aegon asset management

Case for income

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This latest article in our income opportunities series delves into the world of equities, explaining why we believe we are in a 'golden age' and examining the scale and variety of available dividends. We also discuss the traditional dividend-stronghold sectors and highlight some of the market's emerging equity players and payers.

Equity income: Offering the best of both worlds

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An equity allocation should be a key consideration for any income investor's toolkit. Sure, they could obtain a higher yield elsewhere, but historically, the total return from equities has comfortably outstripped bonds and alternatives.

This means that investors willing to look beyond short-term market fluctuations should not overlook this rich source of return for their portfolios.

Pulling their weight

Within equity markets, dividends form a vital component of long-term total returns. They accounted for around one-third of the total return of US equities between 1940 and 2020. With uncertainty and volatility increasing in the early part of this year, dividends are likely to play an increasingly important role, providing some stability and the potential to offset more variable price movements.

In addition, dividend-paying stocks are a vibrant and diverse crowd. Gone are the days when equity income was synonymous with deep value, ex-growth companies that returned hefty amounts of cash to shareholders because they had nothing better to do with it. The opportunity set is now wider than ever, meaning portfolios can offer a blend of exposures and greater flexibility across a range of market conditions.

Current trends

We have consistently stated over the past few years that we are in a 'golden age' for dividend investing, and that certainly remains the case, not only because of the size of distributions but also the scope.

Global dividends hit $1.75tr in 2024[1], the fourth consecutive year that they set an all-time record. That represented a 5.2% year-on-year increase, comfortably ahead of most developed nations' inflation rate, meaning payouts grew in real terms.

What will cheer many investors is the breadth of these dividends. Contributions to the overall amount and the year-on-year growth were well spread across sectors and regions. The US, China and Japan all registered record dividend payouts in 2024, with the latter a particularly interesting case.

1 Source: Janus Henderson Global Dividend Index, Edition 45, March 2025

The land of the rising dividend?

Corporate Japan has been on a journey of self-reflection following Tokyo Stock Exchange reforms announced in 2023, which aimed to boost capital efficiency and profitability, thereby unlocking shareholder value.

Japanese companies have long been notorious for tying up capital through complex cross-ownership structures and holding unnecessarily large cash piles. However, since the announcement of the reforms, there are tangible signs of these unwinding.

Japanese dividends increased approximately 15% in 2024, one of the highest growth rates of any major market. Moreover, the significant buyback activity that accompanied this signals a step change in attitudes towards shareholder returns and increased opportunities in a market that had fallen behind in income investors' considerations.

The club gains new members

2024 was also marked by notable contributions from several first-time payers that wouldn't have been considered obvious dividend candidates previously. Their admission to the dividends club not only demonstrates companies' willingness to return cash to shareholders but also the increasing diversity of the equity income universe.

Of these new players, three large tech firms stand out: Meta (owner of Facebook and Instagram), Alphabet (owner of Google) and Alibaba (Chinese e-commerce giant). Between them, they paid out over $15bn in dividends and announced share buybacks totalling many times that amount.

Tech takes the dividend torch

Big tech has typically favoured share buybacks over dividends, perhaps to avoid being perceived as 'ex-growth' by investors. But that reticence appears to be fading. While the balance is still skewed towards buybacks, these dividends are a sign of a shift and of these business models' huge free cash-flow generation.

These firms are not alone across the tech space. For example, Microsoft is the world's largest dividend payer. In its last financial year, the amount it returned to shareholders through dividends and buybacks exceeded the market cap of all but eight companies listed in the UK.

Admittedly, the yields on the stocks mentioned are not the highest, but they are perfect examples of what we call 'hoarders' – companies whose balance sheets and earnings provide the power to increase shareholder distributions significantly. Indeed, few sectors can match the pace of dividend growth in tech and tech-related areas lately. It is this growth and the ability to tap into mega-trends, such as artificial intelligence, which should excite dividend investors.

The reliable old friend

While tech is a relatively new area for dividends, the financials sector has long been a core part of an income investor's toolkit, serving as a reliable source of higher yields. Theory suggests that higher yields typically come with less dividend growth. However, financials have bucked that trend recently, with the sector responsible for around half of global dividend growth in 2024.

With interest rates elevated and signs of capital market activity rebounding after a tough period, banks and insurers are generating bumper profits and implementing generous shareholder return policies. For example, US giant JPMorgan announced a 12% increase to its quarterly dividend. In Europe, Allianz's upcoming dividend will be 11.6% higher than last year's. Closer to home, NatWest's dividend increased 26.6% last year, while in Asia, DBS' 2024 payout rose 28.7% year-on-year.

These growth rates won't last forever, but the financials sector is firing on all cylinders at the moment and will always be an attractive source of yield for equity income investors.

