

Long-term perspectives

Dividends

A formidable source of returns



Wealth Management
Dominion Securities

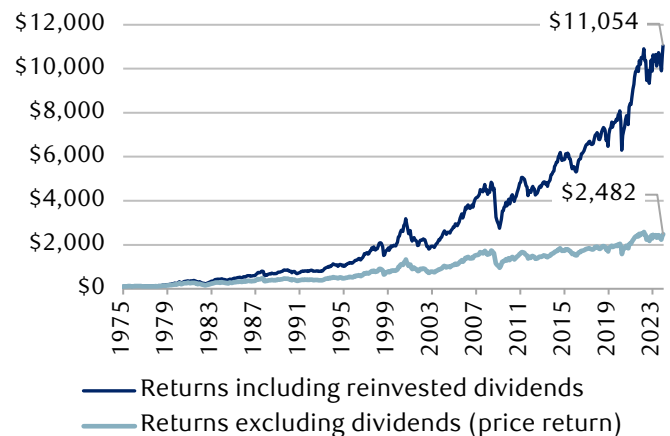
Dividends have historically accounted for a substantial portion of stock market returns. Beyond generating a steady income stream, dividend-paying stocks offer capital appreciation potential and a layer of protection against inflation.

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

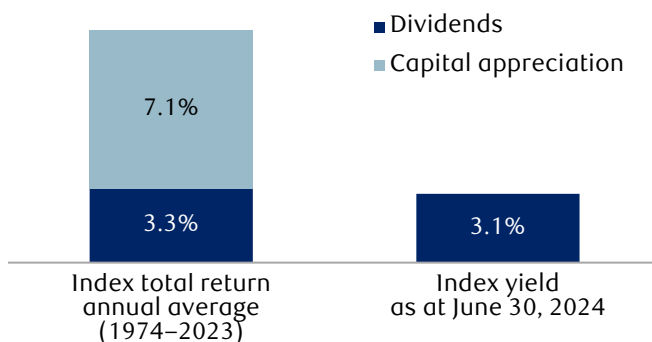
Growth of \$100 invested in S&P/TSX Composite, 1975–2023



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

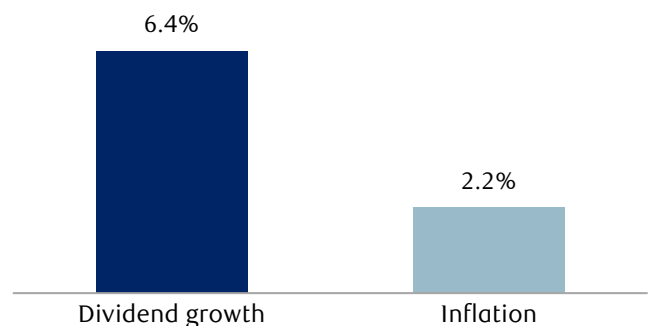
S&P/TSX Composite total return versus price return



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.

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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

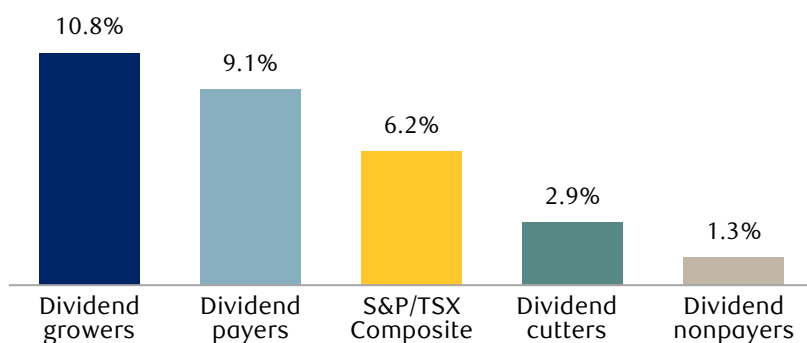
such as management's confidence in the stability and sustainability of cash flows generated by the underlying business and future growth prospects. Additionally, it can create a greater degree of capital discipline and risk management awareness among management teams, improve focus on investment project 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

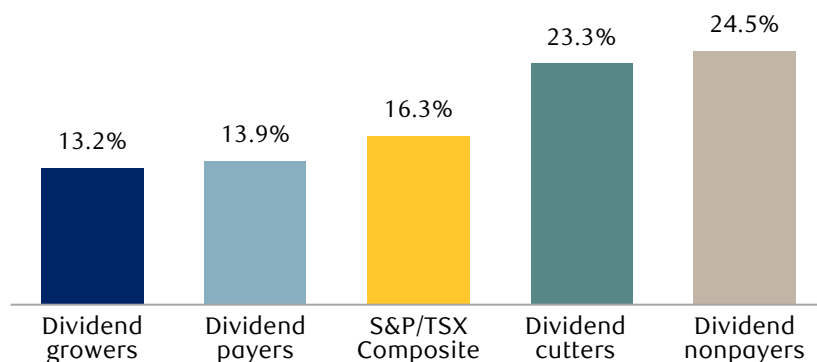


Equal-weighted, equity-only total return indexes. Dividend growers, payers, cutters and nonpayers determined annually. Growers had a positive 12-month change in dividends paid; payers paid dividends; cutters had a negative 12-month change in dividends paid; nonpayers did not pay a dividend.

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

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As of June 30, 2024

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| | | | Count | Percent |
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