Bristol Gate
Dividend Report 2024

As of September 30, 2024

BRISTOLGATE
CAPITAL PARTNERS

The Dividend Information You Need, From Those Who Know It

Throughout the 12-month period ending September 30, 2024, there were 402 dividend payers in the S&P 500®, delivering a median dividend growth rate of 6%. In the same period, we saw 14 S&P 500® companies cut their dividends. Within this report we explore both rising and falling interest rate environments, and the impact this has on dividend paying stocks.

DIVIDEND STATISTICS FOR THE US AND CANADIAN MARKETS THROUGH JANUARY 1ST - SEPTEMBER 30TH, 2024

S&P 500® Dividend Statistics	
Total Dividend Payers	402
Median Dividend Growth	6%
Dividend Cutters	14
Dividend Maintainers	66
Dividend Growers	316
Dividend Suspenders	1
Inadequate # of Payments (<2yrs)	6
Median Grower Dividend Growth	7%

S&P/TSX Dividend Statistics	
Total Dividend Payers	172
Median Dividend Growth	5%
Dividend Cutters	8
Dividend Maintainers	42
Dividend Growers	121
Dividend Suspenders	0
Inadequate # of Payments (<2yrs)	1
Median Grower Dividend Growth	7%

Source: Bristol Gate Capital Partners, Bloomberg. Data from January 1, 2024 - September 30, 2024

CASE STUDY – NAVIGATING INTEREST RATE CHANGES

Stanley Druckenmiller once said, “Earnings don’t move the overall market; it’s the Federal Reserve Board.” When you look at the market with a short-term lens, the impact of interest rates and liquidity are magnified. As long-term investors, we believe earnings and dividends are key drivers of return over time. However, we acknowledge it is important to understand how stocks behave in different interest rate environments.

As the Federal Reserve has commenced a new rate cutting cycle this September with a significant 50 basis point cut, we examined the performance of dividend stocks in different rate environments.

Historically, stocks tend to do well after interest rate cuts, particularly if a recession doesn’t follow. When the Federal Reserve cuts rates, borrowing becomes cheaper, which can stimulate the economy. At the same time, lower rates tend to benefit equity valuations since risk-free returns are less attractive. Investors are now incentivized to take on increased equity risk if they want to improve, or even just maintain, their returns.

Two areas of the market are often cited as potential outperformers during rate cut cycles: high-yielding stocks and growth stocks. High-yielding stocks attract investors by offering an appealing income alternative as interest rates decline. Growth stocks, on the other hand, become more appealing as their future cash flows are discounted at lower rates, and they gain access to cheaper financing, which can drive expansion for companies with strong growth potential.

When interest rates are rising, borrowing costs increase, which can lead to a slowdown in spending by businesses and consumers. Companies which are more dependent on economic growth, or which are more impacted by higher borrowing costs, are cited as underperformers in these environments. As one might expect, higher risk-free returns now have the opposite impact on equity valuations, as their gravity-like effect brings valuations back down to earth as investors can afford to take less risk.

Below, we look at how different types of dividend stocks performed around the most recent falling rate and rising rate environments. While each of these periods was unique, we think the drivers of performance are relevant as we look forward. We also think strategies that offer performance through all parts of the cycle are more likely to deliver for clients over the long term. The groups of dividend stocks are categorized based on the following criteria, with the S&P 500® constituents serving as the universe:

Cutters: Dividend-paying stocks that will cut their dividend during the calendar year.

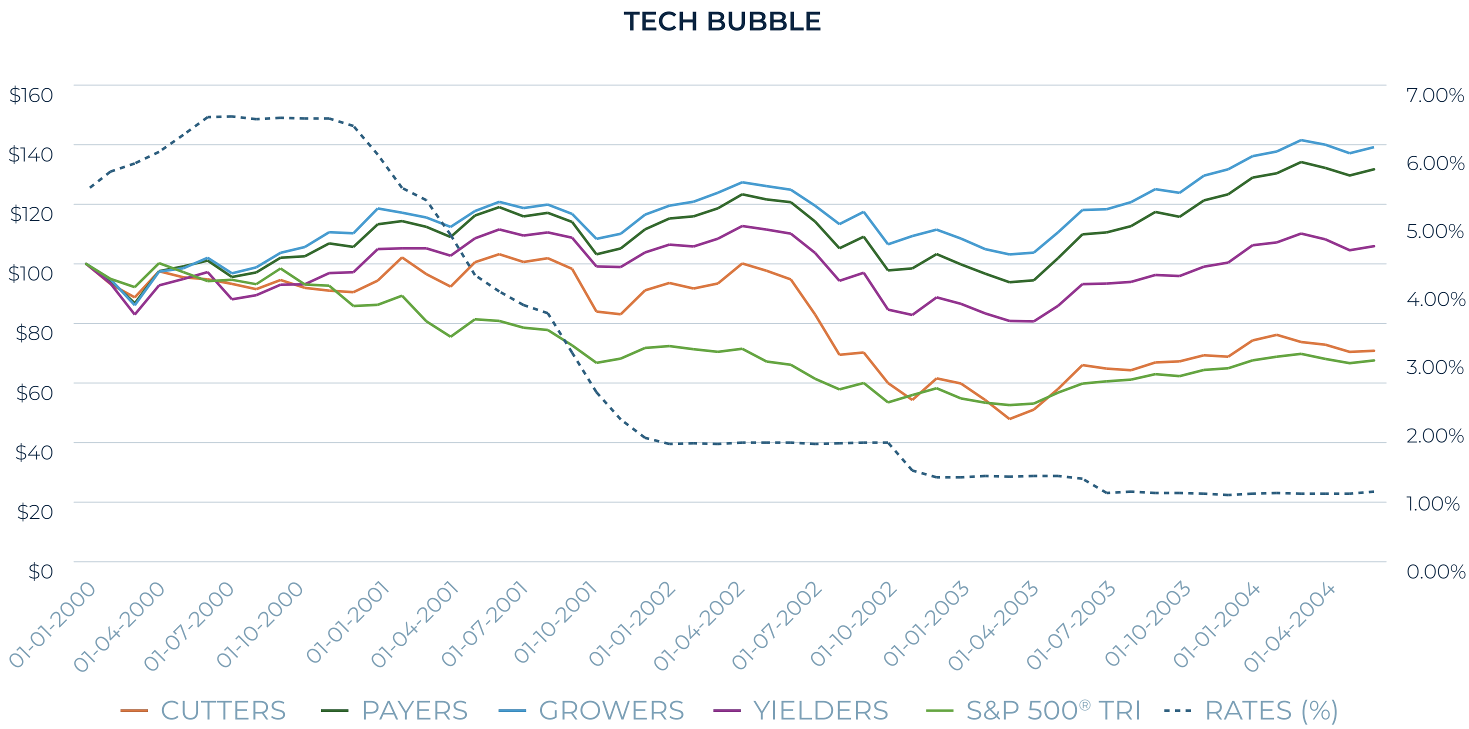
Payers: Stocks that will pay a dividend during the calendar year.

Yielders: Dividend-paying stocks whose 12-month yield during the calendar year will be higher than the S&P 500® market-cap-weighted average yield.

Growers: Dividend-paying stocks that will increase their dividend during the calendar year.

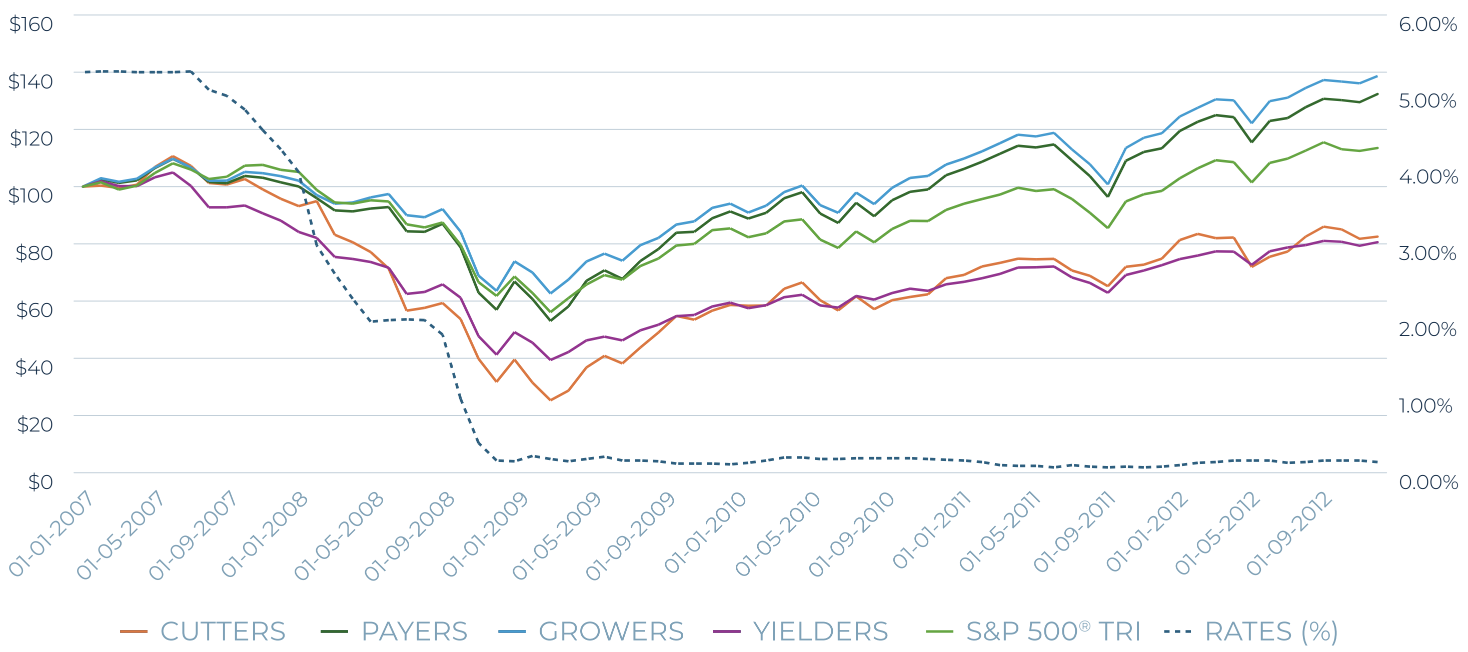
All portfolios are constructed on January 1st of each calendar year using perfect foresight of dividend actions that will occur during that year. This approach is employed to analytically isolate and understand the direct impact of dividend actions on stock performance. For reference, we are showing the Federal Funds Effective Rate as the relevant interest rate. For each of the portfolios, we are showing the growth of $100 throughout the period to illustrate performance.

