

# CORNERSTONE MACRO

Economics, Policy, Strategy & Technicals

## Portfolio Insights

### BEWARE OF DIVIDEND YIELD TRAPS

With the recent plunge in bond yields, the spotlight is back on dividend stocks. While many are taught that dividend stocks are inherently defensive thanks to the total-return “cushion,” the reality is anything but ... dividend stocks are far more cyclical and riskier than most realize. In today’s backdrop of slowing growth and rising global risks, avoiding cyclicality is paramount. In the report today, we provide a framework and stock screen to help investors identify the most defensive, and stable, dividend payers for a rocky road ahead.

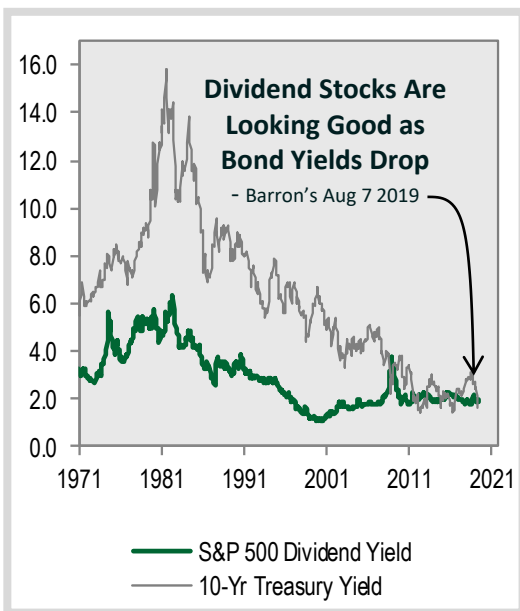
*Today’s Backdrop:*  
**The Hunt For Yield**

*The Fallacy:* ✗  
**Dividend Stocks Are Defensive**

*The Reality:*  
**Dividend Stocks Are Risky**

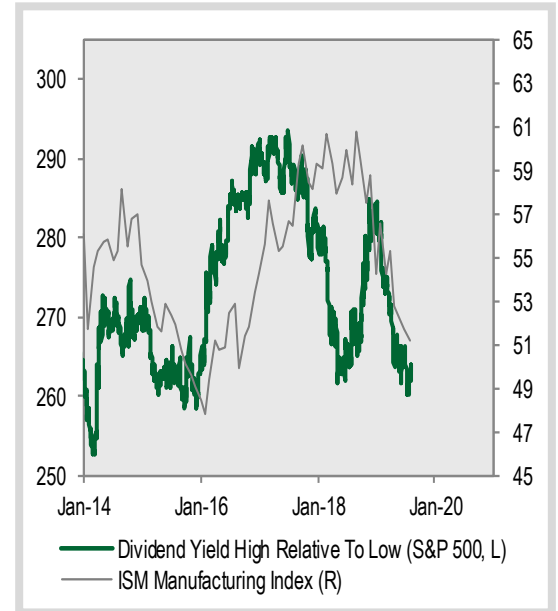
Investors Often Think Of Dividend Strategies As Being Inherently Defensive ...

Thinking High Yielding Equities Are Safe Can Be Dangerous



“Dividend stocks are an oft-cited investment strategy for enhancing total portfolio returns.

They provide a steady income component and act as a safeguard, through lower volatility, during market downturns.”  
- [IHS Market August 2019](#)



