Market Commentary Blog

# Cash Flow *and Carey*


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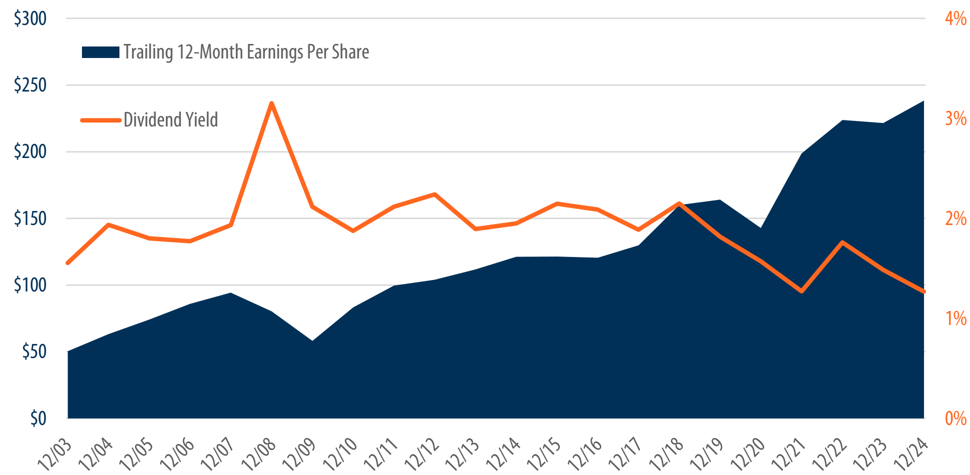
## Even More Room For Dividend Growth

### S&P 500 Index Earnings vs. Yield




Source: Bloomberg. Annual data points from 12/31/2003 – 12/31/2024. Q4'24 trailing 12-month earnings per share are estimates. **Past performance is no guarantee of future results.**

### View from the Observation Deck

Dividend payments have been a key characteristic of most of the companies that comprise the S&P 500 Index ("Index") for decades. In fact, as of 12/31/24, 407 of the 503 companies that comprise the Index paid a dividend. That figure is little changed from 1998, when 418 companies in the Index paid dividend distributions to shareholders. For today's discussion, we set out to explain the fundamental relationship between dividends and earnings, and to determine if the recent record-high earnings in the Index have translated into higher yields.

**The companies that comprise the Index distributed a record $630 billion in dividends in 2024 (preliminary data), up from $565 billion and $588 billion in 2022 and 2023, respectively. Despite record distributions, the dividend yield of the S&P 500 Index has been trending downward (see chart).**

As of 12/31/24, the yield on the Index stood at just 1.27%, down from 1.49% and 1.76% at the end of 2023 and 2022, respectively. For comparison, the yield on the Index averaged 1.90% over the full period captured in today's chart.

**The Index's earnings are estimated to surge from $243.12 in 2024 to $273.23 in 2025 (as of 1/10/25).**

Given that dividends are paid from profits, a company's ability to increase its earnings plays a crucial role in assessing its capacity to maintain (or grow) its dividend payout. From our perspective, the consistent, long-term pattern of earnings growth revealed in today's chart, combined with the continued decline in the Index's yield, indicates that the environment is ripe for continued dividend growth.

**The S&P 500 Index's dividend payout ratio is currently well-below average.**

As many investors are likely aware, the dividend payout ratio measures the percentage of earnings that are paid to shareholders in the form of dividends. The Index's dividend payout ratio stood at just 37.28% on 12/31/24. For context, the Index's dividend payout ratio averaged 41.80% (monthly basis) over the period captured in today's chart.

### Takeaway

Dividends have played an indispensable role in equity valuations for many decades. As noted above, the combination of low current yields, record-high earnings, and a below-average dividend payout ratio may be an indication that conditions are conducive to near-term dividend growth for the Index. In our last post on this topic (click here) we noted that companies will often hoard cash as recessionary pressures mount. Given strong recent economic data, we find that scenario to be less likely now than it was then. That said, dividends are just one of the ways companies return profit to shareholders. Another is stock buybacks. The most recent data from S&P Dow Jones Indices reveals that S&P 500 companies announced a total of $699.3 billion in share repurchases over the first three quarters of 2024, up from $576.1 billion over the same period in 2023.