

Introducing the S&P Dividend Growers Indices

Commentary by: Pavel Vaynshtok, Managing Director and Global Head of Strategy Indices at S&P Dow Jones Indices

Introduction

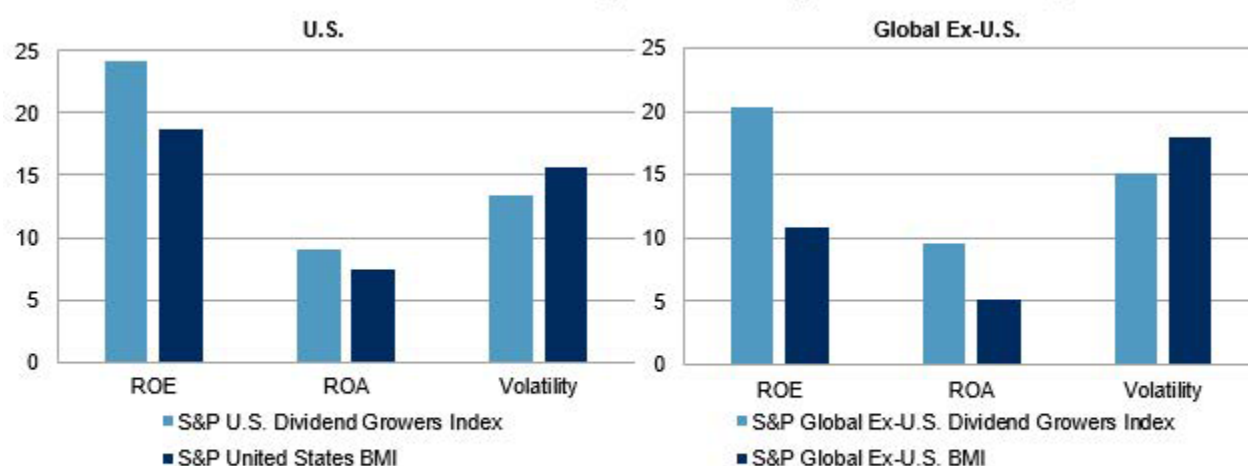
Dividends are an important part of the investment toolkit, contributing 36% to the total return of the S&P 500® since 1936¹. This sizable contribution has been particularly welcome during the multi-year low interest rate environment and, more recently, as the world has faced economic dislocations induced by COVID-19. In addition to dividend income, investors have been clamoring for higher-quality companies, with sustainable earnings and a less-volatile return profile.

S&P Dow Jones Indices recently unveiled a series of indices that addresses these themes: the S&P U.S. Dividend Growers Index and S&P Global Ex-U.S. Dividend Growers Index. In this blog, we offer an introduction to these indices and highlight their most salient features. In two subsequent blogs, we will explore methodological details and highlight the indices' characteristics and historical performance.

Focus on Dividend Growth

The S&P Dividend Growers Indices focus on companies that have a history of consistently increasing dividends over multiple, consecutive years (10 years for the U.S. index and 7 years for the Global ex-U.S. index). Put simply, a company's ability to reliably boost dividends for multiple years should be an indication of a certain amount of financial strength and discipline. Moreover, with limited opportunities for income generation and investor concern around market volatility, dividend growers' commitment to consistent capital return may provide a more sustainable and stable source of income, potentially with lower volatility (see Exhibit 1).

Exhibit 1: Dividend Growers Tend to Exhibit Higher Profitability and Lower Volatility