Low Rates Have Made Equities An Attractive Alternative To Bonds

... Dividend Yield As A Factor Is Much More Cyclical Than Many Realize

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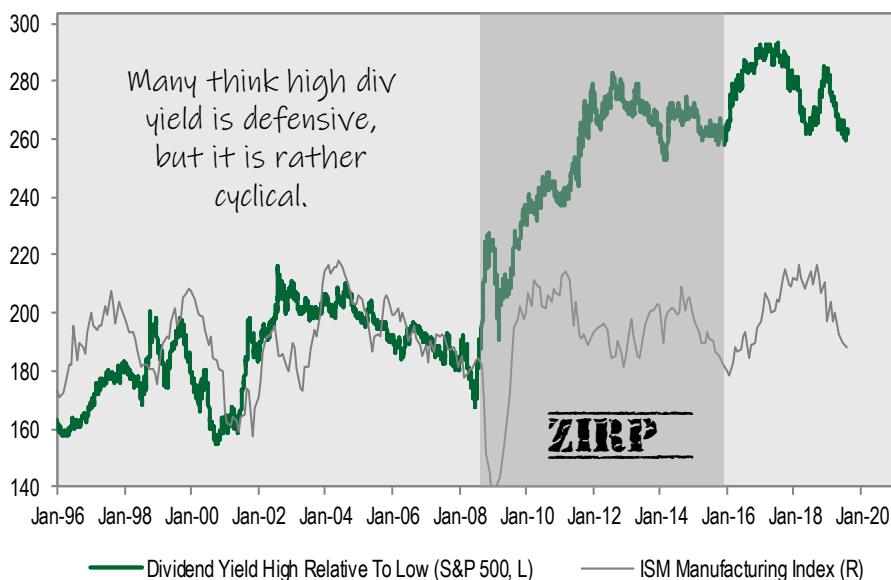
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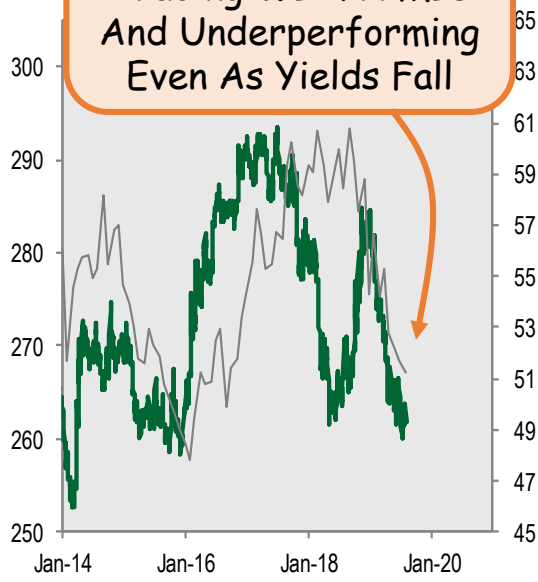
## DIVIDEND YIELD IS HIGHLY CORRELATED WITH OTHER CYCLICAL FACTORS

During the ZIRP period, the structural case for high dividend payers was so compelling that high dividend became the top-performing factor for many years. Outside of that period, dividend yield as a factor has historically trended in a cyclical fashion alongside PMIs and other value factors (i.e. High Earnings Yield, High Sales Yield, etc.). The end of ZIRP has meant a return of the cyclical nature of high dividend yield.

### Outside OF ZIRP, High Dividend Yield Is A CYCLICAL Factor



Post-ZIRP, High Dividend Yield Is Again Trading WITH PMIs And Underperforming Even As Yields Fall



During ZIRP, Dividend Yield's Returns Deviated From Other Cyclical Factors

Below we show the correlation of high dividend yield's returns with a variety of other factors. Excluding the ZIRP period, high dividend yield has a **high** correlation with cyclical and valuation factors and a **low or negative** correlation with growth and defensive factors.

