# UK Dividend Monitor

LINK Asset Services

## Issue 36 – Q4 2018

Part of **Link Group**

The UK stock market suffered its worst year in a decade in 2018, as concerns over global growth increased sharply, and Brexit-related risks intensified. The year ended with extreme volatility in asset prices as markets absorbed the inversion of the US yield curve, fears of interference with the Federal Reserve's independence by the White House, trade concerns, and a gridlocked parliament unable to move in any direction on the UK's departure from the EU.

Company earnings have held up very well so far, and that means that dividends are also on solid ground. If the UK or world economy does head into a recession in the next couple of years, that will feed through into dividends in due course, but for now, investors can take comfort from the solid income stocks are still providing. A slumping pound has provided an additional boost to investors earning dividends from the UK's large multinationals too.

In the latest quarterly Link Asset Services UK Dividend Monitor, we consider the most recent trends in UK dividend payments, and the outlook for 2019.

## Contents




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# Executive Summary

## Overview

- 2018 dividends rose 5.1% to a headline record £99.8bn just ahead of our £99.5bn forecast
- Underlying dividends (which exclude specials) were 8.7% higher at £95.9bn
- Q4 dividends jumped 15.6% thanks to higher banking payouts and one-off factors
- Exchange-rate effects reduced annual payouts by £1.3bn; a weaker pound in the second half meant FX losses began to turn to gains
- Special dividends were lower year on year

## Sectors & Companies

- BAT made the biggest single contribution to growth, paying out an extra £0.9bn, and entering the UK top 5
- Banking dividends improved substantially, but the mining sector accounted for most of 2018's growth
- Nine in ten sectors saw dividends rise in 2018

## Top 100 v Mid 250

- Top 100 dividends lagged behind mid-caps but only owing to lower special dividends
- Mid-cap underperformance at the underlying level was caused by relatively few stocks

## Yield

- Yield on UK shares hit highest level since March 2009 as share prices have fallen and dividends have grown
- Top 100 set to yield 5%; mid-caps 3.3%; average 4.8%
- High yield is often a sign of trouble ahead, but pessimism seems too great

## Outlook

- Average yield over 30 years has been 3.5%, so the current level is exceptionally high
- Dividends would have to fall by a quarter for the yield to reach long-run average, far more than they fell in the financial crisis
- A fall of this magnitude is unlikely, even if a recession hits or Brexit goes badly
- We expect slower growth in 2019: underlying growth 5.3% to record £101.1bn; 4.2% headline growth to £104.1bn

# Overview

2018 dividends **rose 5.1%** to a headline **£99.8bn** just ahead of our **£99.5bn** forecast

Underlying dividends (which exclude specials) were **8.7% higher** at **£95.9bn**

Q4 dividends jumped **15.6%** thanks to higher banking payouts and one-off factors

UK dividends reached a record £99.8bn in 2018, just missing the £100.0bn mark by a whisker, but a touch ahead of our optimistic forecast for the year of £99.5bn. A combination of rising profits, slightly better-than-expected special dividends, and the slump in the pound in the second half of the year all contributed to a record annual dividend haul 5.1% higher in headline terms compared to 2017. The underlying total, which excludes special dividends, was 8.7% higher at £95.9bn, just beating our £95.8bn forecast.

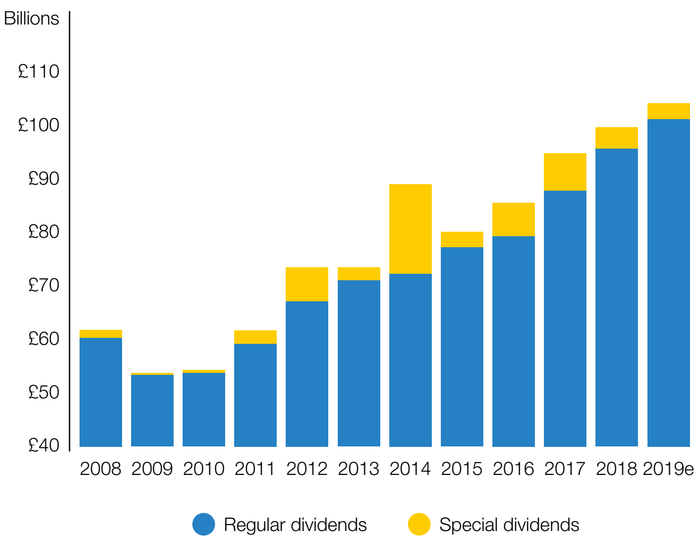
The fourth quarter, along with the first, sees dividends seasonally at a low point. Even so, the total reached a record for the fourth quarter, rising 15.6% in headline terms to £17.3bn, beating our forecast by £0.35bn. Underlying dividends were 15.7% higher at £16.8bn. Q4 was flattered by the switch to quarterly payments by British American Tobacco in 2018, but even without this effect, total dividends rose by almost one tenth. There was a strong showing by the banks, but most sectors contributed to growth.

Most strikingly, the yield on UK shares has reached levels not seen since the depths of the credit crunch.