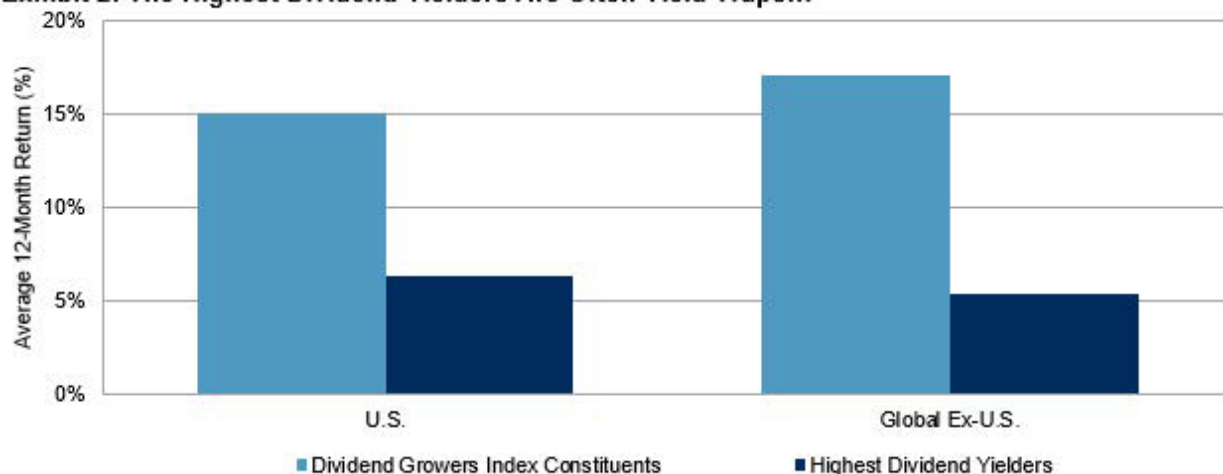


Source: S&P Dow Jones Indices LLC and FactSet. Data as of June 30, 2021. Annualized volatility calculated using monthly data from March 31, 2006, to June 30, 2021. Index performance based on total return in USD. Past performance is no guarantee of future results. Charts are provided for illustrative purposes and reflect hypothetical historical performance. The S&P U.S. Dividend Growers Index and S&P Global Ex-U.S. Dividend Growers Index were launched April 19, 2021.

Avoiding Dividend Yield Traps

Not all yields are created equal. A company's dividend yield is calculated as its dividends divided by the company's stock price. It is possible that a company earns a high dividend yield moniker simply through price underperformance, rather than as a result of growing its dividends. The S&P Dividend Growers Indices attempt to avoid these yield traps by excluding the top 25% of the highest-yielding eligible companies. Our research shows that, on average, the highest-dividend-yielding securities have historically proven to be yield traps, having achieved their high yielding status through underperformance (see Exhibit 2).

Exhibit 2: The Highest Dividend Yields Are Often Yield Traps...



Source: S&P Dow Jones Indices LLC and FactSet. Data from March 31, 2006, to June 30, 2021. Index performance based on the average of trailing 12-month returns at each reconstitution date in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. The S&P U.S. Dividend Growers Index and S&P Global Ex-U.S. Dividend Growers Index were launched April 19, 2021.

These lackluster returns could point to underlying business instability, with the highest yielders unfavorably changing their dividend policies, on average, at nearly triple the rate of the index constituents for the U.S. index, and at nearly twice the rate for the Global ex-U.S. index². Not surprisingly, these potential yield traps tend to exhibit lower risk-adjusted returns (see Exhibit 3).

Exhibit 3: ...With a Higher Propensity for Unfavorable Dividend Policy Changes and Lower Risk-Adjusted Returns		
U.S.	COMPANIES WITH UNFAVORABLE DIVIDEND POLICY CHANGE (%)	RETURN/VOLATILITY
Dividend Growers Index Constituents	7	0.76
Highest Dividend Yields	19	0.60
GLOBAL EX-U.S.		
Dividend Growers Index Constituents	20	0.53
Highest Dividend Yields	38	0.28

Source: S&P Dow Jones Indices LLC and FactSet. Data from March 31, 2006, to June 30, 2021. Percent of companies with unfavorable dividend policy change is calculated as the average of future one-year dividend policy change at each reconstitution. The return/volatility is based on monthly observations. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. The S&P U.S. Dividend Growers Index and S&P Global Ex-U.S. Dividend Growers Index were launched April 19, 2021.

Creating a High Capacity Index

When creating an index, one of the most critical considerations is the index's investability (i.e., how efficiently the index can be replicated). The S&P Dividend Growers Indices were created with an eye toward high-capacity strategies. The next blog will address index construction and describe liquidity thresholds, the multi-day rebalance schedule, our stock weighting approach, and inclusion of every eligible company—all techniques designed to enhance the indices' investability.