### Dividend Yield Is Most Highly Correlated With Valuation/Cyclical Factors

**POSITIVE CORRELATION WITH CYCLICAL FACTORS**

**LOW/NEGATIVE CORRELATION WITH GROWTH & DEFENSIVE FACTORS**

Correlation With Div Yield:	90-'94	95-'99	00-'04	05-'09	10-'14	15 - '19
High Cash Flow Yield	0.30	0.50	0.44	0.51	0.07	0.50
High Sales Yield	0.18	0.37	0.26	0.36	-0.36	0.48
EBITDA to Enterprise Value	0.42	0.53	0.47	0.34	0.20	0.45
High Debt to Equity	0.04	0.20	0.42	0.36	-0.21	0.29
High Earnings Variance	0.21	0.13	0.38	0.35	0.60	0.11
High ROA	-0.12	-0.13	0.07	-0.30	0.50	-0.13
High Gross Margin	0.00	-0.03	-0.01	-0.16	0.33	-0.14
High Sales Growth	-0.41	-0.67	-0.71	-0.53	-0.28	-0.60
High Long-Term Growth	-0.26	-0.27	-0.60	-0.72	-0.64	-0.75

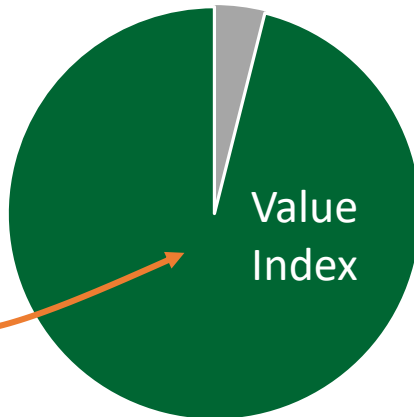
Div Yield Separated From Other Cyclical/Valuation Factors During ZIRP



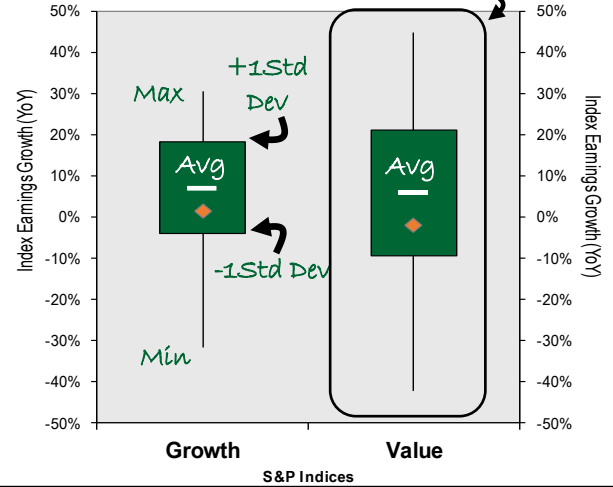
**MOST HIGH DIVIDEND PAYERS ARE IN THE VALUE INDEX WITH VERY CYCLICAL EARNINGS**

Style Breakdown (% Overlap) Of Highest S&P 500 Dividend Payers

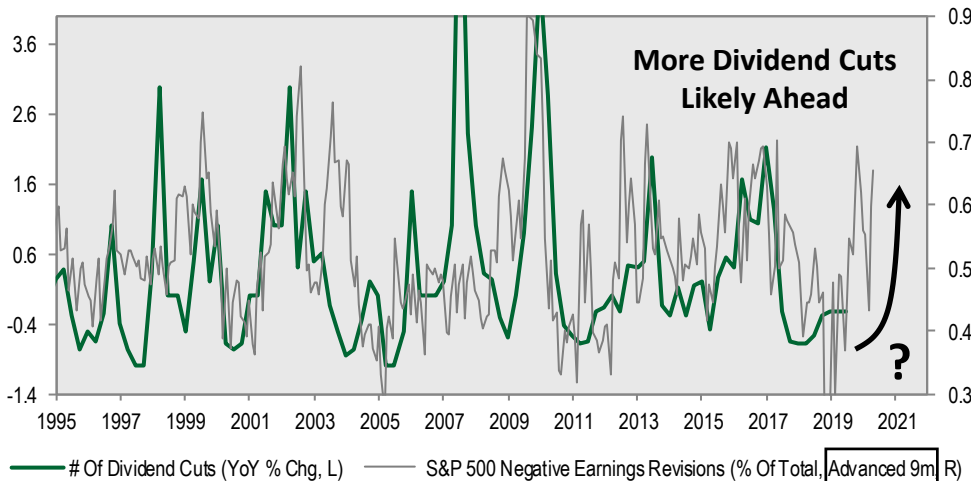
96% of the 100 highest dividend yielding stocks in the S&P 500 are also in the Value Index.



