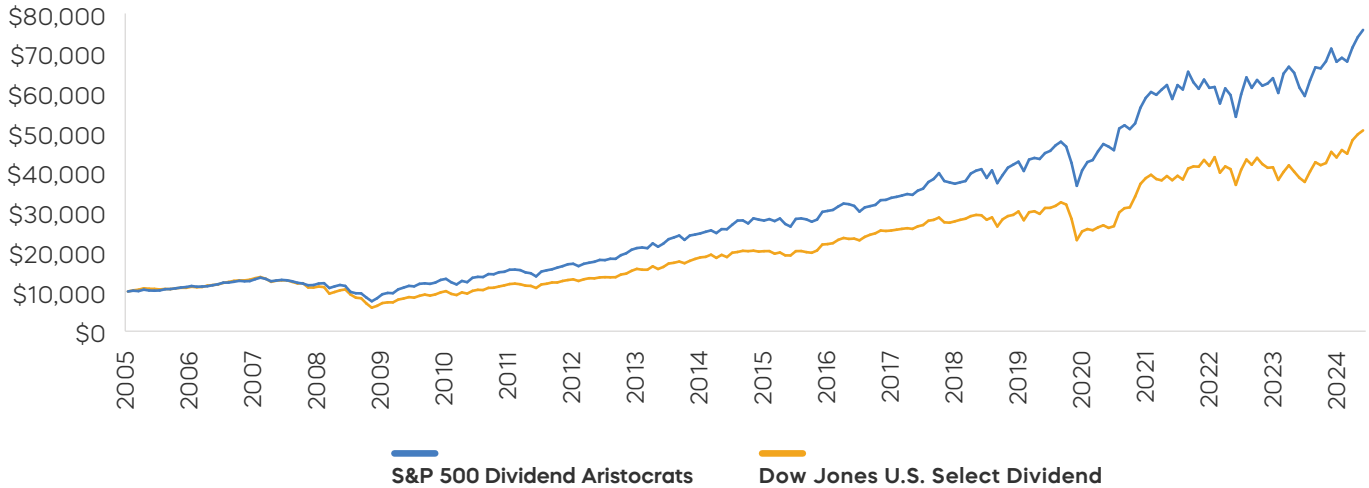
Dividend investors face a fundamental choice when designing their portfolios: income now or growth over time? It's no trivial decision. The immediate gratification of high-yield income may be tempting. But it is only one component of total return—the larger part being capital appreciation. It is capital appreciation that has delivered most of the market's returns over time.²

- To attract investors, companies with high dividend yield often pay dividends at levels that make it difficult to reinvest into the business, sacrificing potential growth as a result.
- A dividend growth strategy, on the other hand, invests in companies that consistently grow their dividend. The S&P 500 Dividend Aristocrats Index, for example, tracks high-quality companies that have grown their dividends for at least 25 consecutive years.

While their yields may be lower, companies like those in the S&P 500 Dividend Aristocrats Index generally have a better balance of growth and income. As a result, they have provided greater total returns over time.

^{1,2} Morningstar, as of 9/30/23

Dividend Growth Has Produced Higher Returns Over Time



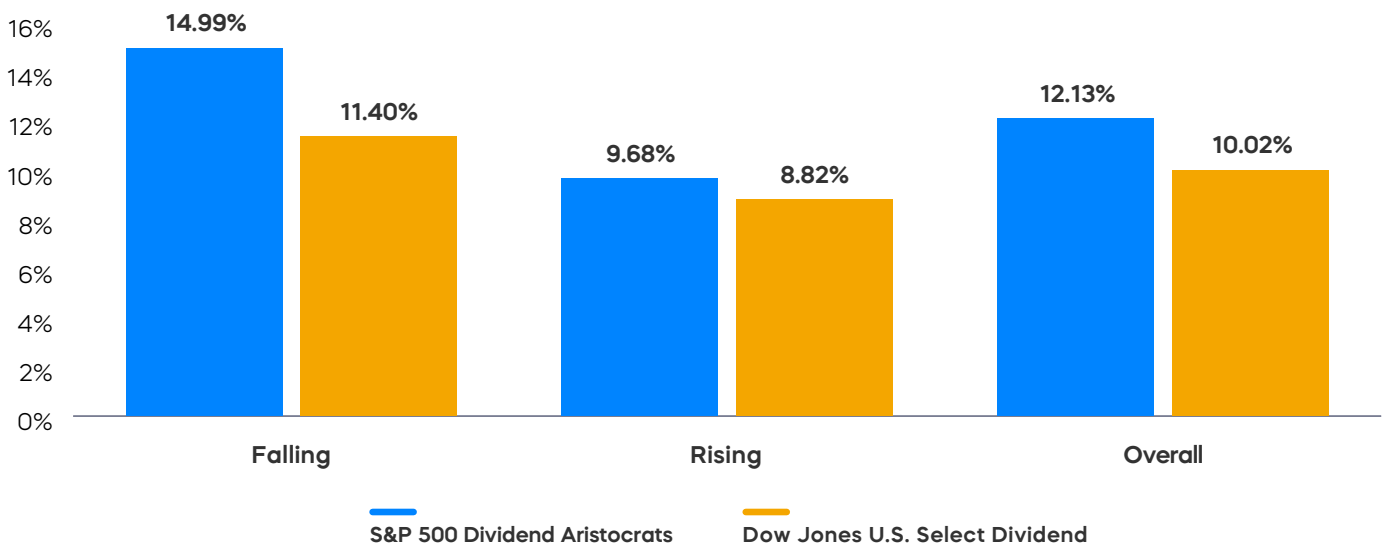
Source: Bloomberg. Data from 5/2/05–9/30/24. Dividend growth is represented by the S&P 500 Dividend Aristocrats Index, and high dividend yield is represented by the Dow Jones U.S. Select Dividend Index. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