"Most strikingly, the yield on UK shares has reached levels not seen since the depths of the credit crunch."

| Dividends Paid £bn | Q1 | Q2 | Q3 | Q4 | Full Year |
|---|---|---|---|---|---|
| 2007 | £9.6 | £20.5 | £15.6 | £12.0 | £57.6 |
| 2008 | £11.4 | £20.6 | £17.1 | £12.8 | £62.0 |
| *yoy* | *19.8%* | *0.9%* | *9.5%* | *7.2%* | *7.7%* |
| 2009 | £12.7 | £15.7 | £15.7 | £10.1 | £54.1 |
| *yoy* | *10.7%* | *-24.0%* | *-8.2%* | *-21.6%* | *-12.8%* |
| 2010 | £13.7 | £14.4 | £16.9 | £9.4 | £54.6 |
| *yoy* | *8.4%* | *-8.0%* | *8.3%* | *-6.2%* | *0.9%* |
| 2011 | £14.2 | £16.4 | £19.5 | £11.7 | £61.8 |
| *yoy* | *3.6%* | *13.4%* | *15.2%* | *24.4%* | *13.4%* |
| 2012 | £17.2 | £21.6 | £21.7 | £13.4 | £73.9 |
| *yoy* | *20.9%* | *32.0%* | *11.1%* | *14.1%* | *19.5%* |
| 2013 | £12.8 | £23.7 | £23.0 | £13.9 | £73.4 |
| *yoy* | *-25.4%* | *9.6%* | *6.0%* | *3.7%* | *-0.7%* |
| 2014 | £27.9 | £23.7 | £23.4 | £13.9 | £88.9 |
| *yoy* | *117.7%* | *0.2%* | *1.7%* | *-0.3%* | *21.1%* |
| 2015 | £13.4 | £27.0 | £24.7 | £15.0 | £80.1 |
| *yoy* | *-51.9%* | *13.8%* | *5.7%* | *8.1%* | *-9.9%* |
| 2016 | £14.3 | £29.5 | £26.7 | £15.3 | £85.8 |
| *yoy* | *6.3%* | *9.1%* | *8.1%* | *2.2%* | *7.1%* |
| 2017 | £15.5 | £33.4 | £31.1 | £15.0 | £95.0 |
| *yoy* | *8.8%* | *13.4%* | *16.3%* | *-2.1%* | *10.8%* |
| 2018 | £17.2 | £33.0 | £32.3 | £17.3 | £99.8 |
| *yoy* | *10.6%* | *-1.3%* | *4.0%* | *15.6%* | *5.1%* |
| 2019e | £18.6 | £33.6 | £34.0 | £17.9 | £104.1 |
| *yoy* | *8.1%* | *1.8%* | *5.0%* | *3.5%* | *4.2%* |

