Podcast: The Value of Dividend Growth when Interest Rates Rise

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With Portfolio Manager Michael Clarfeld, CFA (MC), Financials Analyst Stephen Rigo, CFA (SR) and Investment Strategist Jeffrey Schulze, CFA (JS)

JS: Hello and welcome to the latest ClearBridge Podcast. This is Jeff Schulze, CFA, Investment Strategist at ClearBridge Investments. And I'm excited to be here today with Michael Clarfeld, CFA, and Stephen Rigo, CFA. Michael's a Co-Portfolio Manager for the ClearBridge Dividend Strategy, and the ClearBridge Energy MLP Strategy.

MC: Great to be here. Thanks a lot for having me Jeff.

JS: And Steve's a Senior Analyst at ClearBridge and focuses on the financial sector.

SR: Also, great to be here. Thanks Jeff.

JS: And the topic of today's podcast is, The Value of Dividend Growth when Interest Rates Rise. So ClearBridge is a global equity manager with $140 billion in assets under management, committed to delivering long-term results through authentic active management. ClearBridge tailors our strategies to meet three primary client objectives in our areas of proven expertise: high active share, income solutions, and low volatility. We integrate ESG considerations in our fundamental research process across all strategies.

So, welcome everybody for the next ClearBridge podcast and today we're going to talk about, in my opinion, one of the most important aspects of investing, which is dividends. And specifically, dividend growing companies. Now most people have the misconception in my opinion that dividends are boring. Right? They're not that exciting. But this really couldn't be farther from the truth.

So, let's put this in perspective. So, in anticipation for this podcast, I went out and I looked at the past 90 years of equity returns of the S&P 500. So, going all the way back to 1928. And the annualized S&P return is 5.7 percent. But if you reinvested your dividends, that 5.7 percent jumps up to 9.7 percent. That's a huge jump. And if you look at your total return at the end of that time frame, you would have had 30 times more your money with reinvested dividends than not. That's a huge difference. Right?

MC: (Laughs) That certainly is. That we should all have 90 years to compound our dividends.

JS: Well, I think it was Albert Einstein that said, "Compounding interest is the eighth wonder of the world." Maybe you should change that to "compounding dividends." The good thing for most of the listeners here is that companies have been increasing their dividends significantly this year. So Mike, what's behind this move higher?

MC: Well, first off, again, thanks for having us, and thanks for emphasizing dividends. I think it is a common misconception hat dividends are sort of an afterthought to equity investing when they should be a core

tenet. Cash flow is really the key to investing, whatever type of investing you are doing, and dividends represent some meaningful return of cash to shareholders and a meaningful part of the total return.

There's a couple of different factors that drive dividend growth at different points in the cycle, and the two things that I think are most relevant are sort of payout ratios, which is how much of a company's earnings are they paying out in their dividends, and then it's how quickly are the earnings growing? And over the last ten years, we've seen dividends grow at a very nice rate. And over that time period it's been a combination of the two factors.

So, coming out of the financial crisis you would have a lot of companies that had cut their dividends during the crisis and had very low payout ratios, and the ability to raise those payout ratios.

JS: Right. They wanted to survive.

MC: That's exactly right. So, they had to. But since then you had this initial first pop in dividend growth that came from raising payout ratios. Payout ratios have since normalized. And in the last couple of years what's driven dividend growth has been income growth. And so, the income growth has been driven by primarily two things. Number one, first off, we've had a pretty good economy. And the economy, GDP, and economic growth has actually gotten better in the last year or two. And then this year in 2018, we got a big pop also from the corporate tax cuts.

JS: That's right.

MC: So corporate tax rate going from 35 percent to 21 percent is a really big deal in terms of what that means for the amount of after-tax earnings, right? And so, we've seen that after-tax earnings grow pretty meaningfully, particularly in certain sectors, like banks, which I think we'll talk about with Steve today, and companies are passing it along to shareholders. So, a combination of a strong economy and this boost from tax cuts is really driving nice dividend growth.