Value EPS Tend To Be More Cyclical Than Growth EPS



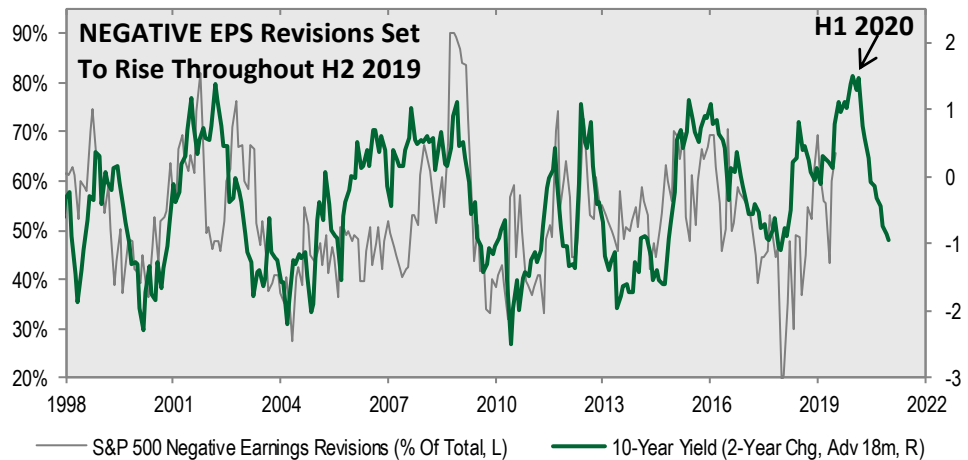
**When Growth Prospects/EPS Come Under Pressure ... You Get Dividend Cuts**



Dividend Cuts Likely To Rise On The Heels Of A Weakening EPS Backdrop

**We Are Likely To See More And More Negative EPS Revisions Until 2020**

EPS Expectations Likely To Continue Decelerating Until Mid-2020

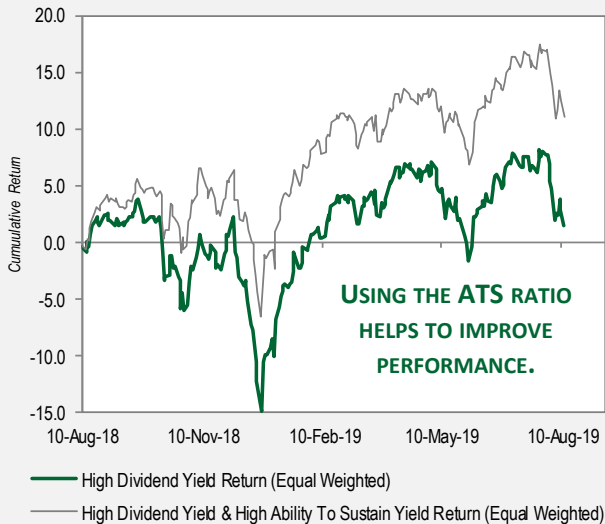


**A FRAMEWORK FOR IDENTIFYING DEFENSIVE DIVIDEND PAYERS WHEN GROWTH SLOWS**

**A Sustainable Dividend**

Stocks with a high dividend yield **and** a high ATS Ratio have consistently outperformed those with a high dividend yield alone. Considering a stock's ATS Ratio is crucial, as it reveals the company's ability to maintain its dividend payouts in the future.