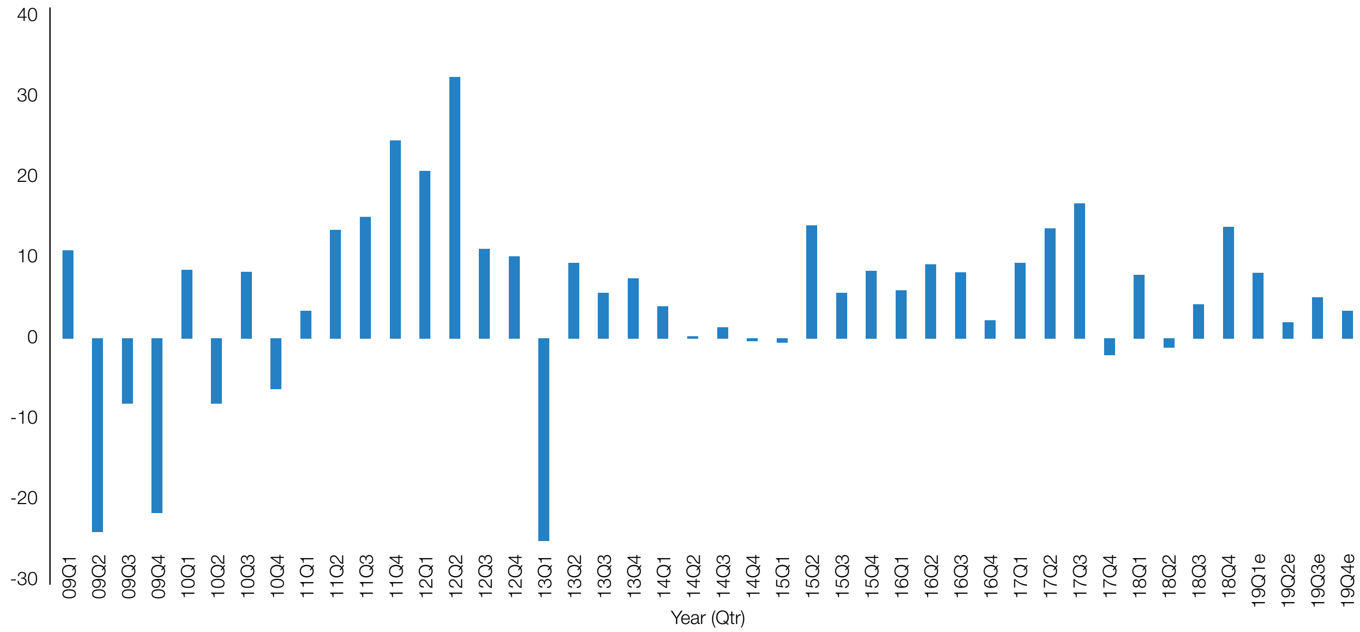
**UK dividends**



# Overview, continued

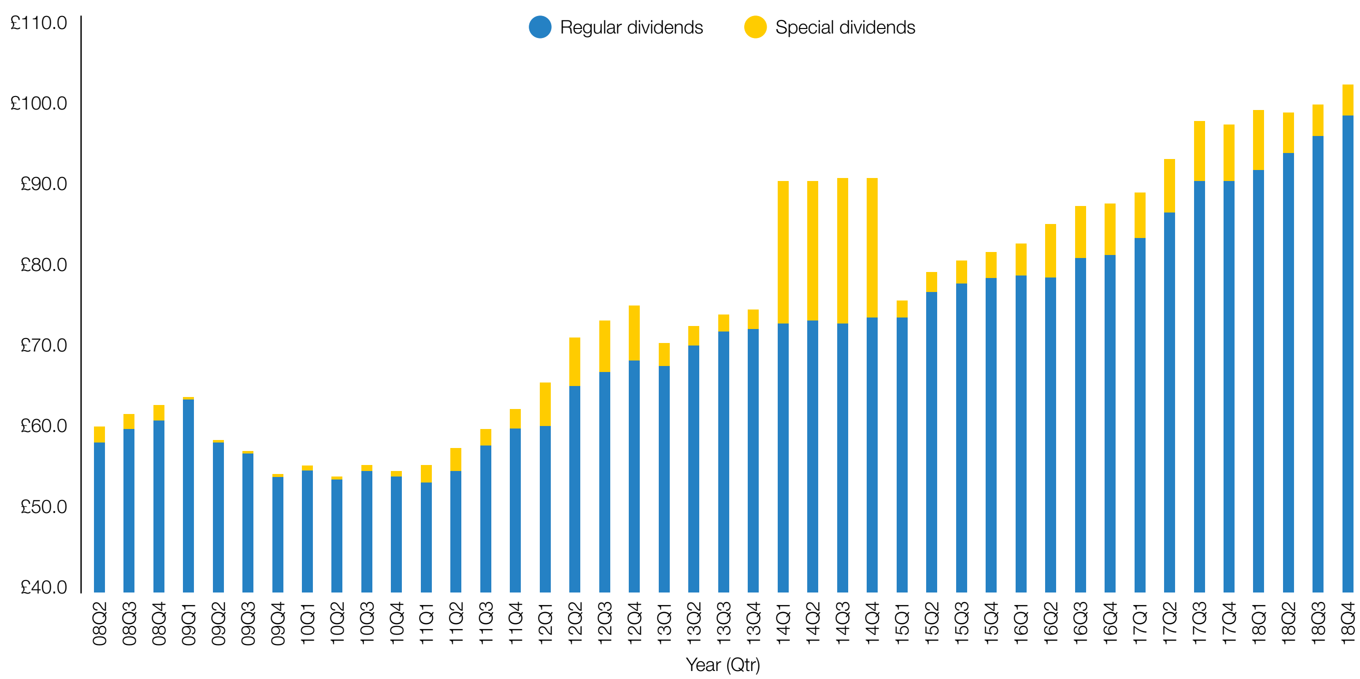
## Growth in quarterly dividends, year on year

Percentage




## Rolling 12-month dividends

Billions



# Special Dividends & Exchange-Rate Factors

Exchange-rate effects reduced annual payouts by **£1.3bn**; a weaker pound in the second half meant FX losses began to turn to gains

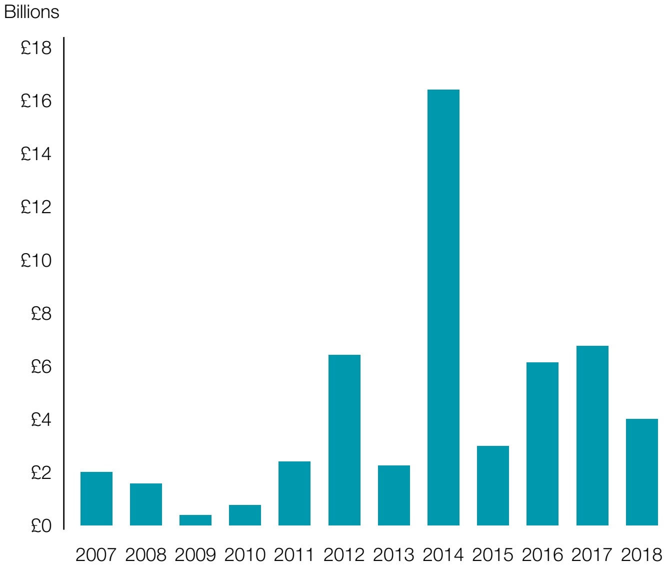
Special dividends were lower year on year

Exchange-rate effects were complex in 2018. Two fifths of UK dividends are declared in dollars, so the sterling total moves up and down with the exchange rate. The pound was stronger against the dollar in the first half of the year compared to the same period in 2017, creating a large exchange-rate penalty that was not fully reversed in the second half as the pound dropped below its comparable level against the dollar in H2 2017. There were also smaller exchange-rate effects against the euro. Over the full year, the exchange-rate penalty was £1.3bn.