JS: And one of the areas that obviously tax cuts have had a big effect in is financials. I mean most financials are domestically oriented. They don't really have the opportunity to shelter their income overseas. Steve, maybe give a little bit of perspective on what financials are doing with that money.

SR: Sure. As Michael pointed out, tax cuts have helped in profits, but you also have a number of other tailwinds, especially in the banking sector, which is historically a very capital-intensive industry. And so, what you've had is deregulation, allowing companies to pay out more of their earnings in the form of dividends. And you also have higher interest rates which is helping spread income for a lot of institutions. So, you have much more pre-tax profit dollars that are forming.

After tax now is even better with a lower tax rate and with less regulation these companies are now raising their payout ratios, as Michael pointed out too, so you have seen a nice tailwind from dividends as well. But with some of that excess capital you're also seeing M&A speculation start to pick up. And this is because technology is changing the space in banking. You're starting to see banks get together in order to have greater scale to compete against larger entities, such as the JP Morgans, Citigroups, and the Wells Fargos of the world.

JS: Yes, I guess previous to this, with Dodd-Frank they weren't able to? Or is it just pretty restrictive that they didn't just see the economic prospect of it working out?

SR: With the Dodd-Frank stress test you had a number of banks that were bound by the annual review and what then was permitted by the Fed. Now with that being raised to $100 billion in assets and then moving higher to $250 billion over time, now these banks are able to not necessarily on a once-a-year basis, but talk with their regulators on an ongoing basis about the strength of their balance sheet, and their outlook for their earnings, and are able to take those payout ratios up higher more than once a year, and without just a rigid stress test associated with it.

MC: And if I could add something, what's interesting about tax cuts is I think the initial emphasis amongst investors with regard to the tax cuts was the impact on the big tech companies and the big pharma companies who had these huge cash balances overseas. And everybody got all excited about oh, the Googles of the world, and the Apples of the world could bring all this cash back and do a share buyback or special dividend of course. And that is definitely a positive.

But interestingly that was sort of a one-time positive for those kinds of companies. Many of the largest companies that have truly global businesses, you know, think about a consumer staples company who sells globally, or a technology company, or a pharmaceutical company, they had used structures to reduce your tax rates and already kind of had tax rates in the low 20s generally. Financial services and others that are more U.S. focused …

What's interesting is that obviously JP Morgan or Wells Fargo or Citigroup … Citigroup's a little different, they're more global … but say a JP Morgan or Wells Fargo, Bank of America, they're as large as any company out there. Right? I mean these are huge mega-cap companies. And yet because they've been predominantly U.S. focused, they weren't really able to do much to optimize their tax rate.

And so, what's interesting is that the initial focus around these tax cuts was about what it could mean for these companies that had big cash balances overseas, which is really just a small subset of the market and the economy. And yet for these domestically focused companies, it actually has a much bigger ongoing benefit. It's not just this one-time thing of bringing cash home. It's that every year from here on forward or at least for the next 10 years, they're going to be able to deliver a lot more of that tax to the bottom line. A lot more of that income to the bottom line.

JS: I mean at the end of the day when you have more cash you could do a lot of shareholder-friendly activities with that, whether increasing dividends, buybacks, funding your growth, what have you. Now I know Steve that you've recently put out a paper titled The Return of Loan Growth Should Boost Select Banks. Can you talk a little bit about that thesis? And maybe a bank or two that maybe falls into that thesis?

SR: Sure. So, throughout the post-financial crisis we've seen a lack of quality loan growth primarily in C&I, which would be lending to businesses around the United States. And we think that that lack of organic growth has been an impediment to bank stocks, even though there have been some tailwinds that have emerged recently in terms of those, we talked about deregulation and higher interest rates. And so, what we were looking for was a slowdown in deposit growth perhaps is a sign that corporations were drawing on liquidity to fund some of their growth. We started to see that in late 2017.