FALLING RATE ENVIRONMENTS



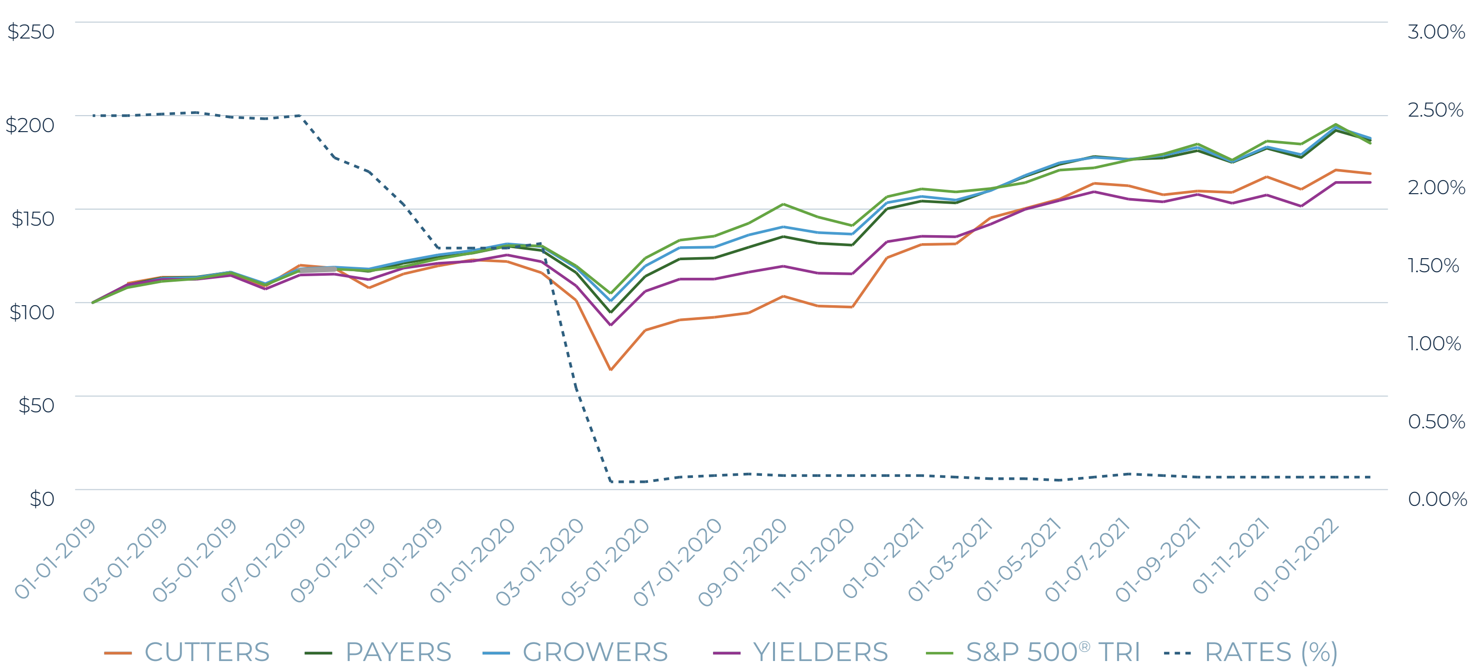
Source: Bloomberg, Bristol Gate. Data from January 1, 2000 – June 1, 2004