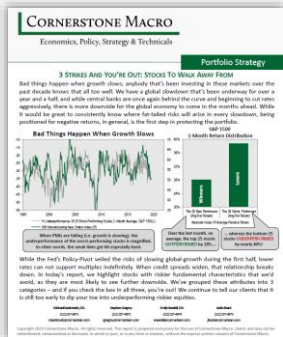
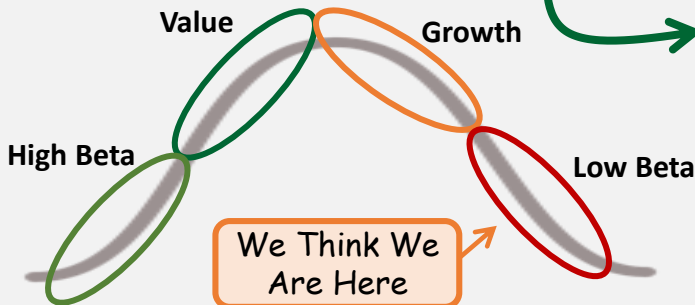
$$\text{Ability-To-Sustain Ratio} = \frac{\text{Cash Flow} - \text{Preferred Dividends} - \text{CAPEX}}{\text{Common Dividends}}$$



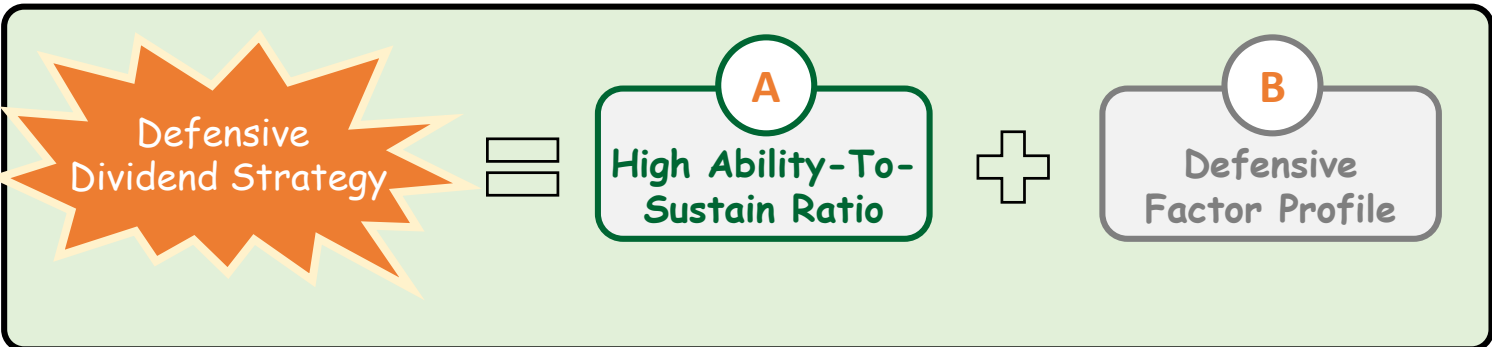
**B Defensive Factor Profile**

Stay defensive! We continue to expect global growth to slow throughout this year and into mid-2020. That means that it is in your best interest to avoid cyclicals and stick with a defensive strategy until there's a steady pick-up in PMIs.

Stay Defensive: See Our [Report](#) From August 8<sup>th</sup> For a More In-Depth Breakdown of Strategies, Sectors, and Factors To Consider



**Putting It All Together ... A Dividend Strategy For A Defensive Backdrop**



## AVOIDING DIVIDEND TRAPS: OUR MODEL FOR FINDING DEFENSIVE DIVIDENDS

Below is a stock screen for investors who are looking for defensive dividend income. The screen looks for stocks with a high dividend yield, that have a high ability-to-sustain ratio while having a low beta. We included the option to see how each stock fared in past drawdowns. Note that the screen is sector-adjusted, so the top-ranking stocks in **each** sector will receive a score of 1. **(Note: Our favorite sectors for the current backdrop are RE,UTL,STA, and HLC).** For the full model, email us at [quant@cormacteam.com](mailto:quant@cormacteam.com).