After that we started to see it pick up in C&I loan growth. And we think that was the beginning of a trend that hopefully signifies that the economy was getting some momentum and some strength, and that could be positive for bank stocks and the multiples that people are willing to pay for them. Because finally you're seeing the signs of organic growth. So, something that's less macro oriented, and more something that these companies are growing earnings, because they're growing their balance sheet in a quality way by lending to the businesses, doing what they're supposed to be doing.

JS: The sign is, they draw that liquidity first, and then you see C&I growth pick up. Interesting.

SR: Yes, that was the general thesis, was that balance sheets of corporations across America were flush with cash due to the quantitative easing, and once we started to see them drawing that cash, we felt that that was the early indication that companies were investing for growth, something that had been a missing ingredient in the post financial crisis kind of growth cycle that we've had. And so sure enough, shortly after that, we started to see loan growth accelerate. And that happened in early 2018, which left us more optimistic on bank stocks and bank stock performance.

And so, some names that we like are some of the more domestically focused names that have larger C&I portfolios, whether it's a PNC Financial or a US Bancorp. We think that as these companies can accelerate

their loan growth that people's optimism around organic growth will pick up and that will translate into higher stock price multiples that we still think are discounted today.

JS: And if I recall correctly, aren't most C&I loans, they're a floating rate, right? They're tied to like LIBOR or something like that?

SR: That's correct. That's another positive that I think is important not to overlook, is that most of them are tied to primer LIBORs as opposed to your typical CRE loan, which is going to be off of say a five-year swap rate. So that also gives you more interest rate sensitivity, should the Fed continue to raise rates and LIBOR continue to move what you've seen in the market.

JS: That's interesting, because when I think of banks I usually think about mortgage origination, I don't really … I mean C&I loan is usually the afterthought for me personally.

SR: What's interesting, and not to get off topic, is that the large bank market share of mortgages declined significantly since the financial crisis and so C&I loans are a more important subset of bank balance sheets than they have been any time in my memory.

JS: So how do you determine between a bank that's going to do better in this environment versus others? I mean obviously having that exposure to C&I loan growth. Are there are other variables that you look at to be able to pick the winners and losers?

SR: Yes. So, two other things that we think are very important are the quality of your deposit base and your loan and deposit ratio. And so, banks that we think are able to gather deposits at an attractive rate are probably the most attractive right now, because with quantitative easing unwinding we think that there's becoming a scarcity of deposits in the marketplace. So those high-quality institutions we think will benefit much more than those that are stretching for deposits or don't have good deposit gathering.

The markets that banks operate in are key, so we want to make sure that the markets that these banks are in, so whether or not it's the Texas marketplace or the Southeast, the ones that are growing the fastest are obviously going to be the ones that should have the greatest opportunity to grow their balance sheets.

JS: Yes, I think we haven't really had to worry about that for 10 years now. You have to remember, as a financials analyst and a bank investor that you've got to actually remember how it works again pre-crisis.

SR: Yes, I mean deposit premiums were something we used to talk about before the financial crisis, and when deposits were everywhere, it was other things that people would look at. But the true value of a banking franchise we believe lies on the liability side.

JS: Mike, I know that you and Dividend Strategy have a couple of positions in banks here over the last couple of years. What's behind that? Do you see a lot more upside there?

MC: We have meaningfully increased our bank exposure over the last several years. If we were back several years ago we actually had no traditional banks in the portfolio. That had to do with a couple of things, which would be because of the competitiveness of the banking sector, and also some of the risks inherent in it. It's a business that historically has been less to our liking than some of the other types of things we focus on, which might be more like a consumer staple, with a recurring revenue model, or an industrial with a large after-market exposure. Businesses with higher degrees of predictability, lower financial risk. And so that's something that's kind of kept us away. You also had a very tough interest rate environment, and then a regulatory burden that was very high.

Over the last few years we have gone from really having no exposure in the sector to being pretty much kind of market weight. And it's because of a combination of number one, the interest rate environment looking more constructive; number two, the shift in tone from a regulator which is still a very robust and strong regulator, but one where there's a little more clarity, a little more discussion with the industry about the most effective and most helpful types of regulations. And a little less punitive, I would say, and a little more constructive, potentially, would be a good way of phrasing it.

