Rising Bank Dividend Payouts Are A Sign Of Strength

View from the Observation Deck

1. Since the biggest banking institutions in the U.S. were at the epicenter of the 2008-2009 financial crisis, investors should not be surprised that the recovery has been a lengthy one, in our opinion.

2. While many indices trade closer to their respective all-time highs, as of the close of trading on 2/6/19, the S&P 500 Banks Index stood 24.88% below its all-time high set on 2/20/07, according to Bloomberg.

3. The recovery in bank dividend payments has now entered its 9th year. As indicated in the chart, the post-crisis bottom in annual dividend distributions for the S&P 500 Banks Index was $1.34 per share in 2010. Even if the $12.12 per share dividend estimate for 2021 proves accurate, it would still stand 16.70% below the $14.55 per share payout in 2007, just prior to the crisis.

4. Today, the banking sector is robust, according to Deloitte. It notes that return on equity for the industry was at a post-crisis high of 11.83% heading into 2019.

5. Due to the passage of the Tax Cuts & Jobs Act in December 2017, 23 major U.S. banks were able to shave nearly $21 billion off their taxes in 2018, lowering their effective tax rates from around 28% in 2016 to below 19%, according to Bloomberg.

6. The tax savings enabled the 23 lenders to increase their dividends and stock buybacks in 2018 by a combined $28 billion from 2017’s outlay, according to Bloomberg.

7. While the recovery in the banking sector has gained a lot of ground, it remains a work in progress, and therein lies the opportunity for those investors willing to be patient, in our opinion.

This chart is for illustrative purposes only and not indicative of any actual investment. There can be no assurance that any of the projections cited will occur. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Banks Index is capitalization-weighted and comprised of 19 constituents.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA and the Internal Revenue Code. First Trust has no knowledge of and has not been provided any information regarding any investor. Financial advisors must determine whether particular investments are appropriate for their clients. First Trust believes the financial advisor is a fiduciary, is capable of evaluating investment risks independently and is responsible for exercising independent judgment with respect to its retirement plan clients.