### AVOIDING A DIVIDEND THAT'S HERE TODAY AND GONE TOMORROW

S&P 500 Dividend Payers (8% Yield Cap)  
 Calculations As Of: 08/13/2019  
 Lower Values (i.e. 1's) Are More Attractive: All Ranks Are Sector

Select For ATS Detail

Defensive Dividend Ranks (Top Decile Sector Neutral)

Defensive Dividend Ranks For Each Name

Symbol	Company Name	Dividend Yield	Ability-To-Sustain Yield Ratio (Decile Rank)	High Dividend Yield (Decile Rank)	Low Beta (Decile Rank)	Defensive Dividend Score (Decile Rank)	Benchmark**	Relative Return: Sept '18 (-19.8%)
IRM	Iron Mtn Inc New	7.9%	9	1	7	7		8%
IVZ	Invesco Ltd	7.7%	10	1	9	9		-15%
OXY	Occidental Pete Corp	7.1%	5	2	2	1		-7%
HP	Helmerich & Payne Inc	7.0%	6	1	8	5		-12%
MO	Altria Group Inc	6.8%	9	1	2	1		-3%
ABBV	Abbie Inc	6.6%	8	1	6	4		12%
NLSN	Nielsen Hldgs Plc	6.6%	7	1	2	1		2%
F	Ford Mtr Co Del	6.5%	3	1	7	1		-1%
WMB	Williams Cos Inc Del	6.4%	6	1	8	5		-6%
KHC	Kraft Heinz Co	6.0%	1	1	10	8		-5%
DOW	Dow Inc	6.0%	2	1	10	9		7%
KIM	Kimco Rlty Corp	5.9%	1	1	7	1		3%
T	At&T Inc	5.9%	4	1	7	1		-22%
SLB	Schlumberger Ltd	5.8%	4	2	10	9		2%
NWL	Newell Brands Inc	5.7%	9	1	6	3		15%
PPL	Ppl Corp	5.6%	5	1	10	2		-4%
LYB	Lyondellbasell Industries N	5.6%	7	1	5	4		-5%
STX	Seagate Technology Plc	5.5%	9	1	10	9		2%
PM	Philip Morris Intl Inc	5.4%	9	1	10	8		-17%
WY	Weyerhaeuser Co	5.4%	10	1	10	9		10%
GPS	Gap Inc	5.4%	9	1	2	2		4%
LB	L Brands Inc	5.3%	8	1	2	1		-2%
KSS	Kohls Corp	5.3%	4	1	5	3		10%
SPG	Simon Ppty Group Inc New	5.3%	6	1	6	1		-17%
WRK	Westrock Co	5.3%	6	1	9	5		-32%
COTY	Coty Inc	5.2%	6	1	5	6		-7%
JWN	Nordstrom Inc	5.1%	2	1	7	1		-15%
TPR	Tapestry Inc	5.1%	7	1	7	3		-10%
IP	Intl Paper Co	5.0%	7	2	7	5		-5%
OKE	Oneok Inc New	5.0%	1	1	2	3		-2%
XOM	Exxon Mobil Corp	4.9%	5	2	2	1		2%
KMI	Kinder Morgan Inc Del	4.9%	5	3	1	1		22%
D	Dominion Energy Inc	4.9%	3	1	6	1		-4%
HST	Host Hotels & Resorts Inc	4.8%	1	2	10	2		-6%
PRU	Prudential Finl Inc	4.8%	1	1	8	1		-3%
PBCT	Peoples Utd Finl Inc	4.8%	9	1	6	5		-8%
IBM	International Business Mach	4.8%	9	1	7	6		-9%
HBAN	Huntington Bancshares Inc	4.7%	7	1	8	5		-17%
VLO	Valero Energy Corp New	4.6%	3	3	8	3		-24%
APA	Apache Corp	4.6%	8	3	9	7		8%
IPG	Interpublic Group Cos Inc	4.5%	5	1	5	1		-13%
KEY	Keycorp New	4.5%	4	1	6	1		-13%
MPC	Marathon Pete Corp	4.5%	2	4	9	5		22%
VTR	Ventas Inc	4.4%	7	2	3	1		-9%
HOG	Harley Davidson Inc	4.4%	3	2	8	3		-1%
WFC	Wells Fargo Co New	4.4%	7	1	4	1		5%
TAP	Molson Coors Brewing Co	4.4%	1	2	8	1		23%
HCP	Hcp Inc	4.4%	8	3	2	2		-1%
SLG	Sl Green Rlty Corp	4.4%	6	3	10	8		-10%
CCL.U	Carnival Corp	4.4%	9	2	6	6		-10%
RF	Regions Finl Corp New	4.3%	4	1	9	2		-15%