And then the third thing that's given us more confidence is — while banks are still highly complex, and when you look at a large bank with a multi-trillion dollar balance sheet, there is an element of faith in investing, in terms of trust and confidence in the management team (you have that with every company, but maybe more so to a degree there) — because of the regulations and what's happened, the banks are far better capitalized than they've been in decades or really ever.

JS: Probably in my lifetime.

MC: Right. It is a much safer proposition now. Still full of risk, and still there's going to be cycles and credit, and we go in with our eyes open. But again, combining … and probably I ticked them off in the wrong order before, but you combine the much stronger balance sheets, which is probably first and foremost, that the capitalization of these companies is much more robust than it's ever been. And then you combine that with an improving rate environment, a reduced sort of punitive regulatory touch, and then kind of coming out of a ten-year headwind of low rates and sort of investor apathy towards the space.

All of those combine to make us be more constructive and sort of led us to a place of saying this is a place where historically we had no exposure, and there's enough good things going on here that we want to be participating. It'll never be our largest sector by any stretch, you know, banking in particular or something like that. But there's a lot of reasons we want to be there, and so we are there now in a sort of market way type of exposure.

JS: And let's not forget. Valuations are very compelling, especially versus every other … not ever other, but most industries that are out there right now.

MC: I'd say compelling. I don't know where Steve comes in. (Laughter) You're the host of the show, so you get to be a little looser with your words. I think we find them to be compelling and fair. Two years ago, they would have been very, very cheap on things like tangible book and things like that. They are not anymore. But we do think they stand out as being reasonably attractive still.

SR: I guess I would say undemanding and still relatively below historic averages, if you go back far enough.

JS: Yes. Well, just to put it in perspective for the listeners, if you think about the Volcker Rule, you have to deal with five different regulators from a bank perspective, and each one of them have a different interpretation on how they want that data. So just cleaning up that alone will probably save quite a bit for the bottom line.

SR: I mean hopefully it will at least slow the rate of expense growth, so if you're getting revenue growth at the same time, you can get some operating leverage in the model, those are some of the positives that we've been kind of highlighting here.

JS: So, we've talked about some positives, right? But you looked at financials here, they've had a couple of disappointing months here in 2018. But they fared better here recently. What was holding them back? And do you see signs of it turning around?

SR: Sure, so I would argue that the flattening yield curve has bank investors somewhat spooked, as that's historically been a sign that either a late cycle, or recessions are looming.

Also, I think just the political unrest with potential terrorists has definitely caused people to pause in terms of that organic growth outlook that we talked about earlier. And until you kind of resolve those things, I do think that those macro headwinds are still going to be out there. And I do think that there's still a rent to own mentality in bank stocks, so people when they become more optimistic on some of those things, like GDP growth or the yield curve, that they get involved, but then they also don't invest in them through the cycle like they might with other sectors.

And so, if we can consistently put together good fundamental quarters and years then maybe some of the scars of the past will go away, and people will realize that we're compounding book value and earnings and there's attractive dividend yields, that these banks are investible, and their balance sheet risk is lower than it has been at any time since the financial crisis.

JS: Really a love/hate relationship, right? Just depends on the given day, whether investors are shunning or warming to them.

SR: It just seems like the scars even though we're ten years past the financial crisis, that those memories still are long.

JS: Well, believe it or not, since 2016 banks have outperformed by 30 percent. It hasn't felt like it, and you had quite a number of periods where you had some drawdowns, but that's some pretty sizeable outperformance in a two-year period.

SR: I was unaware that it was that large.

MC: Yes, no, absolutely. And that's the other point I was going to make, or I would add to your comments about performance this year.

Given the just tremendous move they had starting right after the election obviously, you went from a sector where before the election it was very out of favor to be charitable. And then in a very short time period, I mean Bank of America I think almost doubled probably in six months. This is a very large company with that kind of move. And the whole sector saw very dramatic moves. And so, I think there is a bit of just letting a little bit of the steam out of that.

