



DIVIDEND ASSETS CAPITAL, LLC

INVESTMENT ADVISORS

DAC Insights: Relying on Dividend Growth In A Recession

DIVIDEND ASSETS CAPITAL – INVESTMENT STRATEGIES FOR RISING INCOME & GROWTH

“You never know how strong you are until being strong is the only choice you have.” Bob Marley

WHY ARE STOCKS DOWN SO MUCH IN 2022?

Headwinds to the equity markets:

- Inflation surging to 40-year highs;
- Global supply chains broken by a pandemic;
- Ubiquitous labor shortages; and
- Full-scale military invasion of Ukraine by Russia.

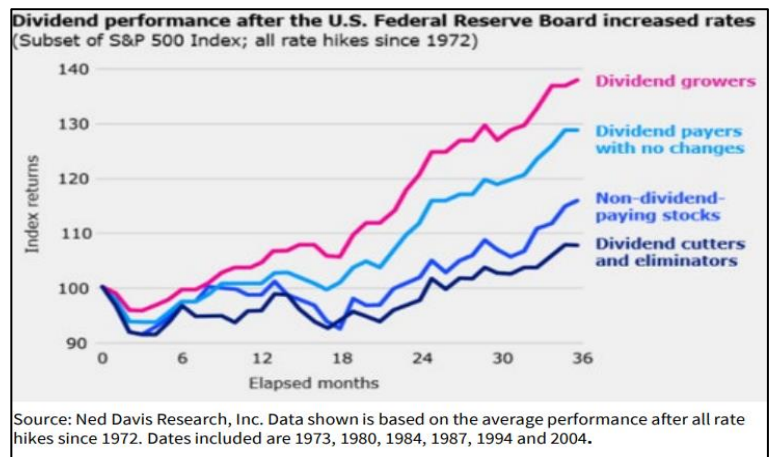
The Federal Reserve has started to raise interest rates to combat inflation, but the uncertainty around the efficacy of its plan is translating into rising fears of a growth recession and/or a bear market for stocks amidst the current correction. As of 5/23/2022, the S&P 500 is down 16.1% and the technology heavy Nasdaq is down 28.4% year-to-date.

WHAT COMPANIES CAN WEATHER THE STORM?

According to research published by Heartland Advisors(1), there have been 46 bear markets and recessions in the last 92 years. They analyzed performance of non-dividend paying stocks versus dividend paying stocks. The results show that non-dividend payers declined, on average, just over 28% during these market downturns. Comparatively, all dividend payers outperformed the non-dividend payers in every market drawdown.

Outside of a recession, the fact remains that the environment is one of rising Federal Funds rates and the highest inflation in over 40 years. Even if a recession is avoided going forward, a strategy of dividend growth stocks can be relied on for outperformance in these two environments.

Dividend growth stocks outperform in rate hiking cycles



Inflation favors dividend growth stocks.

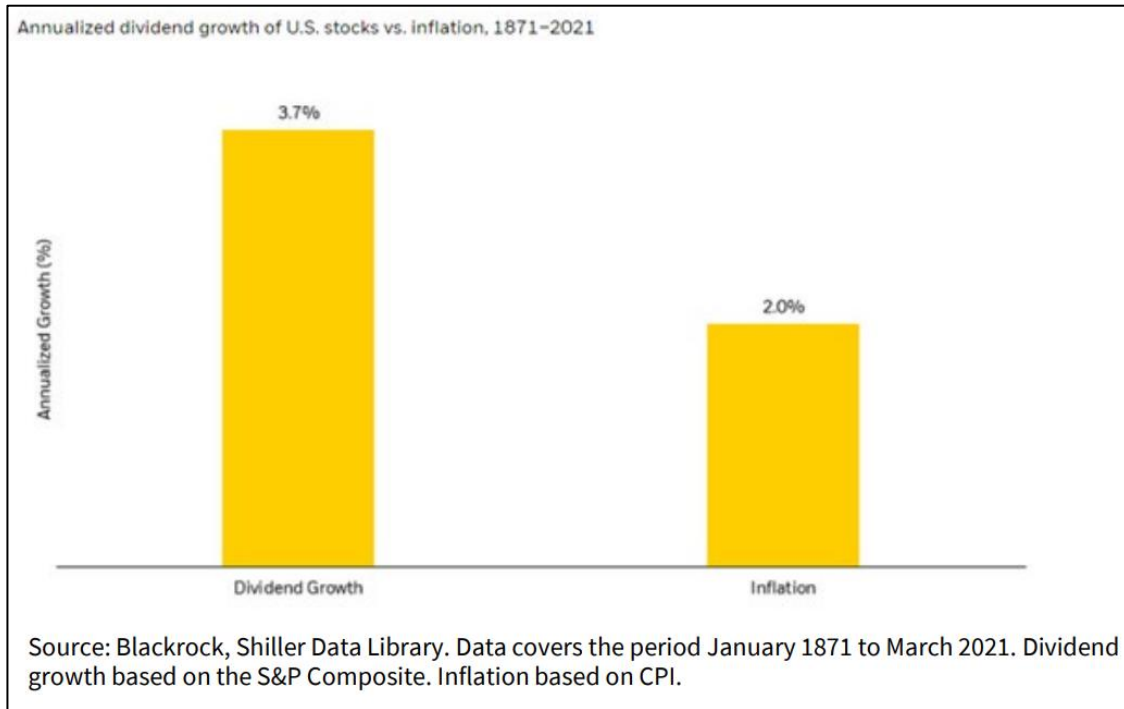
Returns by Dividend Category (1972-2018)

Inflation Condition	Dividend Growers	All Payers	No Change	Dividend Cutters
Low (<2%)	16.9%	17.4%	15.6%	10.6%
Moderate (2-4%)	11.1%	9.8%	7.6%	0.5%
High (over 4%)	7.1%	6.3%	5.2%	-0.9%

Source: Ned Davis Research, Washington Crossing Advisors.

DIVIDEND GROWTH HISTORICALLY OUTPACES INFLATION.

- Dividend payments themselves are a good hedge against inflation.
- Data going back to 1871 shows dividend growth has outpaced levels of inflation.
- U.S. stocks have grown dividends at an annualized rate of 3.7% versus a long-term inflation rate of 2.0%.



¹“The Case for Dividend Payers.” February 2020. ©2020 Heartland Advisors. <https://www.heartlandadvisors.com/Insights/White-Papers/The-Case-for-Dividend-Payers>) and data from Kenneth R. French and the US Stock Database ©2020 Center for Research in Security Prices (CRSP))

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Clarity: A transparent and understandable approach to portfolio management.

Simplicity: We believe dividends are the best indicator of the future price performance of a stock.

Devotion: We build confidence through a disciplined process and strong devotion to our investment philosophy and clients.



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