Factor Ranks For Each Stock

View Performance During Previous Drawdowns

Abridged List For The Full Rankings From This On Another Universe Please Email [quant@cormacteam.com](mailto:quant@cormacteam.com)

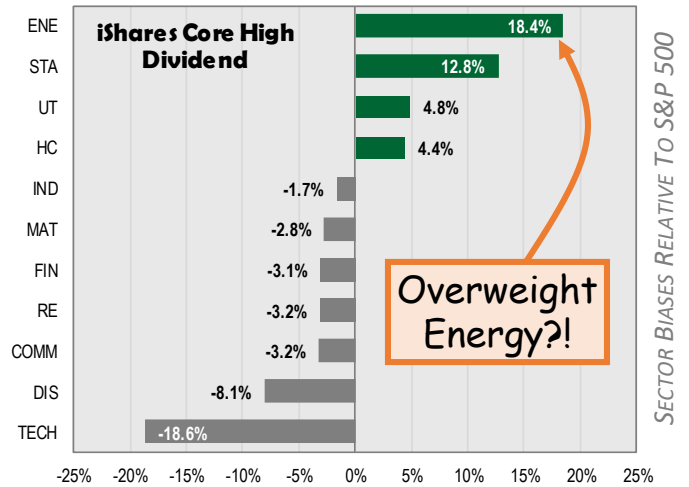
## BE AWARE OF WHAT YOU ARE GETTING WITH DIVIDEND ETFs

The five major dividend ETFs house over \$100 billion worth of assets! Buyer beware—when you look under the hood, you’ll discover that there are some significant sector biases in these ETFs. This may come as a surprise to many investors!

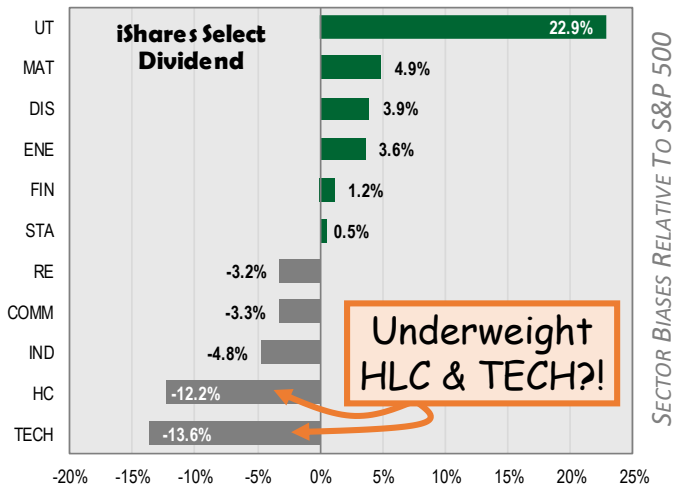
Ticker	Name	Price	Avg Daily \$ Vol	Assets
VIG	Vanguard Dividend Appreciation	115.62	\$ 97,748,815	\$ 36,733,484,864
VYM	Vanguard High Dividend Yield	85.25	\$ 74,196,117	\$ 24,632,073,171
DVY	iShares Select Dividend	96.53	\$ 38,855,758	\$ 17,093,034,880
HDV	iShares Core High Dividend	92.07	\$ 32,029,804	\$ 7,197,428,700
SDY	SPDR S&P Dividend	98.35	\$ 50,974,678	\$ 18,358,831,318

The Five Major Dividend ETFs House Over \$100 Billion Worth Of Assets! A Quick Analysis Shows That There Are Significant Sector Biases At Play.