We started this year with rates moving up nicely, which should be supportive of banks. And then they eased off and obviously the shape of the curve has been unfavorable of late. So, I think it's a combination of the fundamental things, then also just to your point, the move it's had has been pretty tremendous and probably was due for a pullback.

JS: Well, as active managers that does give us opportunity to pick up shares at discounted prices.

MC: I think that's absolutely right. Absolutely right. And I think we have, time will tell, but we've tried to do that this year in Dividend Strategy with, as Steve references, PNC Bank, which is a bank that we've had a position in, and again time will tell, but we believe we'll be able to take advantage of you know, a small but not insignificant pullback in the stock to initiate a position.

JS: Well, rates have been rising, right? If you think of the short end of the curve, obviously rising. The long end of the curve has had a little bit of difficulty. But of the camp, I do think that long end of the curve will rise into next year. Maybe talk about dividend payers. How do they perform in a rising rate environment? Is that the place you want to be as an equity investor?

MC: Yes, so that's a great and very timely question, and something we think everybody needs to be focused on in their portfolios. The answer is that what often happens or what we've seen in previous interest rate cycles is that when rates start to rise, investors are not the most patient bunch, and they tend to shoot first and ask questions later. And what we see is rates are going up, investors sell anything income related, including dividend payers and importantly a subset of that, dividend growers. And then what happens is that people actually sit down and say, "Wait, if we're actually entering a sustainably rising interest rate cycle where do you want to be? And the answer actually is that dividend growers are not the problem, but they're the solution.

If you think about sensitivity to rising rates, duration obviously is what drives a sensitivity to interest rates. You know, the growth serves to shorten up the duration of the investment in that growth and cash flow is a very powerful offset to rising rates. So, it's an interesting thing that we've seen in many previous cycles, where again, initially people sell the securities of dividend paying stocks and dividend growers, but then actually come back to them.

What we've seen in previous cycles is that that initial underperformance actually ultimately has been historically recouped and dividend growers have outperformed throughout the cycle. So, we think dividend growers are where people need to be. And if you think, even just taking a step back, not just within stocks, but across asset classes, you know, we're coming out of a 30- or 40-year bull market in fixed income, and it's

a broader conversation about asset allocation and the role of dividend growers in a portfolio, all of which are things that bode well for long-term exposure and weighting of dividend growers.

JS: But a similar thought process to a floating rate loan, right? Even though you're not benchmarked to LIBOR or something like that, the duration component up there is negligible, so if you're going to get that higher income stream, obviously that's going to weather the storm a lot better.

MC: I think that's exactly right.

JS: Are there any other sectors from a dividend yield or growth perspective that you're seeing opportunities in?

MC: One other area, and this has been an area that's been frustrating for the last 12 to 15 months or so, is energy infrastructure. So, this would be things like MLPs but actually increasingly these companies are not structured in MLPs but as corporations. And I think as people know, it's been a bumpy ride the last many years. And what's interesting is if you went back four or five years ago, people would have talked about the growth of shale, and there's going to be this renaissance in the U.S. and oil production's going to grow, and the infrastructure companies would benefit from that.

And four years ago, before the downturn in energy, people believe that and price that in quite fully into the shares of these kind of companies. Fast forward to today, you did have a meaningful sell off in the space three years ago when it went from $110 to $29. But the fundamental thesis actually played out exactly like everybody said, right? The U.S. is now the largest oil producer in the world. Permian's growing like crazy. Natural gas growth is phenomenal.

JS: We may be energy independent in two years?

MC: Yes, it's really very staggering. I think I saw a chart recently that the Permian on a stand-alone basis by the end of next year will be the fifth largest oil producing … if you treat it as a country … would be the fifth largest oil producing country in the world.

JS: Wow.

MC: And so, the fundamental story's played out very well, and many of these companies have radically improved their balance sheet, changed from partnerships to corporations. Their dividend payout ratio's much lower than they've been. And yet investors have still not come back to the space. So, it's been frustrating within Dividend Strategy. This is an area we did not have a meaningful exposure if you went back a couple of years ago.