Dividend Growth Has Outperformed Regardless of Interest Rate Direction

The normalization of Federal Reserve monetary policy has opened a huge divide in expectations around the future direction of interest rates. While the Fed maintains a higher-for-longer stance, market participants have been pushing yields lower in anticipation of economic uncertainty and future rate cuts. Such a volatile rate environment has been a challenge for many dividend investors.

The all-weather approach of the S&P 500 Dividend Aristocrats, however, has performed well under a variety of rate environments, making it a potentially sound strategy no matter where rates go.

Average Performance During Rising/Falling Interest Rate Periods



Source: Bloomberg. Data from 5/2/05–9/30/24. Results show average performance during different interest rate regimes of both dividend growth, as represented by the S&P 500 Dividend Aristocrats Index, and high dividend yield, as represented by the Dow Jones U.S. Select Dividend Index. Monthly returns for each strategy were separated into rising-rate and falling-rate periods based on movements in the 10-year Treasury yield. Rising-rate periods were defined as periods in which the change in the 10-year Treasury yield was > 0, and falling-rate periods were those in which the change in the 10-year Treasury yield was < 0. Average monthly returns were then annualized. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

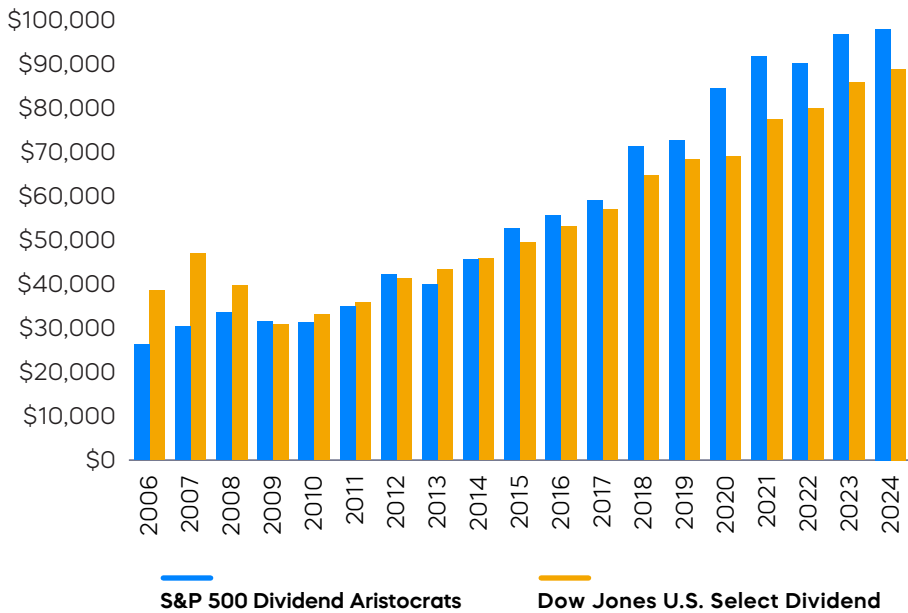
Initial Yield Can Be Deceiving

From a dividend perspective, income growth and sustainability demand greater attention than initial levels of yield during periods of uncertainty like we have today. History has demonstrated why.

- High dividend yielding companies have been known to reduce dividends during difficult periods, for example, during the Great Financial Crisis.
- The S&P 500 Dividend Aristocrats have consistently grown their dividends through numerous difficult environments, resulting in higher levels of yield-on-cost compared to high dividend yielding companies, and despite lower levels of initial yield.

Dividend Growth: The Quintessential Inflation Hedge

Growth of dividends over time on a \$1M investment



- High-dividend yields can be alluring when income is scarce
- Sustainability and growth of dividends are what matter in the long run

Annualized Dividend Growth Rate Since 2006

S&P 500 Dividend Aristocrats	7.81%
Dow Jones Select Dividend	4.89%

Source: Bloomberg. Data from 1/1/06-9/30/24. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

The Takeaway

Against the backdrop of a rapidly changing interest rate environment and significant economic uncertainty, advisors may want to consider their dividend strategies carefully. A strategy focused on long-term dividend growth may outweigh the immediate benefits of a high dividend yield strategy. ProShares offers the only ETF tracking the S&P 500 Dividend Aristocrats Index, plus seven more dividend growth ETFs covering a variety of U.S. market caps, technology strategies and international markets.

Have Questions?

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In emerging markets, many risks are heightened, and lower trading volumes may occur.

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