GLOBAL FINANCIAL CRISIS



Source: Bloomberg, Bristol Gate. Data from January 1, 2007 – December 31, 2012

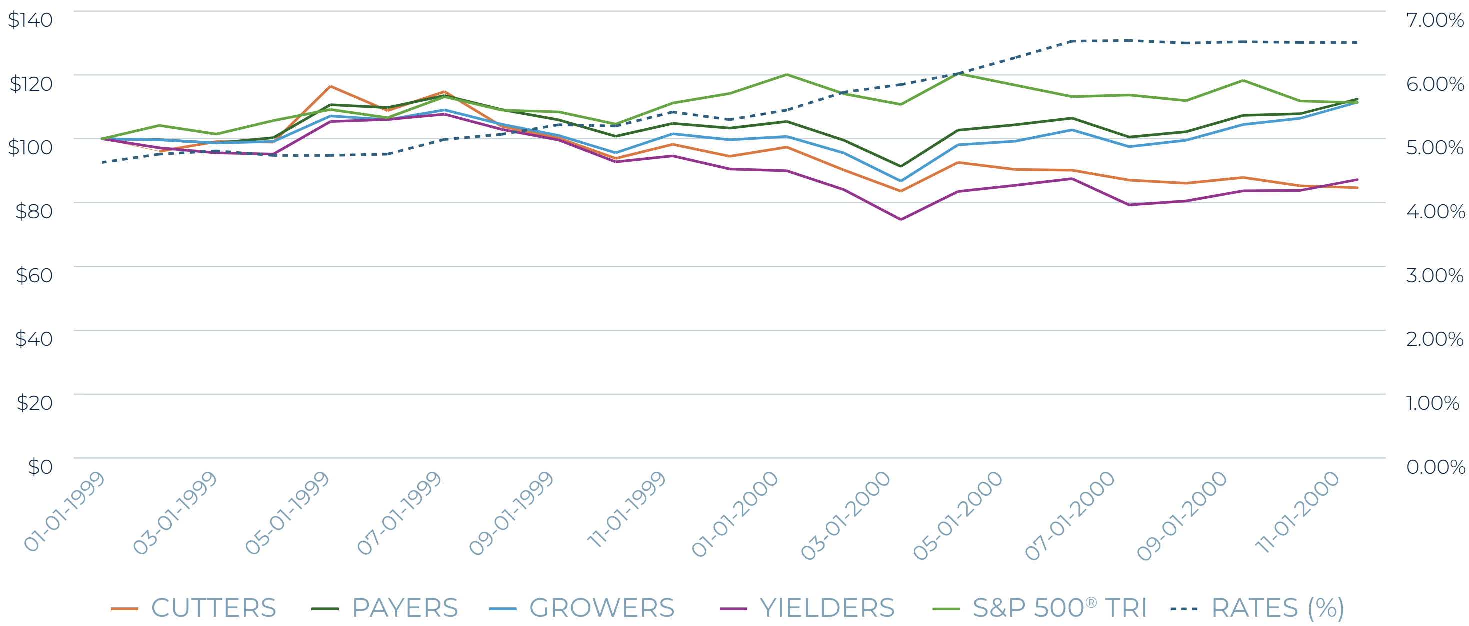
COVID-19 PANDEMIC



Source: Bloomberg, Bristol Gate. Data from January 1, 2019 – February 1, 2022

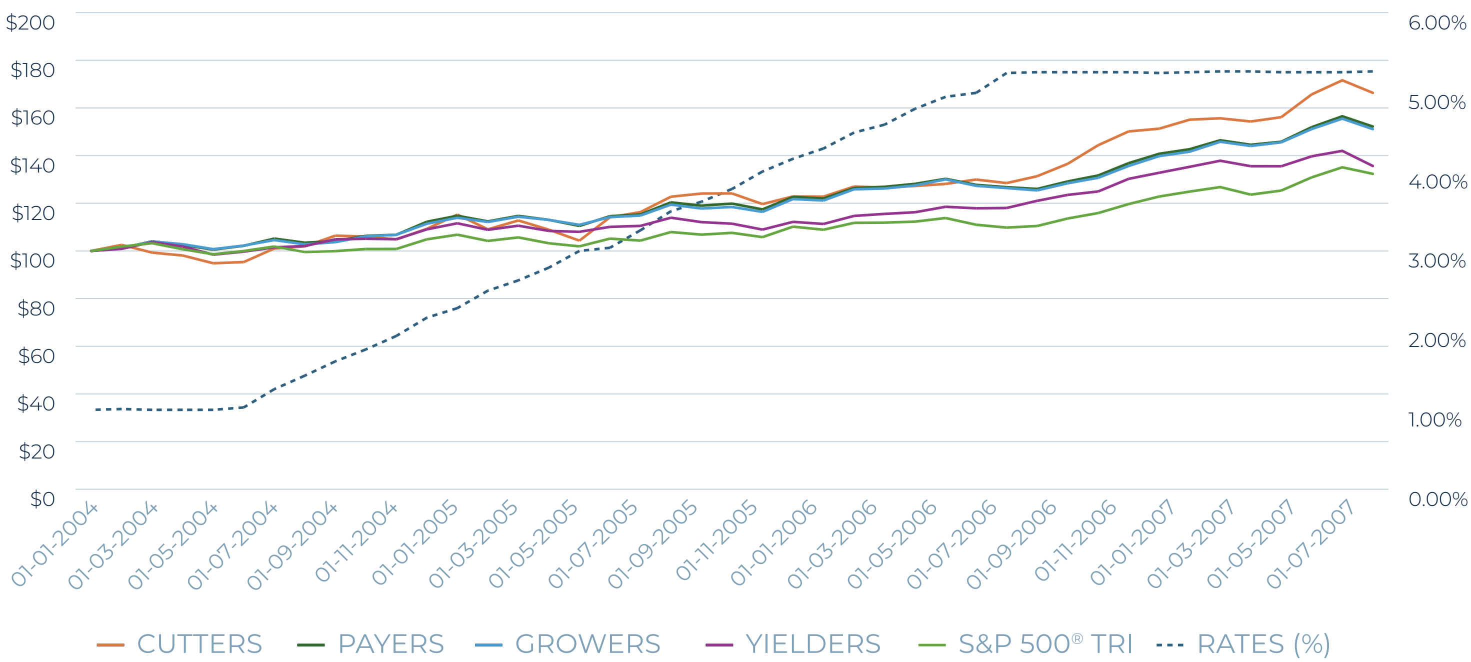
RISING RATE ENVIRONMENTS

PRE TECH BUBBLE



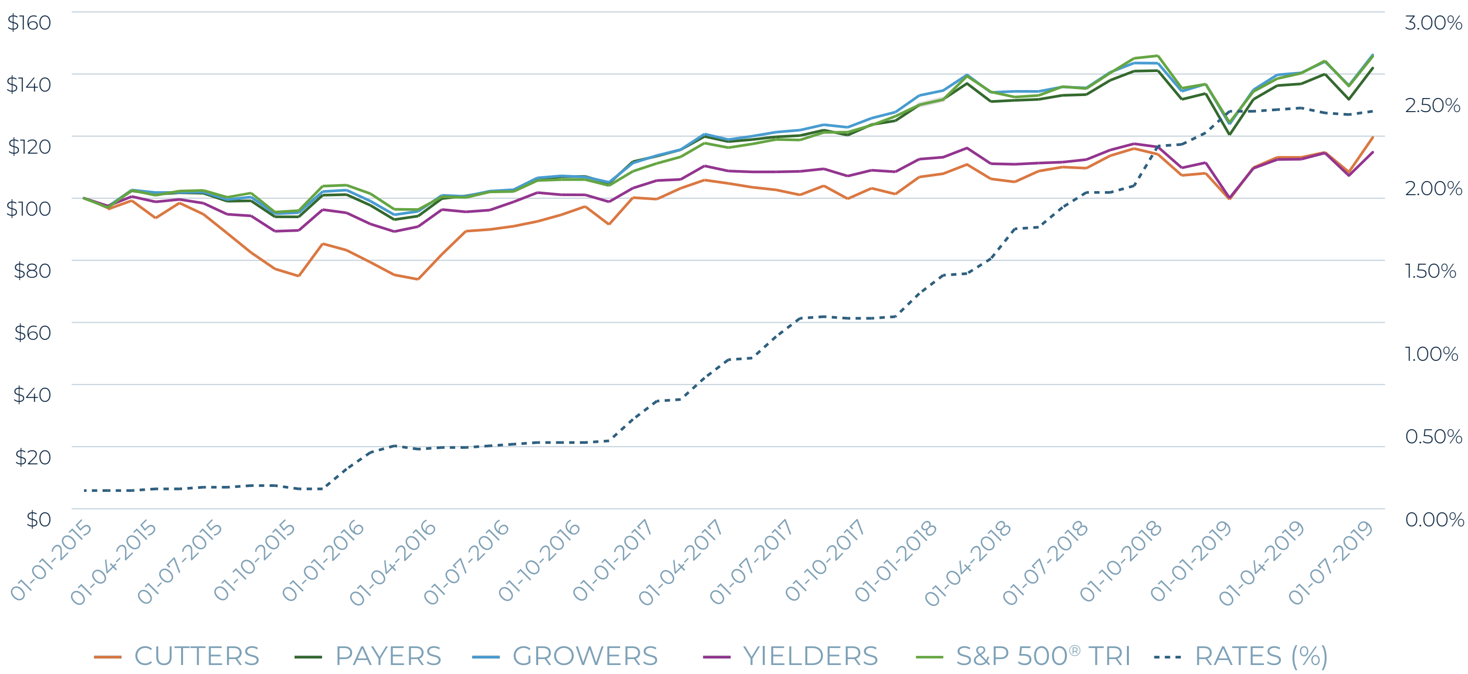
Source: Bloomberg, Bristol Gate. Data from January 1, 1999 – November 1, 2000

PRE GLOBAL FINANCIAL CRISIS



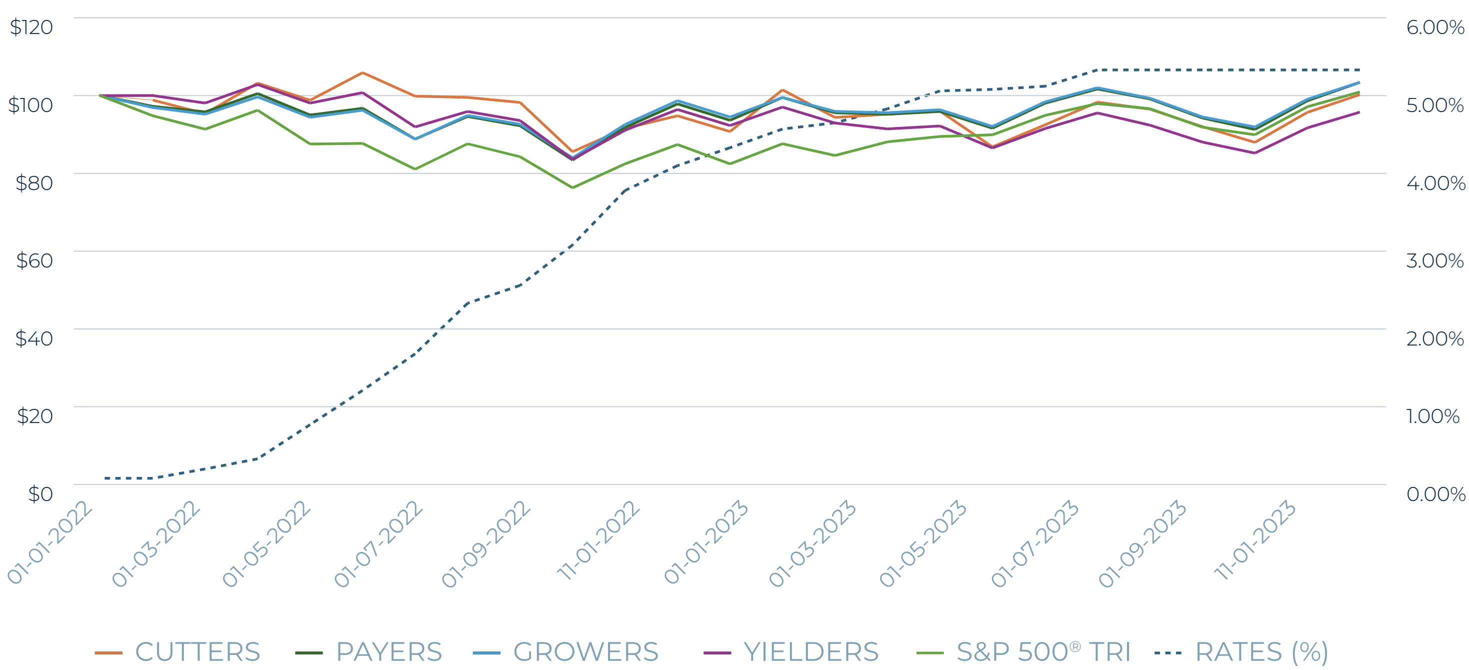
Source: Bloomberg, Bristol Gate. Data from January 1, 2004 – July 1, 2007

PRE COVID-19 PANDEMIC



Source: Bloomberg, Bristol Gate. Data from January 1, 2015 – July 1, 2019

POST COVID-19 PANDEMIC



Source: Bloomberg, Bristol Gate. Data from January 1, 2022 – December 31, 2023

CONCLUSION

In both rising and falling interest rate environments, dividend growth stocks have shown their strength. The consistent and stable growth that a high-quality dividend growth stock can provide, along with a rising income stream, make them a valuable component of any diversified portfolio. Dividend growth companies provide investors with the dual benefit of income and the potential for capital appreciation.