In the last 12 to 18 months we've added a few names here, so it's not a huge position for us, but we probably have three or four percent in portfolio and energy infrastructure, and think it's very well positioned. It's a unique time in that these energy infrastructure stocks are both some of the highest yielding names in our portfolios and some of the fastest growing dividends. And I can't think of another time where I've seen that combination where you look at your portfolio that the best dividend growth you're getting is coming from ones with the highest yield.

So again, been very frustrating in the last 12 months that it hasn't played out as soon as we would have hoped. But the fundamentals still support it and we think that it's just a matter of time.

JS: And do you think that obviously investors got burned in 2016 so they still have that in their memory banks? But obviously I think that the growth that we've seen is just going to overwhelm whatever sentiment there is out there, and eventually investors will tune back into the sector.

MC: That's what Ben Graham and Buffett say. Right? So, in the short term the market's a voting machine, and in the long run it's a weighing machine. So certainly, over time, if the fundamentals continue to persist in a favorable way, one way or another the market will recognize that.

JS: And you look at the infrastructure, meaning the mid-stream assets, the toll road, so they're really contingent on how much gas or oil is going through that particular pipeline. Not necessarily what the price of the underlying commodity is.

MC: That's exactly right. And I think there's still a lot of people out there who feel that that toll road analogy may not have been as appropriate or as accurate as people would have hoped previously. But it is actually largely correct. And that's exactly right. So, the kind of names we're focused on, companies like Enbridge and Williams. Enbridge moves I think 40 percent or 35 percent of all the oil produced in North America. Williams is the primary beneficiary of production growth in Marcellus shale, which is the lowest cost, most productive, natural gas based in the United States.

And so you know, companies that are very well positioned with very long-term assets. Kind of crown jewel infrastructure. And what's interesting, getting back to the comment about sort of the weighing machine versus the voting machine, you're seeing private equity spend a lot of money in energy infrastructure. So, they're dedicated in energy funds. Several companies have recently launched or just raised global infrastructure funds. And all of them will kind of, when people ask them or in the articles about where they're focused, energy infrastructure is like the top one or two areas they're focused in.

So there seems to be a mismatch between how the private markets and you know, private institutional investors are assessing the merits of the sector and how the public markets are currently valuing them.

JS: Look, a lot of these E&P companies have foregone putting money to work in these long-term energy projects that can bring a lot of supply on. They've opted to go towards Shell. I obviously see that as a long-term boost for U.S. production, even though we're close to record levels with the U.S. I think we're just going to continue to go higher and higher because of that.

MC: I think all of the data out there would continue to suggest that there should be stronger growth in energy production going forward.

JS: Bringing up the topic of dividends, Steve, how do you see companies using their capital? What type of trends are you seeing at the moment?

SR: So, I do see a preference for dividends over buybacks primarily because of price of book multiples being higher such that you're buying back stock above book. It's not accretive to your book value. But I also see a lot of money going towards M&A as we discussed earlier.

As the landscape changes for the financial sector and being more efficient, tech savvy, scale is very important. So, you're seeing a lot of marriages between mid-cap companies in order to compete with the larger companies. Also, you're seeing it as strategically in order to ensure that you have a proper deposit base so you can fund your balance sheet growth. So really, you're seeing an emphasis on M&A which is a bit of a double-edged sword, because the M&A history for the banking sector is mixed.

So, we're very selective on the companies that are doing M&A, and when we reference stocks like PNC and USB, these are companies that are very disciplined in their M&A evaluation. In fact, PNC is very adamant about not doing whole bank M&A. So, we're very mindful in the management teams and how they're talking about using this capital and making sure that it aligns with us as shareholders.

JS: Obviously there's a lot of capital to go around with the tax cuts, so I'm sure they can do a little bit more M&A, increase their dividends, and maybe even do a little bit of share buybacks all at the same time.

SR: Yes, I mean that's the hope. I think the industry is overcapitalized, significantly overcapitalized. And you're still in the very early stages of deregulation allowing these companies to have more flexibility over that capital. And I do think that that's underappreciated by the market. And over time should the managers of these companies be good stewards of capital, that should show up in positive surprises in shareholder value.

