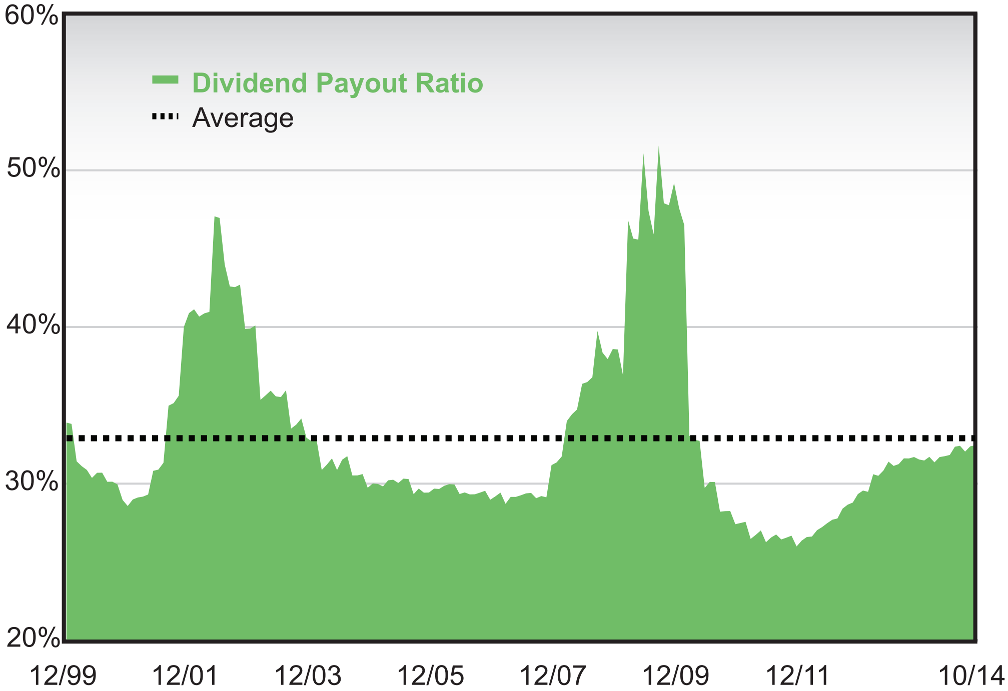
S&P 500 Stock Dividends Are Rising But The Payout Ratio Is Not



Source: FactSet. Past performance is no guarantee of future results.

View from the Observation Deck

1. The dividend payout ratio (percentage of a dollar's worth of earnings paid out as a dividend) for the companies in the S&P 500 stood at 32.5% in October 2014, slightly below its 32.9% average since 1999 (see chart).
2. Since the 1930s, the ratio has averaged closer to 52%, according to S&P Dow Jones Indices.
3. The lower payout ratio in recent years is one of the reasons why the dividend yield on the S&P 500 continues to hover near 2.00%, in our opinion.
4. A second reason is that many S&P 500 companies have been aggressively buying back their own stock instead of using their cash for other purposes, including larger dividend distributions.
5. Over the past 12 quarters (thru Q2'14), S&P 500 companies spent approximately $1.36 trillion on buybacks, compared to $886.2 billion on stock dividends, according to S&P Dow Jones Indices.
6. Corporate America is flush with cash. The S&P 500 (ex-Financials) cash and equivalents balance stood at $1.35 trillion at the close of Q2'14, just below the all-time high of $1.36 trillion in Q4'13, according to FactSet.
7. Companies have a multitude of ways to spend their cash. Some of the more common are buybacks, stock dividends, acquisitions and reinvesting back into the business.
8. With the S&P 500 setting new all-time highs, buybacks are growing more costly. We will be monitoring to see if companies choose to commit more of their capital to stock dividend payouts moving forward.