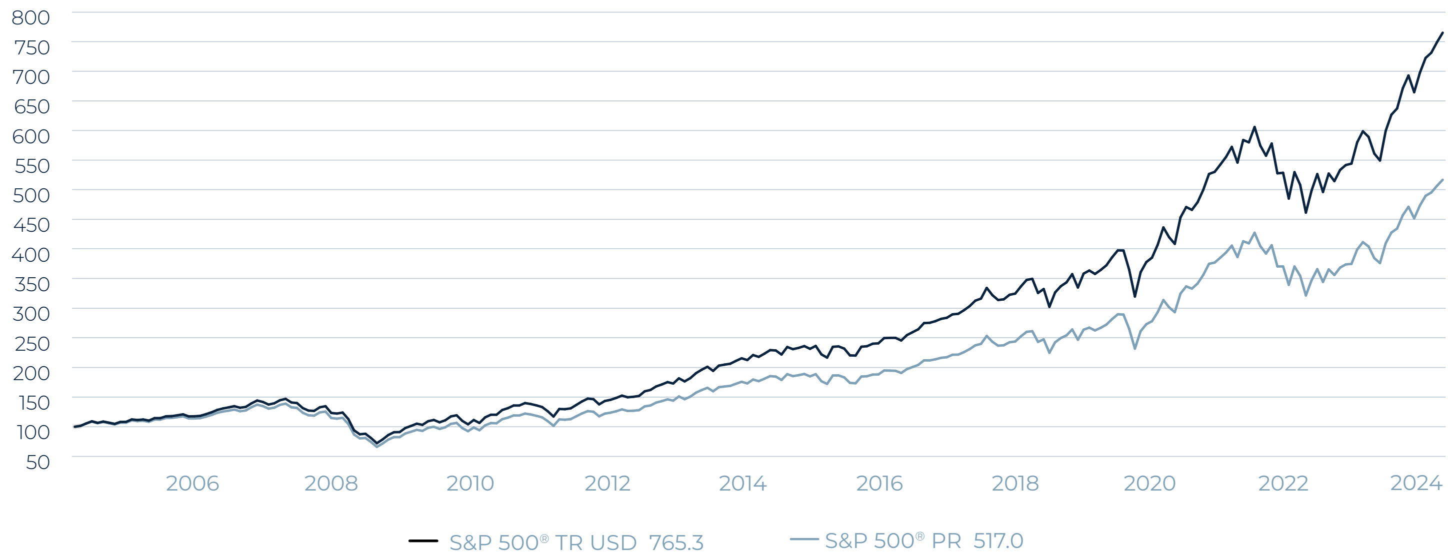
Many investors separate dividend-paying stocks from growth stocks, assuming that dividend-paying companies have less potential for reinvestment opportunities and capital appreciation. We believe high-quality dividend growth stocks often have significant opportunities to reinvest capital at high rates of return, all while providing the added safety of a dividend and this seems to be reflected in different rate environments.

As you think about how to navigate changing market conditions, considering the role of dividend growth stocks in your portfolio could be worthwhile. A growing income stream with the opportunity for capital appreciation may provide the balance you need in a shifting economic landscape.

BRISTOL GATE DIVIDEND CHART BOOK

WHY DIVIDENDS MATTER

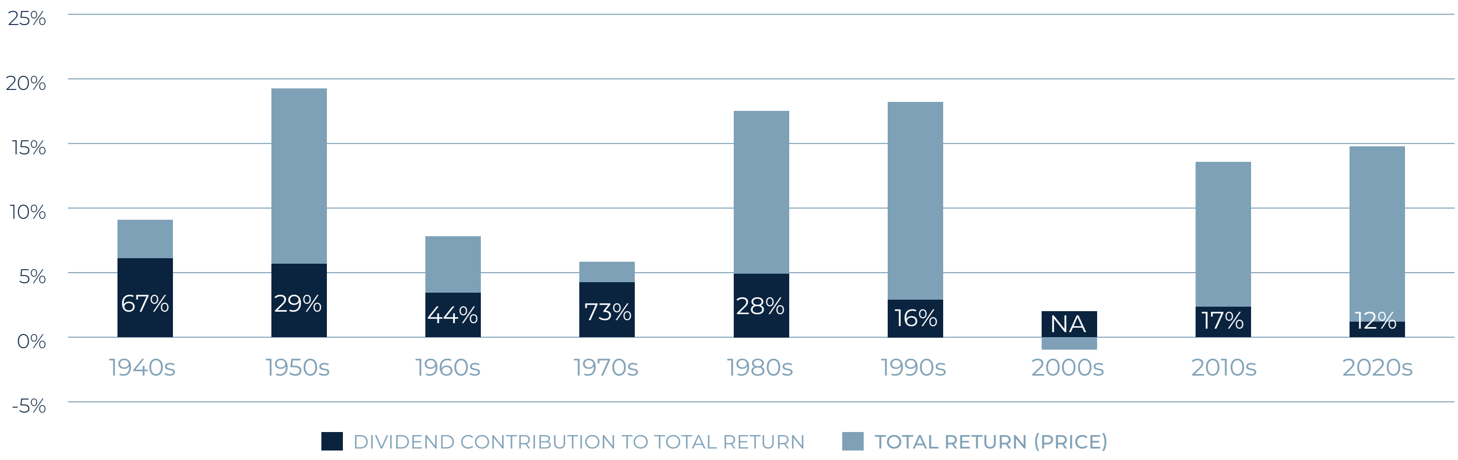
TOTAL RETURN VS. PRICE RETURN OF THE S&P 500®



Source: Morningstar, Bristol Gate. Data from September 30, 2004 – September 30, 2024

Reinvestment of dividends have contributed to significant wealth creation opportunities.

CONTRIBUTION OF DIVIDENDS TO TOTAL RETURN BY DECADE

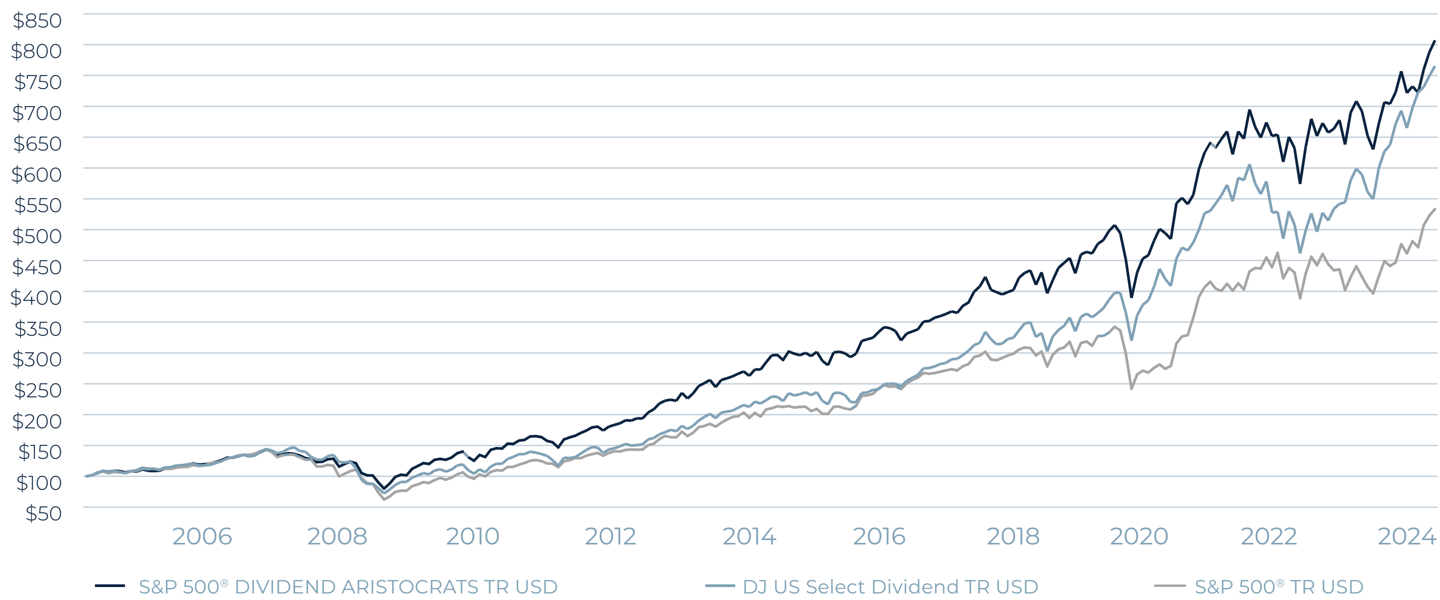


Source: Morningstar, Bristol Gate. Data through September 30, 2024

From the start of 1940 to December 31, 2023, the reinvestment of dividends has contributed a staggering 94.43% to the S&P 500®'s total return, gross of fees. If an individual were to have invested $1,000 in the S&P 500® on January 1, 1940 – their ending portfolio balance on December 31, 2023, including the reinvestment of dividends, would have been over $6.3 million. This compares to the portfolio balance without of the inclusion of dividends, over the same time frame, of over $350,000.

