Breckinridge CAPITAL ADVISORS

EQUITIES | **JUNE 26, 2025**

# LOOKING BEYOND YIELD FOR STABLE DIVIDEND INCOME


**AUTHORS**

**Josh Perez, CFA**
*Portfolio Manager and Director, Corporate Research*

**Bryan Poston, CFA**
*Senior Strategist*


## Key Takeaways

- We believe that investors may place too much emphasis on high absolute dividend yield when seeking defensive and high income-generating equity exposure.
- High dividend-yielding securities are more likely to cut their dividends in times of distress, making dividend yield a poor predictor of future income.
- While they have been good for investors who want to invest in more safe stocks, high dividend-yielding securities have a lower total and risk-adjusted return over the long term.
- Investors seeking a defensive posture in their equity income portfolios should look beyond dividend yield and consider a more discerning approach that offers a comprehensive assessment of dividend payers' financial health.

## OVER-RELIANCE ON LOWER BETA,[1] HIGH DIVIDEND-YIELDING STOCKS CAN BE "RISKY" BUSINESS

Dividend equity investors often look to dividend yield as the main way to find companies that are attractive. This is likely because they like the idea that higher yielding stocks are more safe, which helps them stay stable in volatile markets.

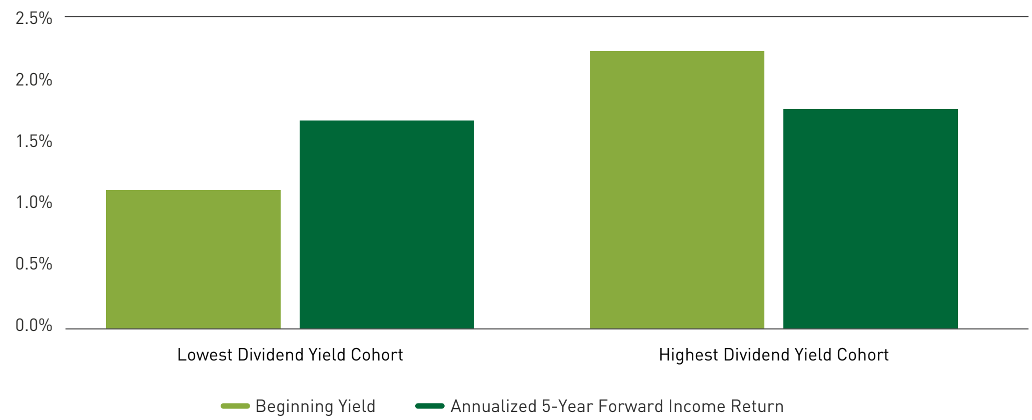
However, relying too much on dividend yield could be very misleading. It could lead portfolios toward companies that have too many dividends, weaker fundamentals, and limited growth chances.

While dividend yield is an important input, it is only the first piece of a more complex puzzle. A more balanced and forward-looking approach is essential for building a durable, income-generating equity portfolio.

## TODAY'S HIGH YIELD MAY NOT BE TOMORROW'S HIGH INCOME

Income derived from high dividend-yield equities is not a reliable indicator of forward income returns (See Figure 1). Companies with the highest dividend yields have given out 50 basis points (bps) less in dividend income each year than they said they would over the next five years.

**FIGURE 1:** BEGINNING DIVIDEND YIELD VS. ANNUALIZED 5-YEAR FORWARD RETURNS



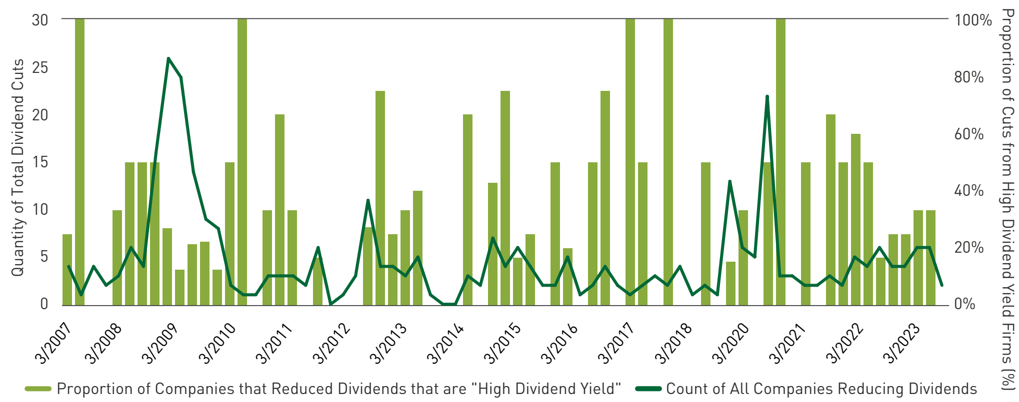

Source: Breckinridge Capital Advisors and Corporate Finance Institute, as of September 30, 2024.
Past performance is not indicative of future results.

