

# Got Yield?: Income-focused stocks may help investors during market downturns

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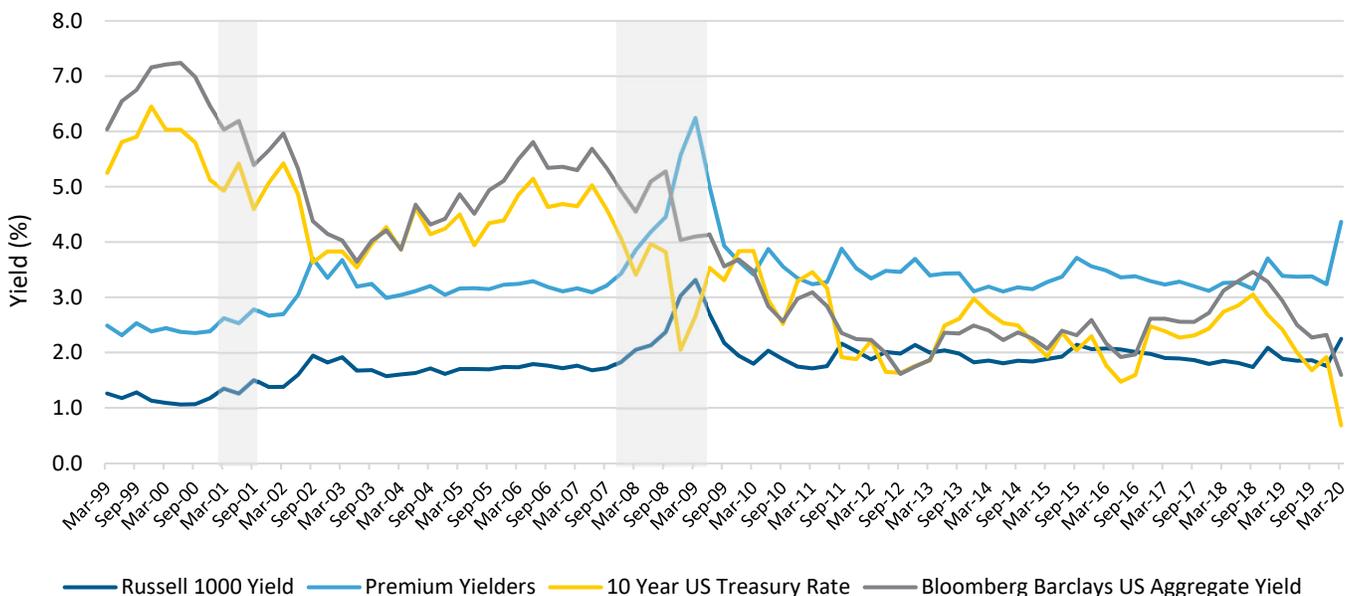
June 2020

Record-low interest rates. Ten-year U.S. Treasury rates well under 1%. Global debt of almost \$10 trillion yielding less than zero. In these challenging times for income-producing securities, many investors continue to turn to dividend stocks as one of the few remaining sources of satisfactory yields.

Among income-producing stocks, we prefer premium yielders (defined as the top 40% of high yielders in the Russell 1000 Index), which we believe offer attractive levels of income, are currently undervalued, and will outperform other income-focused investments during times of crisis.

Over more than two decades, a portfolio of premium dividend-focused equity securities has provided a more stable and secure yield relative to many other yield-focused instruments (see chart). This has been especially true during times of crisis. When the dot.com bubble burst in 2000, the yield for the premium-yielding equities cohort increased throughout the proceeding recession while many fixed-income classes fell. During the Great Recession, premium dividends again outperformed most fixed-income classes. In today's economic turndown, those premium-yielding equities are following this same pattern.

Historical Yields (March 1999 to March 2020)



Source: Cadence. Past performance does not guarantee future returns.

In addition, given the current record-high spread between equities and fixed income, we believe it is prudent to remain invested in a portfolio of companies that make responsible capital-allocation decisions. Higher-yielding companies are usually financially sound with attractive cash flows, and the stocks of those firms have historically tended to have above-average returns with lower-than-average volatility than the overall market.\*

\*Data Source: Kenneth R. French "Portfolios Formed on Dividend Yield" and CRSP data, 1/1/1928 to 12/31/2019. Includes all equity securities listed on NYSE, Amex, NASDAQ and NYSE Arca during the time period. Performance results are annualized value-weighted total returns with dividends reinvested. Volatility is measured by annualized standard deviation.



However, it is important to note that the highest yielders have not always been the best performers over time. A struggling company with high-but-unsustainable dividends can find its share prices falling and dividends cut. To avoid this dividend trap, we focus on quality dividend companies that exhibit balance-sheet strength, profitability, and earnings stability. We believe those companies can ultimately maximize return potential, minimize volatility, and provide steady cash flow, even in down markets.

We acknowledge that, like other securities, income-producing equities are not immune to the impacts of the COVID-19 pandemic. Capital-return plans face many threats, including earnings downturns, bans on dividends for U.S. and European-Union companies receiving equity infusions from rescue packages, and corporate liquidity issues. During the Great Recession, Main Street focused its ire on Wall Street executive bonuses. Today, dividend payouts and buybacks—viewed as enriching executives and shareholders and not the everyday worker—have morphed into the new villain. And dividend payouts may fluctuate frequently—especially in these extreme market conditions.

But even with this backdrop, income-producing securities continue to look attractive to us. Regardless of the political or market climate, we believe that there will always be premium yielders that will deliver better risk-adjusted returns than most fixed-income options for over a full market cycle.

*Cadence Capital Management has three flagship strategies designed for income, value and growth: US Equity Income, International Equity Income and Emerging Companies. For more information, visit [CadenceCapital.com](https://www.CadenceCapital.com).*

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