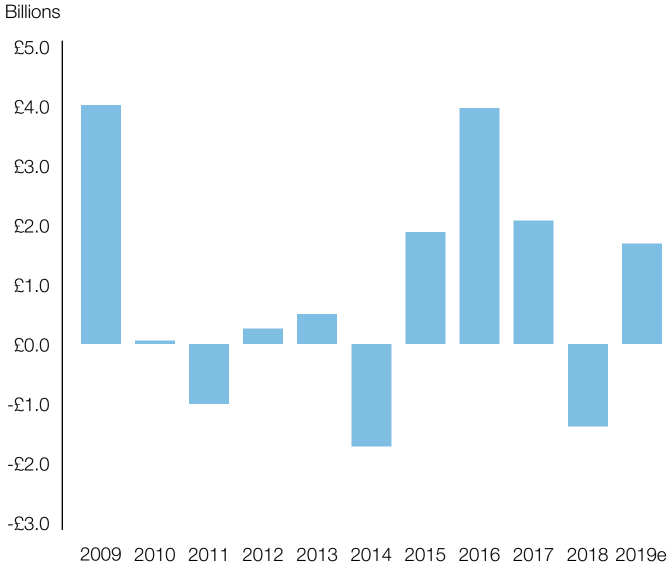
Special dividends are unpredictable as they are often linked to corporate actions such as mergers or disposals, or reflect a period of unexpectedly strong profitability. They had been very high in 2017, so 2018 was always likely to see a reversion to mean. For the full year, they fell by two fifths to £3.9bn, but they were a little better in the fourth quarter than we estimated. This factor, along with the exchange gain outlined above, accounts for the £350m difference between our Q4 headline forecast and the eventual total.

The biggest Q4 special was from Barratt Developments, repeating its Q4 2017 payment, but supermarket Morrisons, builder Bovis, stockbroker Hargreaves Lansdown, and retailer Superdry provided the upside surprise. In all five of these cases, the specials were related to strong trading. Companies with progressive dividend policies sometimes use specials so they can share the proceeds of especially good times, and maintain more steady growth in their regular dividend.

**Q4 Special dividends**




**Exchange-rate boost/penalty (full-year basis)**



# Sectors & Companies

BAT made the biggest single contribution to growth, paying out an extra **£0.9bn**, and entering the UK top 5

Banking dividends improved substantially, but the mining sector accounted for most of 2018's growth

Nine in ten sectors saw dividends rise in 2018

British American Tobacco made the biggest contribution to growth in UK dividends in 2018. Having issued shares in 2017 to take over Reynolds American, and having increased its payout by 9% per share, the company distributed an additional £0.9bn over the course of the year, single-handedly accounting for almost one fifth of the increase in UK dividends. Its £4.4bn payout was enough to propel it into the top 5 super-league for the first time, taking the fourth spot ahead of GlaxoSmithKline. The timing effect produced by it splitting its former semi-annual payments into four quarterly ones naturally makes no difference to the annual total, but it did impact each quarter significantly this year. In the fourth quarter, the switch flattered the growth rate by six percentage points, having likewise held back the second and third quarters. This effect will disappear in 2019.

GlaxoSmithKline is likely to stay in the top 5 for the next couple of years as it completes the integration of its OTC consumer health business with Pfizer's. Thereafter, it will split into two separately listed companies, which will each be out of the top 5, but with greater combined dividend power than the business we know today.

2018 saw real improvement in banking dividends. In the fourth quarter, the Royal Bank of Scotland paid its first dividend in ten years; in the second quarter, Standard Chartered paid its first dividend since 2015; and Lloyds is now distributing more than it did before the financial crisis. Barclays also made a big increase compared to 2017. Banking dividends were up 5.3% for the year, but 26.0% higher in Q4.

We can't let 2018 close without mentioning the mining sector, which has featured strongly in our recent reports. After halving their payouts in 2016, the miners doubled them again in 2017, and raised them another three fifths last year. Glencore, the last of those to restore its payout to full strength, made a particularly large impact, tripling its dividend year on year. In 2018 they made up £1 in every £9 paid by UK-listed companies, compared to the ten-year average of £1 in every £14. Big players like BHP and Rio Tinto have changed their dividend policies to target a payout ratio now, and that may mean more volatility in their dividends in future.

For the whole of 2018, only two sectors saw dividends fall, once lower special dividends and exchange-rate factors were taken into account.

"In the fourth quarter, the Royal Bank of Scotland paid its first dividend in ten years; in the second quarter, Standard Chartered paid its first dividend since 2015; and Lloyds is now distributing more than it did before the financial crisis."