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Blending the opportunities

This whistlestop tour of the dividend landscape illustrates the fantastic prospects for income investors. Happily, they no longer need to rely on low-beta, deep-value sectors doing well to outperform.

Keeping up with market rallies hasn't always been easy for dividend strategies. However, gaining exposure to areas like tech can offer higher beta and the opportunity to keep pace with rising markets, as well as the potential to capture growing income streams.

At the same time, combining tech with more traditional sectors such as financials, where yields are higher, can help investors achieve a balanced portfolio and benefit from the best of both worlds – dividend yield and dividend growth.

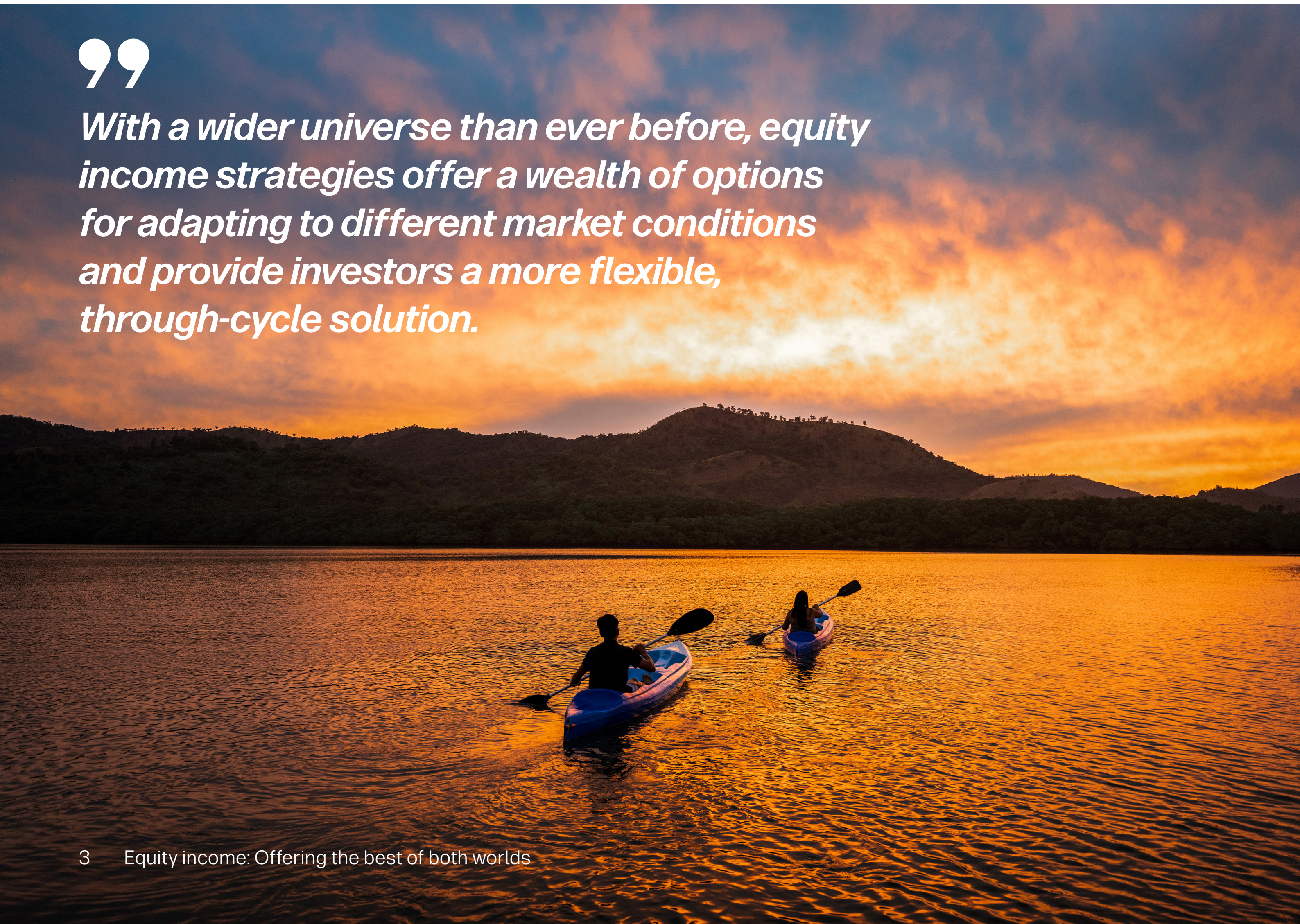
Expansive income horizons

With a wider universe than ever before, equity income strategies offer a wealth of options for adapting to different market conditions and provide investors a more flexible, through-cycle solution.

The golden age of income investing continues.

In this unpredictable market landscape, income-focused solutions can help investors chart a course towards greater stability, more resilient portfolios and long-term financial confidence.

To find out more
aegonam.com/case-for-income



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