These charts are based on the data used in our analysis of monthly index returns for the period January 1994 to September 30, 2024. The analysis is intended to illustrate that equity dividend yields are not as reliable predictors of realized income returns as bonds, especially at higher dividend yields. Historically, investment grade (IG) bonds have a low default rate compared to non-IG bonds. For example, S&P Global reported that the highest one-year default rates for AAA, AA, A, and BBB-rated bonds (IG bonds) were 0 percent, 0.38 percent, 0.39 percent, and 1.02 percent, respectively. It can be contrasted with the maximum one-year default rate for BB, B, and CCC/C-rated bonds (non-IG bonds) of 4.22 percent, 13.84 percent, and 49.28 percent, respectively. Yields are snapshot metrics for securities that can help investors in valuing a security, portfolio or strategy. Yields do not represent performance results but are one of several components that contribute to the return for a security, portfolio or strategy.

1. Beta is a measure of a stock's volatility in relation to the overall market. High-beta stocks generally are considered riskier while offering higher return potential.

In contrast, the group of companies that first said they had the lowest average dividend yield actually made 60bps more in income each year than they said they had. The underwhelming income derived from the high dividend-yield cohort is likely due to dividend cuts and eliminations. In fact, during instances when dividends were reduced, 33 percent of those instances occurred within the highest dividend yield cohort (See Figure 2).

**FIGURE 2:** DIVIDEND CUTS & HIGH DIVIDEND YIELD

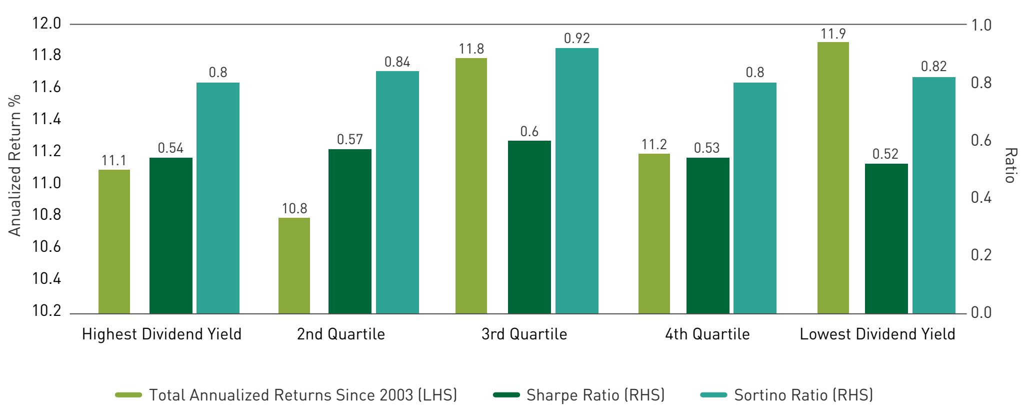



Source: Breckinridge Capital Advisors and Corporate Finance Institute, as of September 30, 2024.
Past performance is not indicative of future results.

## HIGH DIVIDEND YIELD MAY ALSO RESULT IN BOTH ABSOLUTE & RISK ADJUSTED UNDERPERFORMANCE OVER THE LONG TERM

The high dividend-yield cohort has underperformed on both an absolute and on a risk-adjusted basis over the long term, using both Sharpe[2] and Sortino[3] ratios (See Figure 3). These cohorts tend to lag broader market performance during up-markets, likely due to a variety of factors such as exposure to established companies in mature industries with less appealing growth prospects (such as Materials) or sectors that are constrained due to regulatory or structural reasons (such as Utilities and Real Estate Investment Trusts (REITs)). Risk-adjusted metrics indicate that the middle quintiles exhibit stronger results and avoid the tails of the distribution.

**FIGURE 3:** HIGHEST DIVIDEND YIELD COHORT UNDERPERFORMS OVER THE LONG TERM




Source: Breckinridge Capital Advisors and Corporate Finance Institute, as of September 30, 2024.
Past performance is not indicative of future results.

2. The Sharpe ratio is a metric used in finance to assess the performance of an investment by adjusting for its risk. It measures the excess return (return above a risk-free rate) per unit of risk (usually measured by standard deviation). A higher Sharpe ratio generally indicates a better risk-adjusted return, meaning the investment is providing more returns for the level of risk taken.
3. The Sortino ratio is a measure of risk-adjusted return that focuses on downside risk. It assesses how well an investment performs relative to the volatility of returns below a specified target or minimum acceptable return, unlike the Sharpe ratio which considers total volatility. The Sortino ratio indicates how much excess return an investment generates for each unit of downside risk.

## THE CASE FOR COUNTERBALANCING HIGH DIVIDEND YIELD

There are discerning approaches to seeking downside mitigation and/or income generation without significantly sacrificing higher absolute and risk-adjusted returns over the long run. For investors focused on income stability and downside risk mitigation, focusing solely on high dividend yield can sometimes lead to disappointment.

Ultimately, we believe that investors seeking sustainable dividend income would be better served by considering factors such as payout ratio, earnings quality, dividend growth and balance sheet strength in addition to dividend yield. While these metrics may make portfolios give a lower overall dividend yield, they help income stay steady while giving more chances for more dividend growth and capital appreciation.