# Sectors & Companies, continued

### Dividends – top companies

| Rank | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| 1 | HSBC Holdings plc | HSBC Holdings plc | BP plc | Royal Dutch Shell Plc | Royal Dutch Shell Plc | Royal Dutch Shell Plc |
| 2 | Royal Dutch Shell Plc | BP plc | Royal Dutch Shell Plc | Vodafone Group plc | Vodafone Group plc | Vodafone Group plc |
| 3 | BP plc | Royal Dutch Shell Plc | HSBC Holdings plc | HSBC Holdings plc | HSBC Holdings plc | HSBC Holdings plc |
| 4 | Vodafone Group plc | Vodafone Group plc | Vodafone Group plc | GlaxoSmithKline plc | GlaxoSmithKline plc | BP plc |
| 5 | GlaxoSmithKline plc | GlaxoSmithKline plc | GlaxoSmithKline plc | AstraZeneca plc | BP plc | GlaxoSmithKline plc |
| **Subtotal £bn** | *£19.5* | *£23.0* | *£24.9* | *£20.2* | *£22.1* | *£27.2* |
| **% of total dividends** | *34%* | *37%* | *46%* | *37%* | *36%* | *37%* |
| 6 | Barclays plc | Barclays plc | AstraZeneca plc | British American Tobacco | British American Tobacco | British American Tobacco |
| 7 | Lloyds Banking Group plc | Lloyds Banking Group plc | British American Tobacco | BP plc | AstraZeneca plc | AstraZeneca plc |
| 8 | HBOS | British American Tobacco | BHP Billiton plc | BHP Billiton plc | International Power plc | Cairn Energy |
| 9 | AstraZeneca plc | AstraZeneca plc | Tesco plc | Tesco plc | BHP Billiton plc | BHP Billiton plc |
| 10 | BT Group | BT Group | Diageo plc | National Grid Plc | National Grid Plc | Rio Tinto plc |
| 11 | British American Tobacco | Reed Elsevier Plc | National Grid Plc | Standard Chartered plc | Tesco plc | National Grid Plc |
| 12 | Aviva Plc | Aviva Plc | Unilever plc | Diageo plc | Rio Tinto plc | Tesco plc |
| 13 | Diageo plc | Tesco plc | Standard Chartered plc | Unilever plc | Standard Chartered plc | Standard Chartered plc |
| 14 | Tesco plc | Anglo American plc | Aviva Plc | Rio Tinto plc | Diageo plc | Old Mutual plc |
| 15 | Royal Bank of Scotland Group plc | Diageo plc | Reckitt Benckiser Group Plc | Imperial Tobacco Group plc | Unilever plc | Diageo plc |
| **Subtotal £bn** | *£12.5* | *£13.0* | *£10.9* | *£11.5* | *£14.2* | *£15.8* |
| **Top 15 Grand Total £bn** | *£32.0* | *£36.0* | *£35.8* | *£31.7* | *£36.3* | *£43.0* |
| **% of total dividends** | *56%* | *58%* | *66%* | *58%* | *59%* | *58%* |

| Rank | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| **1** | Royal Dutch Shell Plc | Vodafone Group plc | Royal Dutch Shell Plc | Royal Dutch Shell Plc | Royal Dutch Shell Plc | Royal Dutch Shell Plc |
| **2** | HSBC Holdings plc | Royal Dutch Shell Plc | HSBC Holdings plc | HSBC Holdings plc | HSBC Holdings plc | HSBC Holdings plc |
| **3** | Vodafone Group plc | HSBC Holdings plc | BP plc | BP plc | BP plc | BP plc |
| **4** | BP plc | BP plc | GlaxoSmithKline plc | GlaxoSmithKline plc | National Grid Plc | British American Tobacco Plc |
| **5** | GlaxoSmithKline plc | GlaxoSmithKline plc | Vodafone Group plc | Vodafone Group plc | GlaxoSmithKline plc | GlaxoSmithKline plc |
| **Subtotal £bn** | *£26.1* | *£39.2* | *£25.9* | *£32.1* | *£34.4* | *£33.8* |
| **% of total dividends** | *36%* | *44%* | *32%* | *37%* | *36%* | *34%* |
| **6** | British American Tobacco | British American Tobacco | British American Tobacco | British American Tobacco | British American Tobacco | Vodafone Group plc |
| **7** | AstraZeneca plc | AstraZeneca plc | AstraZeneca plc | AstraZeneca plc | Vodafone Group plc | Rio Tinto plc |
| **8** | Rio Tinto plc | Rio Tinto plc | Rio Tinto plc | Lloyds Banking Group plc | AstraZeneca plc | AstraZeneca plc |
| **9** | BHP Billiton plc | National Grid Plc | BHP Billiton plc | National Grid Plc | Rio Tinto plc | Lloyds Banking Group plc |
| **10** | National Grid Plc | BHP Billiton plc | Imperial Tobacco Group plc | Diageo plc | Lloyds Banking Group plc | Glencore plc |
| **11** | Glencore Xstrata plc | Glencore plc | National Grid Plc | Rio Tinto plc | Imperial Brands Plc | BHP Billiton plc |
| **12** | Standard Chartered plc | Diageo plc | Glencore plc | Imperial Brands Plc | Diageo plc | Imperial Brands Plc |
| **13** | Tesco plc | Standard Chartered plc | Diageo plc | Unilever plc | Unilever plc | Unilever plc |
| **14** | Diageo plc | Unilever plc | Sabmiller plc | BT Group | BT Group | Diageo plc |
| **15** | Unilever plc | Imperial Tobacco Group plc | Standard Chartered plc | Prudential plc | Compass Group Plc | National Grid Plc |
| **Subtotal £bn** | *£15.8* | *£16.0* | *£17.6* | *£17.4* | *£22.3* | *£21.9* |
| **Top 15 Grand Total £bn** | *£41.9* | *£55.2* | *£43.5* | *£49.5* | *£56.7* | *£55.7* |
| **% of total dividends** | *57%* | *62%* | *54%* | *58%* | *60%* | *58%* |