DIVIDEND GROWTH VS. HIGH DIVIDEND YIELD

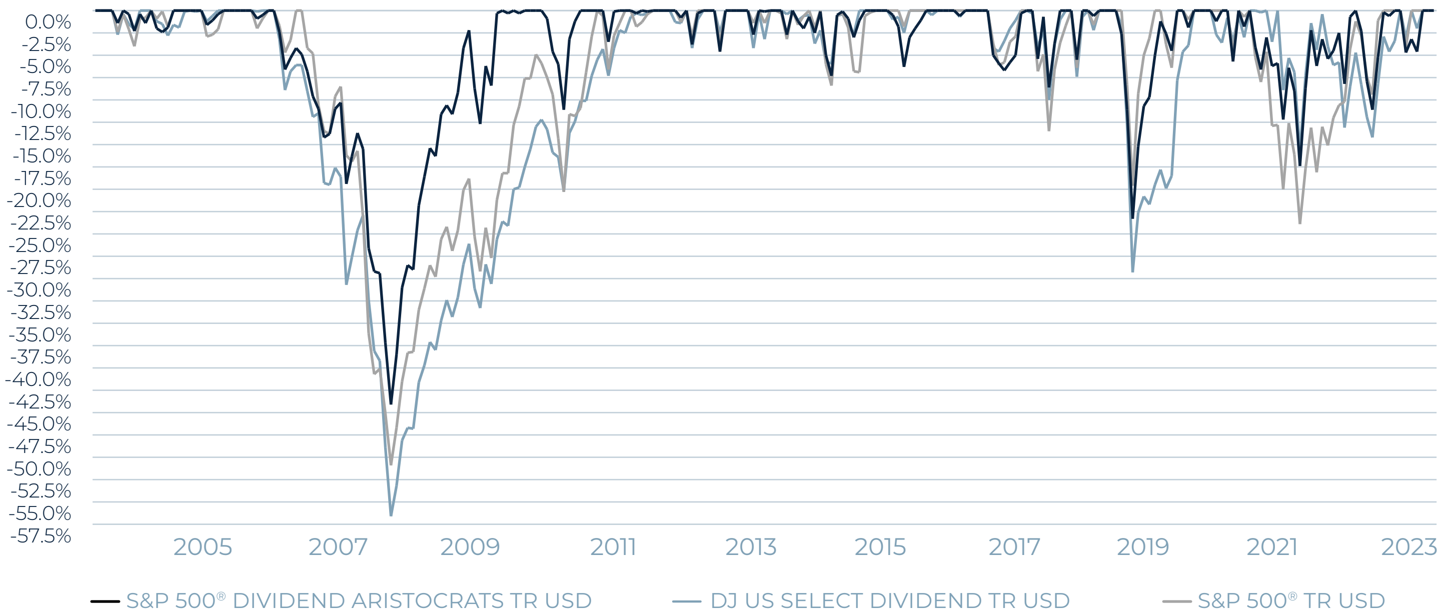
PERFORMANCE OF DIVIDEND GROWERS VS. DIVIDEND YIELDERS



Source: Morningstar, Bristol Gate. Data from September 30, 2004 – September 30, 2024

Going back 20 years, the S&P 500® Dividend Aristocrats Index (a proxy for a dividend growth portfolio) has substantially outperformed both the market and also the Dow Jones US Select Dividend index (a proxy for a high yield-oriented portfolio). Over the same time frame, the S&P 500® Dividend Aristocrats Index has also been successful in protecting capital during large pullbacks in the market.

DOWNSIDE PROTECTION OF DIVIDEND GROWERS VS. DIVIDEND YIELDERS



Source: Morningstar, Bristol Gate. Data from October 1, 2004 – September 30, 2024

DIVIDEND EXPOSURE RETURN QUILT

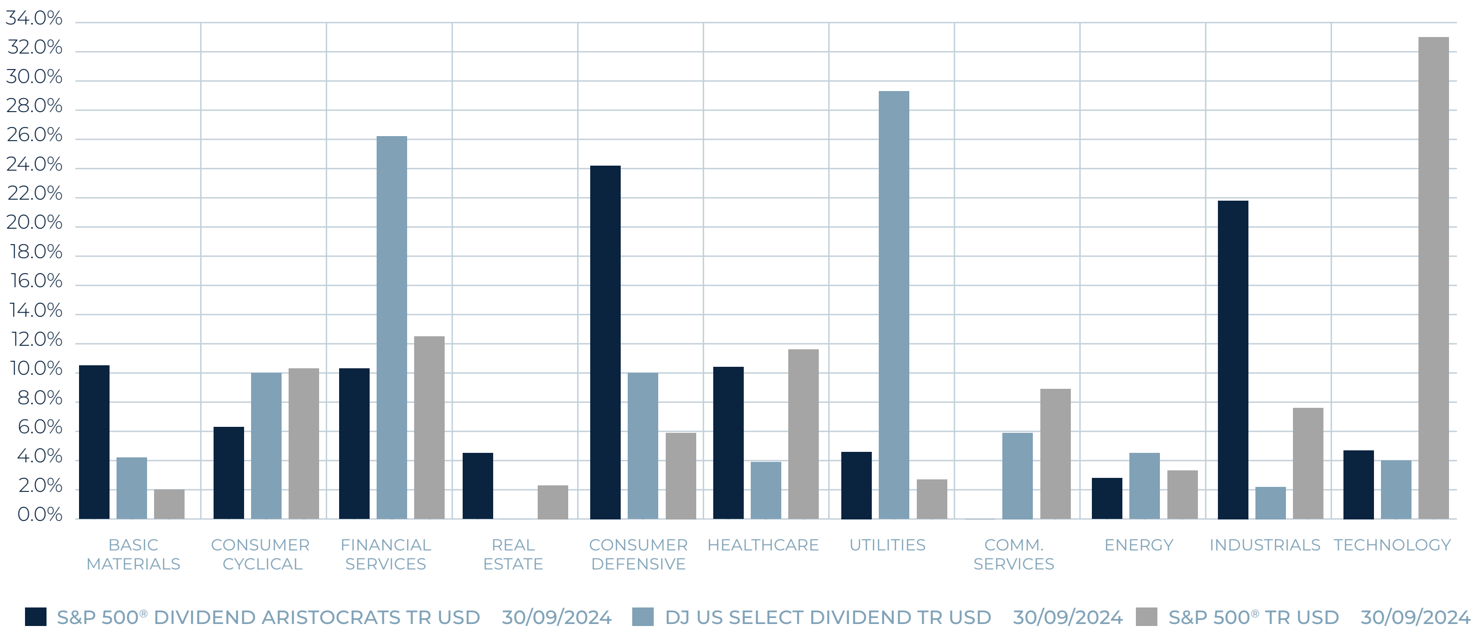
As we have been exploring, it is difficult to paint dividend investing with too broad a brush. There are many strategies available within the dividend-paying universe that focus on an array of characteristics. A common distinction is between high dividend yielding companies versus high dividend growth companies. Below we have contrasted the calendar year returns of various dividend indexes.

CALENDAR YEAR RETURNS

	YTD	2023	2022	2021	2020	2019
S&P 500® Dividend Aristocrats TR USD	14.18%	8.44%	-6.21%	25.99%	8.68%	27.97%
DJ US Select Dividend TR USD	18.82%	1.53%	2.31%	32.24%	-4.56%	23.11%
S&P 500® Low Volatility High Div TR USD	22.81%	1.70%	0.93%	25.26%	-9.67%	20.76%
Morningstar US Dividend Growth TR USD	18.56%	10.45%	-7.75%	26.69%	9.50%	30.15%
MSCI USA High Dividend Yield GR USD	16.53%	6.83%	-3.75%	21.93%	1.69%	22.47%
NASDAQ US Dividend Achievers 50 TR USD	7.80%	7.91%	2.97%	26.67%	-3.27%	25.36%
Russell 1000 Dividend Growth TR USD	14.28%	11.18%	-5.92%	27.07%	12.44%	28.28%
Russell 1000 Value TR USD	16.68%	11.46%	-7.54%	25.16%	2.80%	26.54%
Russell 1000 Growth TR USD	24.55%	42.68%	-29.14%	27.60%	38.49%	36.39%
S&P 500® TR USD	22.08%	26.29%	-18.11%	28.71%	18.40%	31.49%

Source: Morningstar, Bristol Gate. As of September 30, 2024

DIVIDEND GROWTH VS. HIGH DIVIDEND YIELD SECTOR BREAKDOWN



Source: Morningstar, Bristol Gate. As of September 30, 2024

By breaking down the above indices further, we see that that are certain industries which better facilitate a high dividend yield and those that are more conducive to high dividend growth.