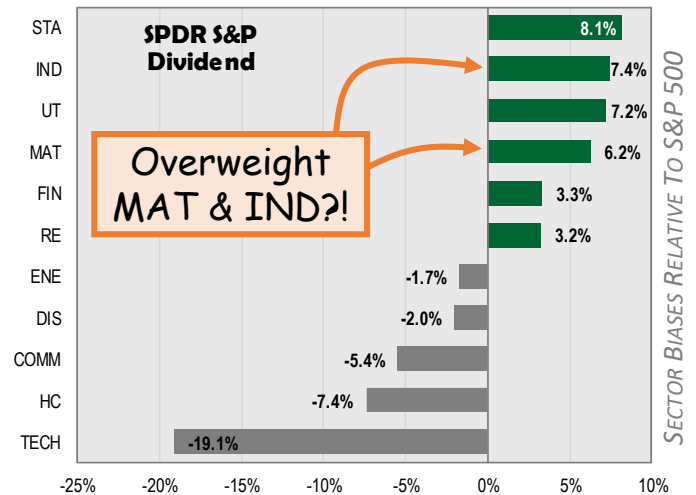
HDV



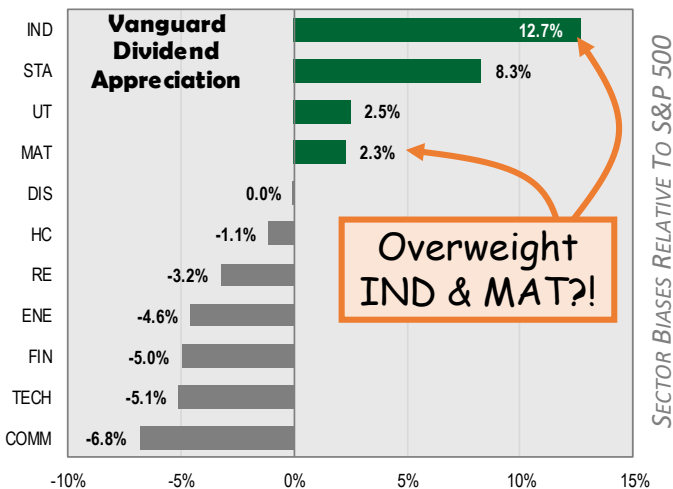
DVY



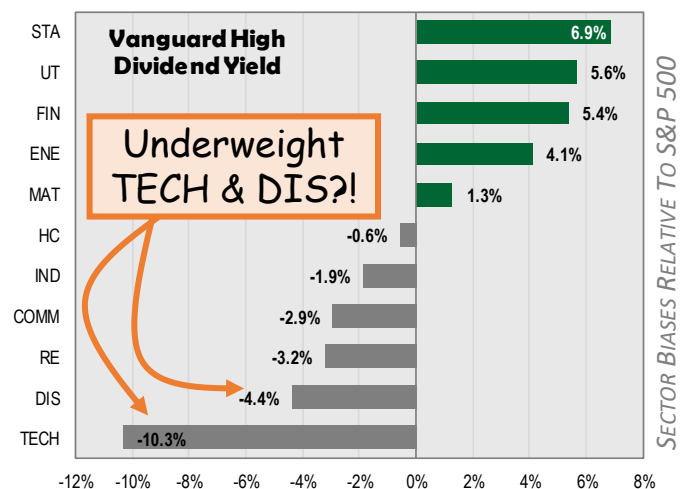
SDY



VIG



VYM



**DIVIDEND ETFs LOOK A LOT LIKE SECTOR ETFs**