¹ Source: S&P Dow Jones Indices LLC and FactSet. Data as of May 31, 2021.

² We define an unfavorable dividend policy change for consistent dividend growers as dividend elimination, omission, cut, or maintaining same level of dividends.

Notes:

- All investing is subject to risk, including the possible loss of the money you invest.
- The posts on this blog are opinions, not advice.

Important Information

VIGM, S.A. de C.V. Asesor en Inversiones Independiente ("Vanguard Mexico") registration number: 30119-001-(14831)-19/09/2018. The registration of Vanguard Mexico before the Comisión Nacional Bancaria y de Valores ("CNBV") as an Asesor en Inversiones Independiente is not a certification of Vanguard Mexico's compliance with regulation applicable to Advisory Investment Services (Servicios de Inversión Asesorados) nor a certification on the accuracy of the information provided herein. The supervision scope of the CNBV is limited to Advisory Investment Services only and not all services provided by Vanguard Mexico.

This material is solely for informational purposes and does not constitute an offer or solicitation to sell or a solicitation of an offer to buy any security, nor shall any such securities be offered or sold to any person, in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities law of that jurisdiction. Reliance upon information in this material is at the sole discretion of the recipient.

Securities information provided in this document must be reviewed together with the offering information of each of the securities which may be found on Vanguard's website: <https://www.vanguardmexico.com/institutional/products/en/list/overview> or www.vanguard.com

Vanguard Mexico may recommend products of The Vanguard Group Inc. and its affiliates and such affiliates and their clients may maintain positions in the securities recommended by Vanguard Mexico.

ETFs can be bought and sold only through a broker and cannot be redeemed with the issuing fund other than in very large aggregations. Investing in ETFs entails stockbroker commission and a bid-offer spread which should be considered fully before investing. The market price of ETF Shares may be more or less than net asset value.

All investments are subject to risk, including the possible loss of the money you invest. Investments in bond funds are subject to interest rate, credit, and inflation risk. Governmental backing of securities applies only to the underlying securities and does not prevent share-price fluctuations. High-yield bonds generally have medium- and lower-range credit quality ratings and are therefore subject to a higher level of credit risk than bonds with higher credit quality ratings.

There is no guarantee that any forecasts made will come to pass. Past performance is no guarantee of future results.

Prices of mid- and small-cap stocks often fluctuate more than those of large-company stocks. Funds that concentrate on a relatively narrow market sector face the risk of higher share-price volatility. Stocks of companies are subject to national and regional political and economic risks and to the risk of currency fluctuations, these risks are especially high in emerging markets. Changes in exchange rates may have an adverse effect on the value, price or income of a fund.

The information contained in this material derived from third-party sources is deemed reliable, however Vanguard Mexico and The Vanguard Group Inc. are not responsible and do not guarantee the completeness or accuracy of such information.

This document should not be considered as an investment recommendation, a recommendation can only be provided by Vanguard Mexico upon completion of the relevant profiling and legal processes.

This document is for educational purposes only and does not take into consideration your background and specific circumstances nor any other investment profiling circumstances that could be material for taking an investment decision. We recommend getting professional advice based on your individual circumstances before taking an investment decision.

These materials are intended for institutional and sophisticated investors use only and not for public distribution.

Materials are provided only for the recipient's exclusive use and shall not be distributed to any other individual or entity. Broker-dealers, advisers, and other intermediaries must determine whether their clients are eligible for investment in the products discussed herein.

The information contained herein does not constitute an offer or solicitation and may not be treated as such in any jurisdiction where such an offer or solicitation is against the law, or to anyone for whom it is unlawful to make such an offer or solicitation, or if the person making the offer or solicitation is not qualified to do so.