JS: Now I want to close out the podcast and talk about something that everybody talks about. The new cycle's constantly talking about it, which is FAANG. Or maybe I should say FAANG plus M, which would be Microsoft. I don't know how you can make that as a different acronym. I'm sure somebody would have done it at this time if they could have. But none of those really …

MC: We'll keep you in strategy. Not in marketing. (Laughter)

JS: They don't pay any dividends. How does that impact you as a portfolio manager, Mike?

MC: Just to be clear, Microsoft, to which has performed like a FAANG, actually does pay a dividend. And we've owned it and done well with it. Yes, the FAANG phenomena, I think we're all aware of it. I think everybody on the street knows that these handful of stocks have done exceedingly well the last couple of years. And as a dividend investor it can be a bit challenging in that a handful of these names do not pay dividends.

And so from a relative performance perspective, that is a headwind, that's what we've seen is that historically, and this may feel counterintuitive or even like a stretch today, but while it currently feels like there's this inevitability that of course these stocks would just continue to keep going up at this meteoric rate because the world's changing so quickly, and there's just a handful of winners, historically if we go back over time, most of these cycles have ended up being just that, which is cycles. Which isn't to take away from anything that these companies are doing, or to say that they're not going to continue to be terrific companies and terrific stocks.

But historically if you look back, periods of cyclical sort of meaningful outperformance have generally mean-reverted. Which again is not to say that we're calling a top to it or anything like that, but there's a lot of sayings in investing and in Wall Street. And you know, trees don't grow to the sky. And so, it has been a bit of a challenge. For us, we have other funds at ClearBridge that have participated very nicely and done very well, and have deftly navigated that, but for dividend-focused investors, it's a point in the cycle like anything else.

JS: And this would kind of remind me of the late 1990s where I'm sure dividend growers had underperformed, but obviously once you had the economy rollover, the top of the dot com bubble, you had some mean reversion happen at that point.

MC: Yes, and listen, there are some similarities. There are some big differences too. But back then people were talking about price to eyeballs and stuff like that. And now many of these companies are meaningful cash generators, and you know, hugely profitable.

But it is also an interesting point, and I feel like what's interesting is that at times like this, where there's been such a strong run for so long, it feels like an inevitability that this will have to continue. And the world ends up generally being more dynamic and markets more competitive, and not just the stock market, but the actual markets these companies compete in. And technology is changing very quickly all the time. So, it ends up just being, predictions are tough, especially about the future.

JS: Yogi Berra right there.

MC: Yes, I love that one.

JS: Just a quick tidbit for everybody listening. Since 1990, if you look at dividend growers versus people at companies that don't pay dividend, have stable paying dividends, or dividend cutters, dividend growers have had the highest return in the lowest volatility profile out of all of those other cohorts. So hopefully we'll get mean reversion, we'll have to see when that point of inflection is.

But Mike, Steve, thank you so much for joining me in the booth here today. I think the listeners really liked your comments, and hopefully have a better outlook on what to expect in the dividend space and the financial space.

MC: Great, thanks a lot for inviting us.

SR: Thanks.

JS: And thank you all for listening to the latest ClearBridge podcast. And we hope to have you on next month for the ClearBridge podcast. So, thank you and take care.

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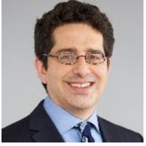

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- Member of the CFA Society New York
- BA in History from Duke University

Stephen Rigo, CFA
Director, Senior Research Analyst for Financials
- 18 years of investment industry experience
- Joined ClearBridge Investments in 2016
- Member of th CFA Institute
- BSBA in Finance rom Boston College

Jeffrey Schulze, CFA
Director, Investment Strategist
- 13 years of investment industry experience
- Joined ClearBridge Investments in 2014
- Member of the CFA Institute
- Frequently quoted in the financial media, including the Wall Street Journal, CNBC and CNN
- BS in Finance from Rutgers University

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