# Sectors & Companies, continued

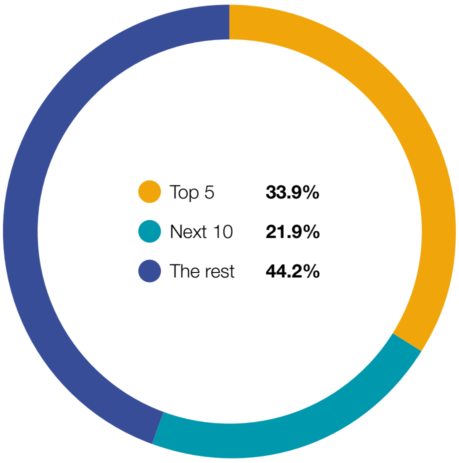
## Dividends – by industry

| Industry £m | Resources & Commodities | Consumer Goods & Housebuilding | Retail & Consumer Services | Banks & Financials | Healthcare & Pharmaceuticals | Industrials | Oil, Gas & Energy | Information Technology | Telecoms | Domestic Utilities | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2007** | £2,722 | £5,485 | £6,926 | £18,106 | £3,999 | £3,897 | £8,781 | £257 | £4,977 | £2,410 | *£57,562* |
| **2008** | £3,697 | £6,089 | £7,204 | £16,950 | £4,390 | £3,876 | £11,162 | £479 | £5,486 | £2,652 | *£61,986* |
| *yoy* | *36%* | *11%* | *4%* | *-6%* | *10%* | *-1%* | *27%* | *87%* | *10%* | *10%* | *8%* |
| **2009** | £2,570 | £6,152 | £4,674 | £10,082 | £5,253 | £3,288 | £14,076 | £295 | £4,902 | £2,786 | *£54,078* |
| *yoy* | *-30%* | *1%* | *-35%* | *-41%* | *20%* | *-15%* | *26%* | *-38%* | *-11%* | *5%* | *-13%* |
| **2010** | £3,386 | £6,941 | £5,032 | £11,868 | £5,605 | £3,646 | £9,195 | £381 | £5,343 | £3,154 | *£54,552* |
| *yoy* | *32%* | *13%* | *8%* | *18%* | *7%* | *11%* | *-35%* | *29%* | *9%* | *13%* | *1%* |
| **2011** | £5,783 | £7,699 | £6,101 | £10,564 | £5,997 | £4,094 | £10,573 | £438 | £5,651 | £4,945 | *£61,846* |
| *yoy* | *71%* | *11%* | *21%* | *-11%* | *7%* | *12%* | *15%* | *15%* | *6%* | *57%* | *13%* |
| **2012** | £6,763 | £8,288 | £6,691 | £14,908 | £6,349 | £5,018 | £13,849 | £463 | £7,733 | £3,819 | *£73,880* |
| *yoy* | *17%* | *8%* | *10%* | *41%* | *6%* | *23%* | *31%* | *6%* | *37%* | *-23%* | *19%* |
| **2013** | £7,103 | £9,328 | £7,044 | £15,080 | £6,267 | £5,344 | £12,808 | £594 | £6,060 | £3,767 | *£73,395* |
| *yoy* | *5%* | *13%* | *5%* | *1%* | *-1%* | *7%* | *-8%* | *28%* | *-22%* | *-1%* | *-1%* |
| **2014** | £6,758 | £9,978 | £7,819 | £15,693 | £6,349 | £5,738 | £12,754 | £605 | £19,252 | £3,930 | *£88,874* |
| *yoy* | *-5%* | *7%* | *11%* | *4%* | *1%* | *7%* | *0%* | *2%* | *218%* | *4%* | *21%* |
| **2015** | £7,176 | £11,466 | £7,226 | £18,809 | £6,602 | £6,211 | £13,840 | £584 | £4,444 | £3,762 | *£80,119* |
| *yoy* | *6%* | *15%* | *-8%* | *20%* | *4%* | *8%* | *9%* | *-3%* | *-77%* | *-4%* | *-10%* |
| **2016** | £3,336 | £12,214 | £9,148 | £20,278 | £8,359 | £6,214 | £17,025 | £629 | £4,751 | £3,784 | *£85,739* |
| *yoy* | *-54%* | *7%* | *27%* | *8%* | *27%* | *0%* | *23%* | *8%* | *7%* | *1%* | *7%* |
| **2017** | £7,012 | £12,528 | £8,827 | £21,311 | £7,419 | £6,519 | £18,510 | £554 | £5,332 | £6,958 | *£94,971* |
| *yoy* | *110%* | *3%* | *-4%* | *5%* | *-11%* | *5%* | *9%* | *-12%* | *12%* | *84%* | *11%* |
| **2018** | £11,451 | £14,294 | £8,314 | £22,915 | £7,333 | £7,524 | £18,272 | £763 | £5,260 | £3,907 | *£100,033* |
| *yoy* | *63%* | *14%* | *-6%* | *8%* | *-1%* | *15%* | *-1%* | *38%* | *-1%* | *-44%* | *5%* |