THESE MATERIALS ARE PROVIDED AT THE REQUEST OF AND FOR THE EXCLUSIVE USE OF RECIPIENT AND CONTAIN HIGHLY CONFIDENTIAL INFORMATION, WHICH SHALL NOT BE REPRODUCED OR TRANSMITTED TO ANY THIRD PARTIES WITHOUT VANGUARD'S PRIOR WRITTEN CONSENT. THE CONTENTS OF THESE MATERIALS SHALL NOT BE UNDERSTOOD AS AN OFFER OR SOLICITATION TO BUY OR SELL SECURITIES IN BRAZIL AND VANGUARD IS NOT MAKING ANY REPRESENTATION WITH RESPECT TO THE ELIGIBILITY OF ANY RECIPIENT OF THESE MATERIALS TO ACQUIRE THE INTERESTS IN THE SECURITIES DESCRIBED HEREIN UNDER THE LAWS OF BRAZIL. SUCH SECURITIES HAVE NOT BEEN REGISTERED IN BRAZIL AND NONE OF THE INTERESTS IN SUCH SECURITIES MAY BE OFFERED, SOLD, OR DELIVERED, DIRECTLY OR INDIRECTLY, IN BRAZIL OR TO ANY RESIDENT OF BRAZIL EXCEPT PURSUANT TO THE APPLICABLE LAWS AND REGULATIONS OF BRAZIL.

PROVIDED AT THE REQUEST OF AND FOR THE EXCLUSIVE USE OF THE RECIPIENT. THE CONTENTS OF THIS DOCUMENT SHALL NOT BE UNDERSTOOD AS AN OFFER OR SOLICITATION TO BUY OR SELL SECURITIES IN BRAZIL AND VANGUARD IS NOT MAKING ANY REPRESENTATION WITH RESPECT TO THE ELIGIBILITY OF ANY RECIPIENT OF THIS DOCUMENT TO INVEST IN SECURITIES DESCRIBED HEREIN.

This document is provided at the request of and for the exclusive use of the recipient and does not constitute, and is not intended to constitute, a public offer in the Republic of Colombia, or an unlawful promotion of financial/capital market products. The offer of the financial products described herein is addressed to fewer than one hundred specifically identified investors. The financial products described herein may not be promoted or marketed in Colombia or to Colombian residents, unless such promotion and marketing is made in compliance with Decree 2555/2010 and other applicable rules and regulations related to the promotion of foreign financial/capital market products in Colombia.

The financial products described herein are not and will not be registered before the Colombian National Registry of Securities and Issuers (Registro Nacional de Valores y Emisores - RNVE) maintained by the Colombian Financial Superintendency, or before the Colombian Stock Exchange. Accordingly, the distribution of any documentation in regard to the financial products described here in will not constitute a public offering of securities in Colombia.

The financial products described herein may not be offered, sold or negotiated in Colombia, except under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations; provided that, any authorized person of a firm authorized to offer foreign securities in Colombia must abide by the terms of Decree 2555/2010 to offer such products privately to its Colombian clients.

The distribution of this material and the offering of securities may be restricted in certain jurisdictions. The information contained in this material is for general guidance only, and it is the responsibility of any person or persons in possession of this material and wishing to make application for securities to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for securities should inform themselves of any applicable legal requirements, exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

This offer conforms to General Rule No. 336 of the Chilean Financial Market Commission (Comisión para el Mercado Financiero). The offer deals with securities not registered under Securities Market Law, nor in the Securities Registry nor in the Foreign Securities Registry of the Chilean Financial Market Commission, and therefore such securities are not subject to its oversight. Since such securities are not registered in Chile, the issuer is not obligated to provide public information in Chile regarding the securities. The securities shall not be subject to public offering unless they are duly registered in the corresponding Securities Registry in Chile. The issuer of the securities is not registered in the Registries maintained by the Chilean Financial Market Commission, therefore it is not subject to the supervision of the Chilean Financial Market Commission or the obligations of continuous information.

Esta oferta se acoge a la norma de carácter general No. 336 de la Comisión para el Mercado Financiero. La oferta versa sobre valores no inscritos bajo la Ley de Mercado de Valores en el Registro de Valores o en el Registro de Valores extranjeros que lleva la Comisión para el Mercado Financiero, por lo que tales valores no están sujetos a la fiscalización de ésta. Por tratarse de valores no inscritos, no existe la obligación por parte del emisor de entregar en Chile información pública respecto de esos valores. Los valores no podrán ser objeto de oferta pública mientras no sean inscritos en el Registro de Valores correspondiente. El emisor de los valores no se encuentra inscrito en los Registros que mantiene la Comisión para el Mercado Financiero, por lo que no se encuentra sometido a la fiscalización de la Comisión para el Mercado Financiero ni a las obligaciones de información continua.

