MARKET MINUTE
WITH McGAREL

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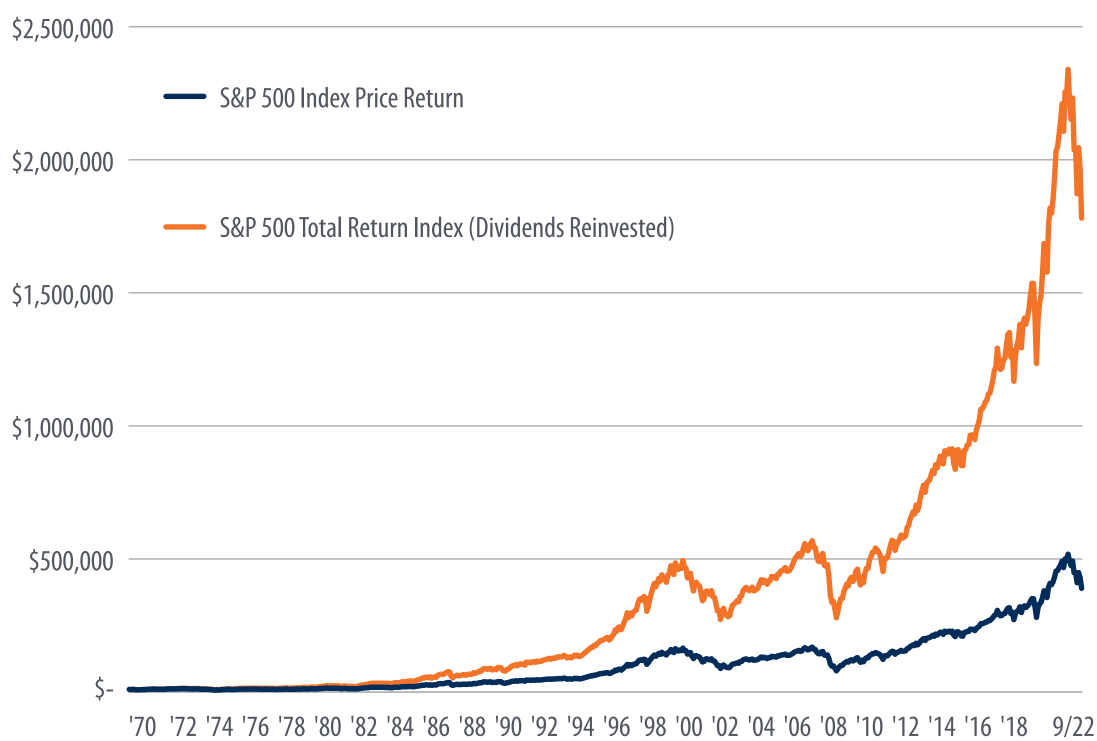
For the three calendar years ending in 2021, the price appreciation of the S&P 500 Index was 90%. The total return with dividends was 100%. Only 10% of the return came from dividends. That belies history. According to Ibbotson Associates, a division of Morningstar, dividends have provided approximately 39% of the 10.46% average annual total return on the S&P 500 Index from 1926 through 2021.

In periods when the market performs well above the long-term average, such as the last three calendar years with price returns of 29%, 16%, and 27%, respectively, for 2019, 2020, and 2021, it is logical that dividends would make up a much smaller part of that total return. The total return is even more skewed to stock price appreciation versus dividends when growth stocks that pay little or no dividends dominate the market. In those last three full calendar years, growth stocks did dominate as their prices increased 123% and value stock prices only increased 55% as measured by the S&P 500 Growth and Value Indexes.

According to Bloomberg, the S&P 500 Value Index currently yields 2.22% and the S&P 500 Growth Index only yields 1.0%.[1] Additionally, the P/E multiple of S&P 500 Value Index is 17.3x versus 23.5x for S&P 500 Growth Index.[1] In our opinion, in an environment of higher for longer interest rates, equity prices do not have much, if any, opportunity to grow their earnings multiples. Those higher interest rates will ultimately slow GDP growth and earnings growth rates will slow as well even if the economy avoids a recession. We expect equity returns in that environment to be more muted and simply put, dividends will make up a much larger percentage of the total return over the next several years.

Growth of $10,000 in the S&P 500 Index Since 1970



Source: Bloomberg. Data from 12/31/1969 - 9/30/2022. The chart is for illustrative purposes only and not indicative of any investment.

Past performance is no guarantee of future results.

[1]Data as of 12/2/2022.

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The **S&P 500 Index** - An unmanaged index of 500 companies used to measure large-cap U.S. stock market performance.

The **S&P 500 Growth Index** - S&P measures growth stocks using three factors: sales growth, the ratio of earnings change to price, and momentum. Constituents are drawn from the S&P 500 Index.

The **S&P 500 Value Index** - S&P measures value stocks using three factors: the ratios of book value, earnings, and sales to price. Constituents are drawn from the S&P 500 Index.

Investors cannot invest directly in an index.

Price-to-Earnings (P/E) is calculated by taking the price divided by next twelve months earnings per share.