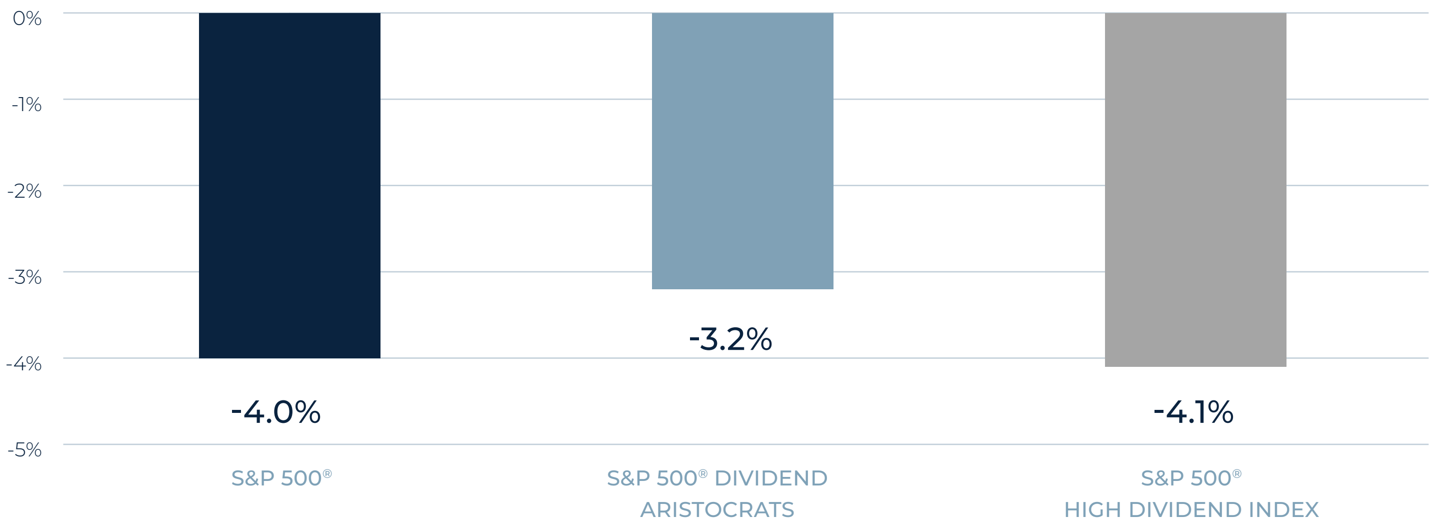
SECTOR DIVIDEND GROWTH BY CALENDAR YEAR RETURN QUILT

LTM DIVIDEND GROWTH	DIVIDEND GROWTH	3 YEAR DIVIDEND GROWTH	DIVIDEND GROWTH	5 YEAR DIVIDEND GROWTH	DIVIDEND GROWTH
Communication Services	43.1%	Industrials	11.1%	Health Care	8.4%
Consumer Staples	16.8%	Consumer Discretionary	10.8%	Information Technology	6.2%
Health Care	6.7%	Energy	10.1%	Consumer Staples	6.2%
Industrials	6.4%	Real Estate	8.4%	Materials	6.0%
Real Estate	6.0%	Health Care	7.4%	Energy	5.8%
Financials	6.0%	Information Technology	6.7%	Industrials	4.7%
Information Technology	5.5%	Communication Services	6.4%	Real Estate	3.5%
Utilities	4.0%	Materials	4.9%	Financials	3.3%
Materials	1.1%	Consumer Staples	4.8%	Utilities	2.9%
Consumer Discretionary	-1.9%	Utilities	2.8%	Communication Services	2.6%
Energy	-4.7%	Financials	2.1%	Consumer Discretionary	-1.4%

Source: Bristol Gate Capital Partners, Bloomberg. Data as of September 30, 2024. S&P 500® Sectors

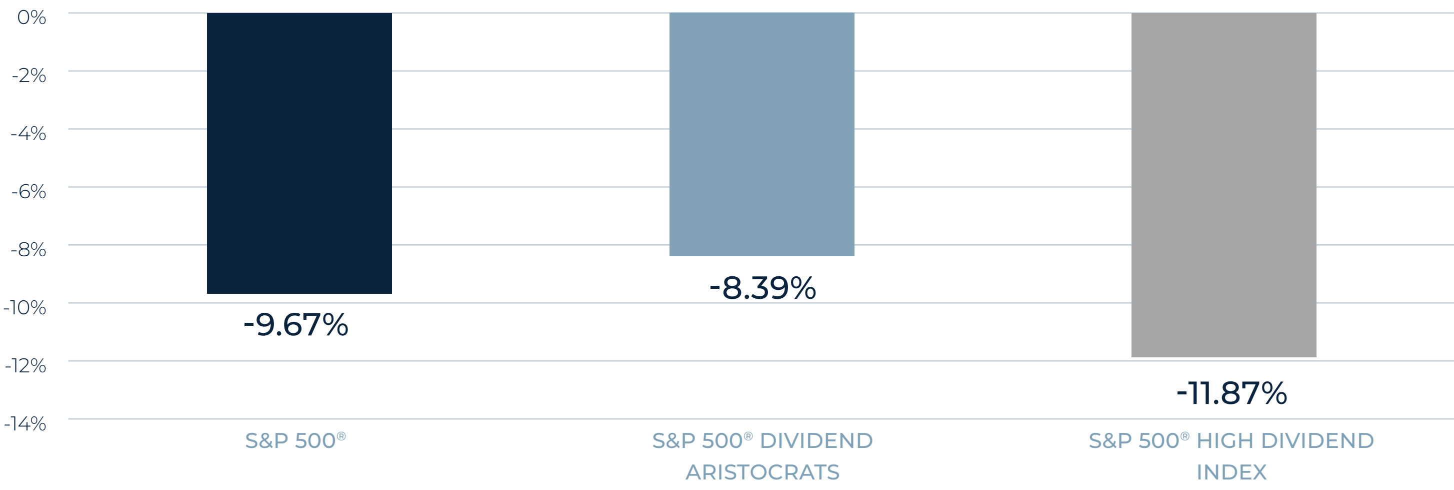
DIVIDEND GROWERS VS HIGH DIVIDEND PAYERS IN DOWN MONTHS

AVERAGE RETURN DURING S&P 500® DOWN MONTHS



Source: Bristol Gate Capital Partners, Bloomberg. Data from Jan 1, 2000 – September 30, 2024

AVERAGE RETURN DURING S&P 500® WORST 15 MONTHS



Source: Bristol Gate Capital Partners, Bloomberg. Data from Jan 1, 2000 – September 30, 2024

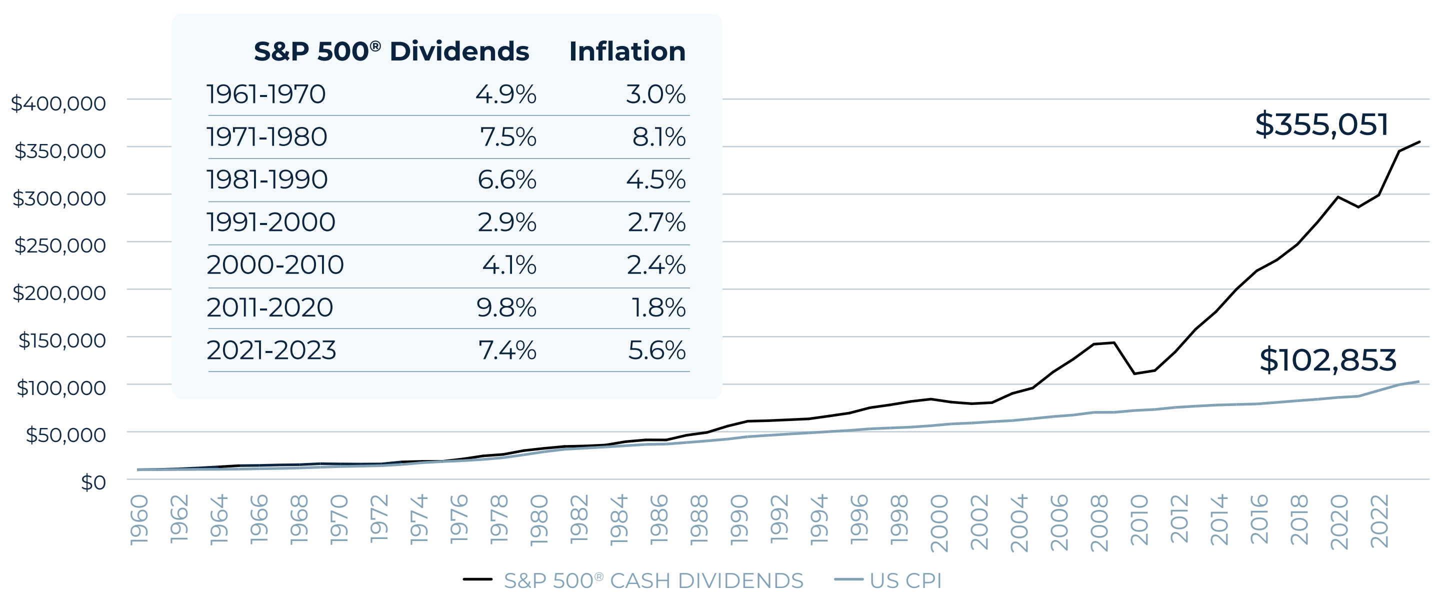
As we had noted above, over time high dividend growth companies (using the Dividend Aristocrats as a proxy) provided better protection during periods of downside volatility. During both down months in general and the 15 most severe down months, the dividend growth index provided a better buffer than the yield focused index (High Dividend Index).