The securities described herein have not been registered under the Peruvian Securities Market Law (Decreto Supremo No 093-2002-EF) or before the Superintendencia del Mercado de Valores (the "SMV"). There will be no public offering of the securities in Peru and the securities may only be offered or sold to institutional investors (as defined in Appendix I of the Institutional Investors Market Regulation) in Peru by means of a private placement. The securities offered and sold in Peru may not be sold or transferred to any person other than an institutional investor unless such securities have been registered with the Registro Público del Mercado de Valores kept by the SMV. The SMV has not reviewed the information provided to the investor. This material is for the exclusive use of institutional investors in Peru and is not for public distribution.

The financial products described herein may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 of Bermuda. Additionally, non-Bermudian persons may not carry on or engage in any trade or business in Bermuda unless such persons are authorized to do so under applicable Bermuda legislation. Engaging in the activity of offering or marketing the financial products described herein in Bermuda to persons in Bermuda may be deemed to be carrying on business in Bermuda.

Vanguard does not intend, and is not licensed or registered, to conduct business in, from or within the Cayman Islands, and the interests in the financial products described herein shall not be offered to members of the public in the Cayman Islands.

The financial products described herein have not been and will not be registered with the Securities Commission of The Bahamas. The financial products described herein are offered to persons who are non-resident or otherwise deemed non-resident for Bahamian Exchange Control purposes. The financial products described herein are not intended for persons (natural persons or legal entities) for which an offer or purchase would contravene the laws of their state (on account of nationality or domicile/registered office of the person concerned or for other reasons). Further, the offer constitutes an exempt distribution for the purposes of the Securities Industry Act, 2011 and the Securities Industry Regulations, 2012 of the Commonwealth of The Bahamas.

This document is not, and is not intended as, a public offer or advertisement of, or solicitation in respect of, securities, investments, or other investment business in the British Virgin Islands ("BVI"), and is not an offer to sell, or a solicitation or invitation to make offers to purchase or subscribe for, any securities, other investments, or services constituting investment business in BVI. Neither the securities mentioned in this document nor any prospectus or other document relating to them have been or are intended to be registered or filed with the Financial Services Commission of BVI or any department thereof.

This document is not intended to be distributed to individuals that are members of the public in the BVI or otherwise to individuals in the BVI. The funds are only available to, and any invitation or offer to subscribe, purchase, or otherwise acquire such funds will be made only to, persons outside the BVI, with the exception of persons resident in the BVI solely by virtue of being a company incorporated in the BVI or persons who are not considered to be "members of the public" under the Securities and Investment Business Act, 2010 ("SIBA").

Any person who receives this document in the BVI (other than a person who is not considered a member of the public in the BVI for purposes of SIBA, or a person resident in the BVI solely by virtue of being a company incorporated in the BVI and this document is received at its registered office in the BVI) should not act or rely on this document or any of its contents.

Any person who receives this document in the BVI (other than a person who is not considered a member of the public in the BVI for purposes of SIBA, or a person resident in the BVI solely by virtue of being a company incorporated in the BVI and this document is received at its registered office in the BVI) should not act or rely on this document or any of its contents.

This document does not constitute an offer or solicitation to invest in the securities mentioned herein. It is directed at professional / sophisticated investors in the United States for their use and information. The financial products described herein are only available for investment by non-U.S. investors, and this document should not be given to a retail investor in the United States. Any entity responsible for forwarding this material, which is produced by VIGM, S.A. de C.V., Asesor en Inversiones Independiente in Mexico, to other parties takes responsibility for ensuring compliance with applicable securities laws in connection with its distribution.

Connect with Vanguard®

Vanguard®

© 2022 The Vanguard Group, Inc. All rights reserved.