## Dividends – by sector

| Sector £m | 2017 | 2018 | Change year on year |
|---|---|---|---|
| Mining | £6,620.7 | £11,000.8 | 66% |
| Industrial Chemicals | £391.6 | £449.9 | 15% |
| Motor Manufacturing & Parts | £154.6 | £126.6 | -18% |
| Beverage & Food Producers | £2,310.0 | £2,450.5 | 6% |
| Consumer Goods & Housebuilding | £10,085.8 | £11,717.3 | 16% |
| Media | £2,612.5 | £2,782.9 | 7% |
| Food & General Retailing | £2,443.3 | £2,587.4 | 6% |
| Airlines, Leisure & Travel | £3,815.3 | £2,759.2 | -28% |
| Banks | £11,083.5 | £11,638.1 | 5% |
| General Financials | £3,311.5 | £3,417.5 | 3% |
| General & Life Insurance | £4,655.9 | £5,206.7 | 12% |
| Property | £2,260.5 | £2,652.2 | 17% |
| Healthcare & Pharmaceuticals | £7,419.5 | £7,333.4 | -1% |
| Building Materials & Construction | £779.1 | £940.0 | 21% |
| Industrial Goods & Support | £5,739.6 | £6,584.2 | 15% |
| Oil, Gas & Energy | £18,510.1 | £18,272.0 | -1% |
| Information Technology | £554.1 | £763.2 | 38% |
| Telecoms | £5,331.6 | £5,259.9 | -1% |
| Domestic Utilities | £6,957.7 | £3,907.3 | -44% |

## Concentration of dividend payments among UK companies – 2018



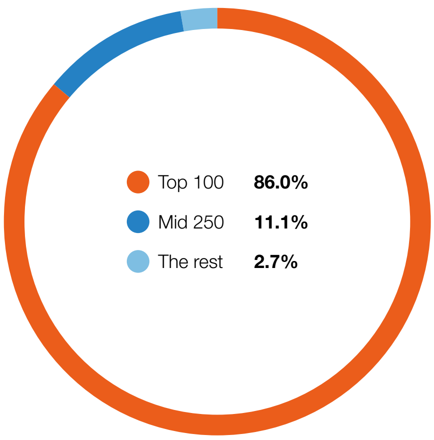
# Top 100 v Mid 250

Top 100 dividends lagged behind mid-caps but only owing to lower special dividends

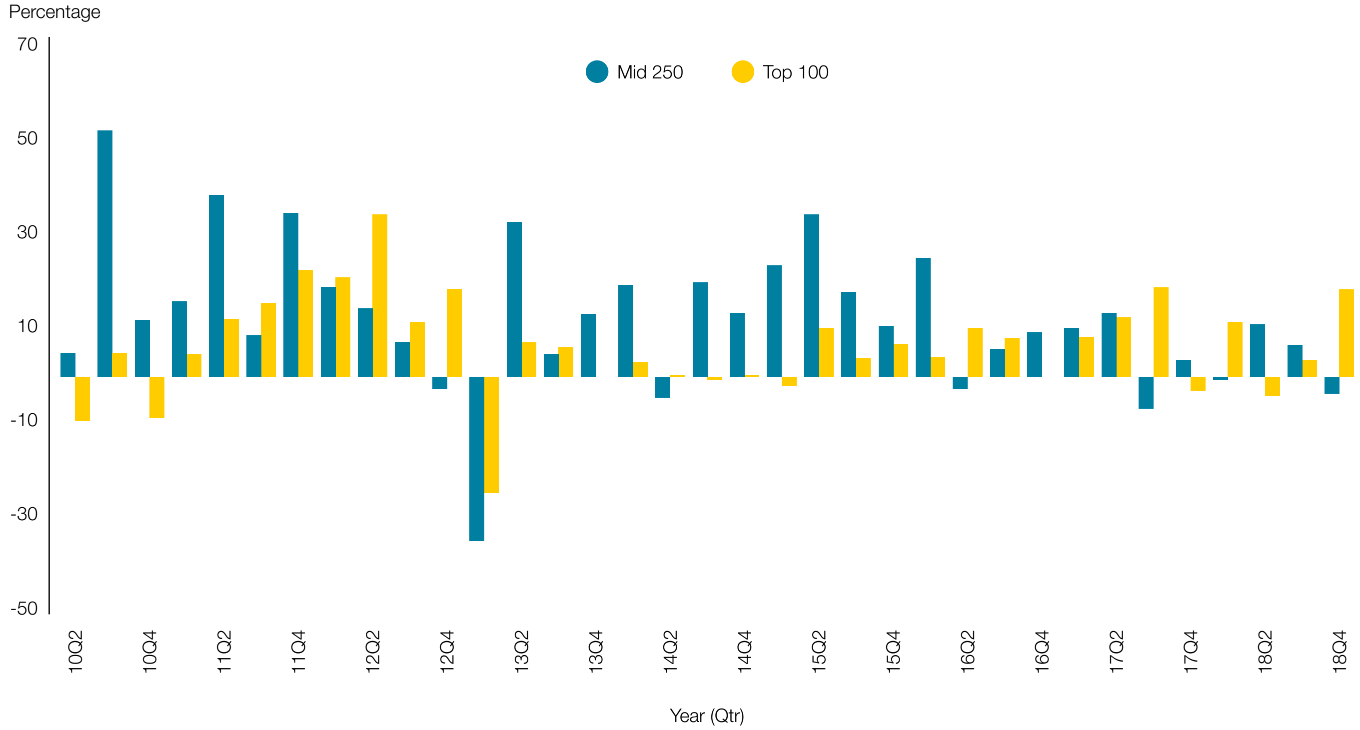
Mid-cap underperformance at the underlying level was caused by relatively few stocks

Top 100 dividends rose 4.6% in 2018 to £86.0bn, compared to an increase of 6.0% from the mid-caps to a total of £11.2 bn. But the headline figures mask a stronger performance by the UK's largest companies at the underlying level. Special dividends were much lower for top 100 year on year, but were much higher for the mid 250. On an underlying basis, top 100 payouts were 9.3% higher, while domestically sensitive mid-cap dividends inched ahead just 1.4% as the UK economy slowed. Mid-cap underlying growth lagged the top 100 all year, including the fourth quarter, though the underperformance was rather concentrated in relatively few stocks. Telecoms, retail and support services were particular weak spots among the mid-caps.