DIVIDENDS IN DIFFERENT INFLATIONARY ENVIRONMENTS

Having a dividend growth component within a well diversified portfolio has proved to provide attractive risk-adjusted returns. Having exposure to the growth of dividends has also been an effective way to preserve purchasing powering among the steady march upwards of the cost of living.

DIVIDENDS VS. INFLATION

	S&P 500® Dividends	Inflation
1961-1970	4.9%	3.0%
1971-1980	7.5%	8.1%
1981-1990	6.6%	4.5%
1991-2000	2.9%	2.7%
2000-2010	4.1%	2.4%
2011-2020	9.8%	1.8%
2021-2023	7.4%	5.6%

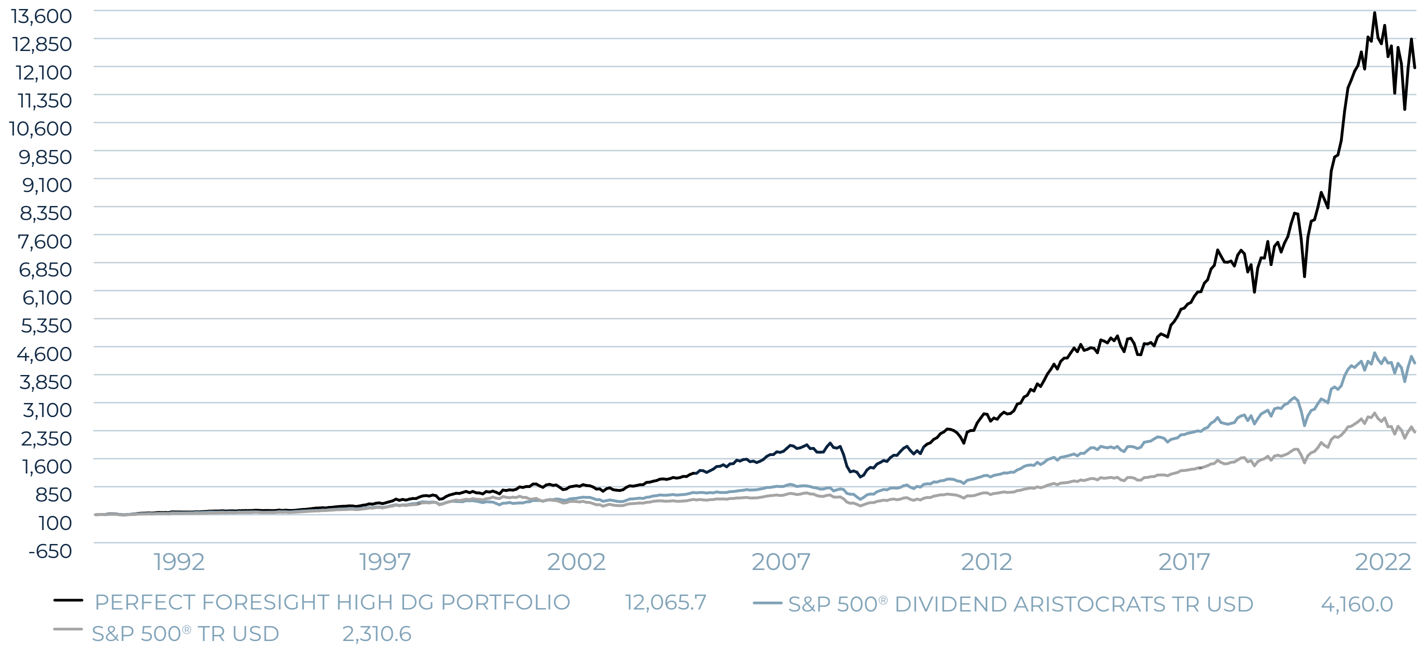


Source: Bristol Gate Capital Partners, Bloomberg. Data as of December 31, 2023

HIGH DIVIDEND GROWTH WITH PERFECT FORESIGHT – THE BRISTOL GATE METHODOLOGY

Bristol Gate uses a proprietary Machine Learning model to identify the best dividend growers of tomorrow, today. While unable to be perfect, it is important to understand the opportunity of the universe. We have analyzed how the top quintile (top 20%) of dividend growers annually, as a portfolio, would have returned over the last twenty years and since 1990. Below is a clear example of why we focus on high dividend growth.

PERFORMANCE OF THE PERFECT DIVIDEND GROWTH PORTFOLIO



Source: Bristol Gate, Bloomberg, Data from Jan 31, 1990 – Dec 31, 2023, in USD

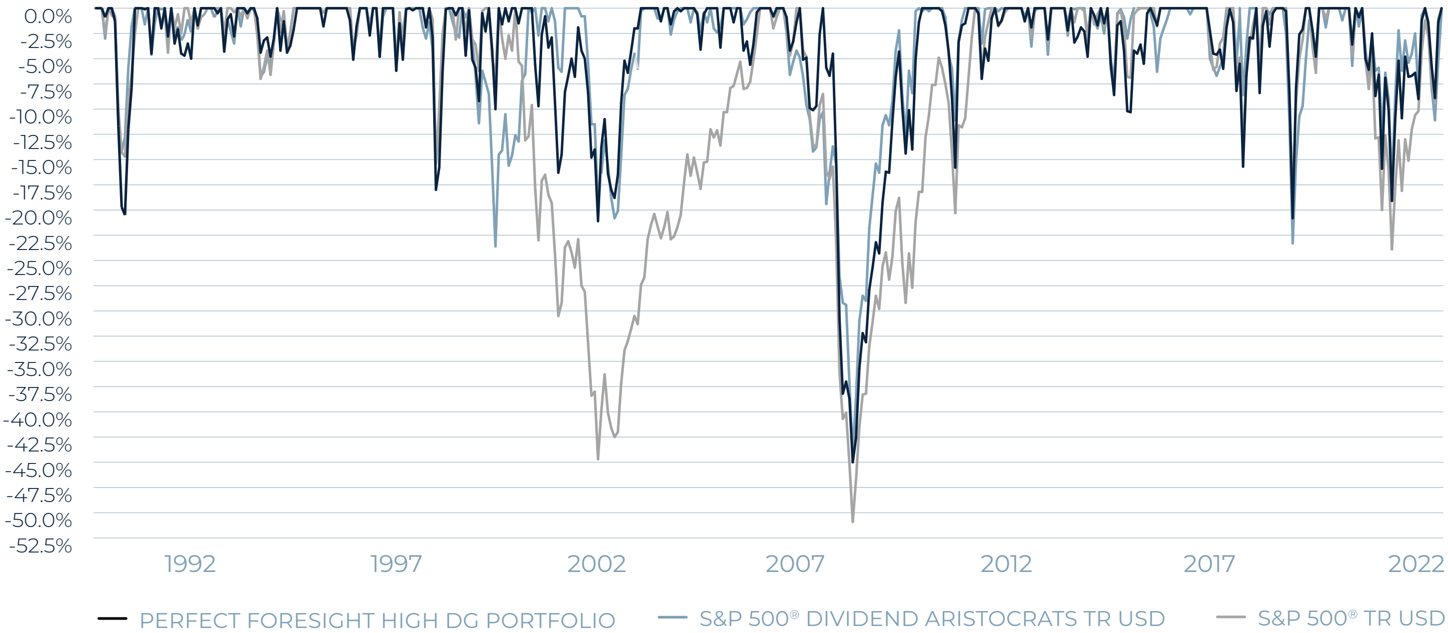
It is clear through the above that owning the fastest dividend growers each year can amount to very attractive returns over time.

If you had perfect foresight and invested in the top 20% (Top Quintile Dividend) of the highest dividend growth companies for the next twelve months at the beginning of each year, you would outperform the market over the past 20 years, resulting in very attractive risk-adjusted returns over time. Each theoretical portfolio presented for the stated category was constructed from an equal weight basket of stocks selected from the S&P 500® universe and reconstituted annually.

In the world of dividends, we think an emphasis on dividend growth is a valuable addition to a portfolio.

This strong performance can also be attributed to the capital preservation potential of companies growing their dividends at high rates. Over time, we see the fastest dividend growers drawing down less than the market (S&P 500®) during periods of increased volatility.

DOWNSIDE PROTECTION OF THE PERFECT DIVIDEND GROWTH PORTFOLIO

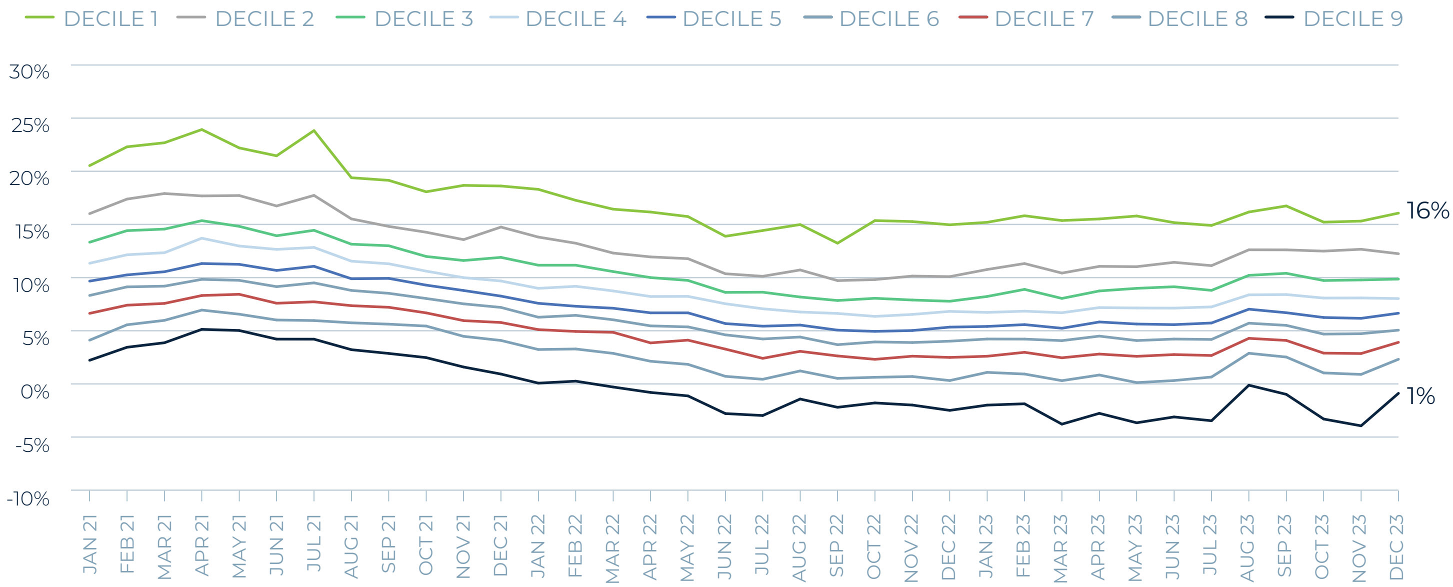


Source: Bristol Gate Capital Partners, Bloomberg. Data as of December 31, 2023.

DIVIDEND GROWTH TRENDS – LOOKING FORWARD TWELVE MONTHS

Continuing off our previous Dividend Report editions, we are happy to provide our updated proprietary predictions of dividend growth. Below you will find our median prediction for dividend growth looking forward over the next 12 months, broken into 9 deciles of dividend payers. Decile 1 are the fastest dividend growers, with Decile 9 representing the slowest.

12 MONTH FORWARD DIVIDEND GROWTH PREDICTION BY DECILE



Source: Bristol Gate Capital Partners, FactSet. Data represents the Next Twelve-Month prediction of Dividend Growth. As an example, the 01/01/23 represents the prediction for 01/01/2024

As of December 2023, we are beginning to see an increase in dividend growth predictions after a steady decline in 12 month-forward predicted dividend growth throughout 2021 and 2022. While the 9th decile is still predicting to produce negative dividend growth over the next 12 month, the majority of the dividend universe in is positive territory.

As stated in the past, not all dividend growth is made equal. There is a predicted dividend growth spread of nearly 17% between the top and bottom decile. We believe there is an opportunity to earn above average rates of dividend growth by focussing consistently on the first and second decile of dividend growers.
If you would like to learn more about dividend payers, please reach out to anyone on our Relationship Management Team who will be happy to share information on the constituents in these deciles.

TOP 15 DIVIDEND PAYERS HISTORICALLY BY DOLLAR AMOUNT

LTM	DIVIDENDS PAID ($B)	2023	DIVIDENDS PAID ($B)	2022	DIVIDENDS PAID ($B)
Microsoft Corp	21.8	Microsoft Corp	20.2	Microsoft Corp	18.6
Exxon Mobil Corp	15.6	Apple Inc	15.0	Exxon Mobil Corp	14.9
Apple Inc	15.2	Exxon Mobil Corp	14.9	Apple Inc	14.8
JP Morgan Chase	14.1	JP Morgan Chase	13.4	JP Morgan Chase	13.6
Chevron Corp	11.6	Johnson & Johnson	11.9	At&T Inc	11.6
Johnson & Johnson	11.6	Chevron Corp	11.2	Johnson & Johnson	11.5
Verizon Comm	11.1	Verizon Comm	11.0	Chevron Corp	10.8
Abbvie Inc	10.8	Abbvie Inc	10.4	Verizon Comm	10.7
Pfizer Inc	9.4	Pfizer Inc	9.2	Abbvie Inc	9.9
Bank Of America	9.4	Procter & Gamble	9.0	Pfizer Inc	8.9
Procter & Gamble	9.3	Bank Of America	9.0	Procter & Gamble	8.8
Broadcom Inc	9.2	Home Depot Inc	8.2	Bank Of America	8.4
Costco	9.0	At&T Inc	8.1	Philip Morris In	7.8
Home Depot Inc	8.6	Philip Morris In	7.9	Home Depot Inc	7.6
AT&T Inc	8.2	Coca-Cola Co	7.8	Broadcom Inc	7.0

2021	DIVIDENDS PAID ($B)	2020	DIVIDENDS PAID ($B)	2019	DIVIDENDS PAID ($B)
Microsoft Corp	16.9	Microsoft Corp	15.5	At&T Inc	14.8
At&T Inc	15.1	At&T Inc	14.9	Exxon Mobil Corp	14.44
Exxon Mobil Corp	14.9	Exxon Mobil Corp	14.9	Apple Inc	14.12
Apple Inc	14.5	Apple Inc	14.1	Microsoft Corp	14.1
JP Morgan Chase	12.6	JP Morgan Chase	12.8	JP Morgan Chase	12.2
Johnson & Johnson	10.9	Johnson & Johnson	10.3	Verizon Comm	9.96
Verizon Comm	10.4	Verizon Comm	10.2	Johnson & Johnson	9.83
Chevron Corp	10.1	Chevron Corp	9.4	Wells Fargo & Co	9.5
Abbvie Inc	9.1	Pfizer Inc	8.3	Chevron Corp	8.85
Coca-Cola Co	9.0	Procter & Gamble	7.9	Pfizer Inc	8.01
Pfizer Inc	8.7	Wells Fargo & Co	7.8	Fox Corp - A	7.92
Procter & Gamble	8.4	Bank Of America	7.8	Fox Corp - B	7.92
Bank Of America	7.9	Gen Digital Inc	7.6	Bank Of America	7.76
Philip Morris In	7.5	Philip Morris In	7.3	Procter & Gamble	7.58
Home Depot Inc	6.9	Abbvie Inc	7.2	Philip Morris In	7.11

Source: Bristol Gate Capital Partners, Bloomberg. Data as of September 30, 2024. Constituents selected from the S&P 500®

DISCLAIMER

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This report may contain forward-looking statements including, but not limited to, statements about the Bristol Gate strategies, risks, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events and conditions or include words such as "may", "could", "would", "should", "expect", "anticipate", "intend", "plan", "believe", "estimate" and similar forward-looking expressions or negative versions thereof.

These forward-looking statements are subject to various risks, uncertainties and assumptions about the investment strategies, capital markets and economic factors, which could cause actual financial performance and expectations to differ materially from the anticipated performance or other expectations expressed. Economic factors include, but are not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

Readers are cautioned not to place undue reliance on forward-looking statements and consider the above-mentioned factors and other factors carefully before making any investment decisions. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith. Forward-looking statements are not guarantees of future performance, and actual results could differ materially from those expressed or implied in any forward-looking statements. Bristol Gate Capital Partners Inc. has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, except as required by securities legislation.