**2018 share of UK dividends**



**Top 100 v Mid 250 – annual growth per quarter**




"Special dividends were much lower for top 100 year on year, but were much higher for the mid 250."

# Yield

Yield on UK shares hit **highest** level since March 2009

Top 100 set to yield **5.0%**; mid-caps **3.3%**

High yield is often a sign of trouble ahead, but pessimism seems too great

The yield compares the value of dividends to the value of the companies that pay that income stream to investors. Shares prices plunged 11% in the fourth quarter, but dividends continued to increase, so the prospective 12-month yield on equities has risen substantially. Over the next year, shares will yield a collective 4.8%, based on our new forecast. The top 100 will yield 5.0%, and the mid-caps 3.3%. According to the Dividend Monitor archive, this is the highest prospective yield offered by UK equities since March 2009, when the stock market hit its credit-crunch bottom. At that time they also hit 4.8%. Before that, yields were last this high during the 1991 recession, according to the Barclays 2018 Equity Gilt Study. This time last year, by contrast, the collective UK equity yield was 3.6%.

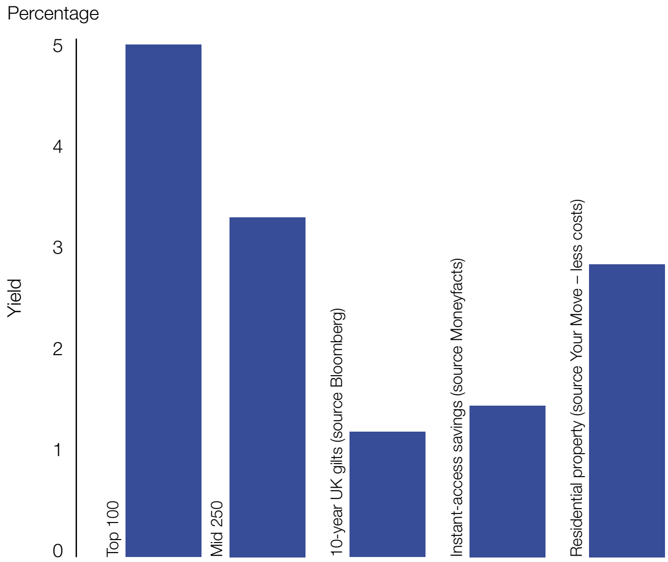
A very high yield is often a sign of trouble ahead, as investors know that company earnings evaporate very quickly when the economy turns down. Dividends are less volatile than profits, as companies tend to smooth the cycle, but they can still be expected to fall if the economy shrinks. We don't have very bullish forecasts for UK payouts next year, but we do still expect them to grow modestly.

Some troubled stocks are also making an impact. British American Tobacco's share price has halved from its peak in January after the company suffered a series of setbacks, leaving it on a yield of 8.5%. Its very large size in the index means it contributes 0.25 percentage points to the UK market's overall yield.

Centrica's dividend is much smaller, but it is barely covered by earnings and looks vulnerable, while the housebuilding sector is faced with a slowing housing market. The exceptionally high yields in this sector reflect investor scepticism about the sustainability of housebuilder payouts. Brexit concerns and those around world growth have pushed bank share prices down too, and therefore increased yields.

Equities look attractive compared to other asset classes that are yielding substantially less. The 10-year gilt saw its yield drop back to 1.24% in Q4, owing to concerns over the global economy, while cash savings returned 1.5% and property 2.8%.

## UK income



# Outlook

Average yield over 30 years has been **3.5%**, so the current level is exceptionally high

Dividends would have to fall by a quarter for the yield to reach long-run average, far more than they fell in the financial crisis

We expect slower growth in 2019: underlying growth **5.3%** to record £101.1bn; **4.2%** headline growth to £104.1bn

Even allowing for a deteriorating global economy, and company- or sector-specific problems in the UK market, a 4.8% yield in our opinion implies an overly pessimistic view on the prospects for dividends. According to the Barclays 2018 Equity Gilt Study, UK equity yields have averaged 3.5% over the last 30 years.[1] To bring the current level into line with the long-run average, UK dividends would need to fall by more than a quarter, assuming share prices remained unchanged. By comparison, the peak-to-trough decline in UK dividends during the financial crisis and subsequent recession was just under 15%. More likely it represents an undervaluation of UK stocks, which have been firmly out of favour with investors for the last two years, owing to the uncertainty over Brexit, as well as the wider global market woes.

The current disconnect between the level of dividends being paid and share prices doesn't mean share prices must rebound any time soon. Even if dividends do meet our forecast, the yield may stay elevated for as long as uncertainty persists. But if the world does sink into a recession in the next couple of years, or Brexit goes badly, the drop in dividends is likely to be in the 10-15% range, not at the levels currently implied by the market.

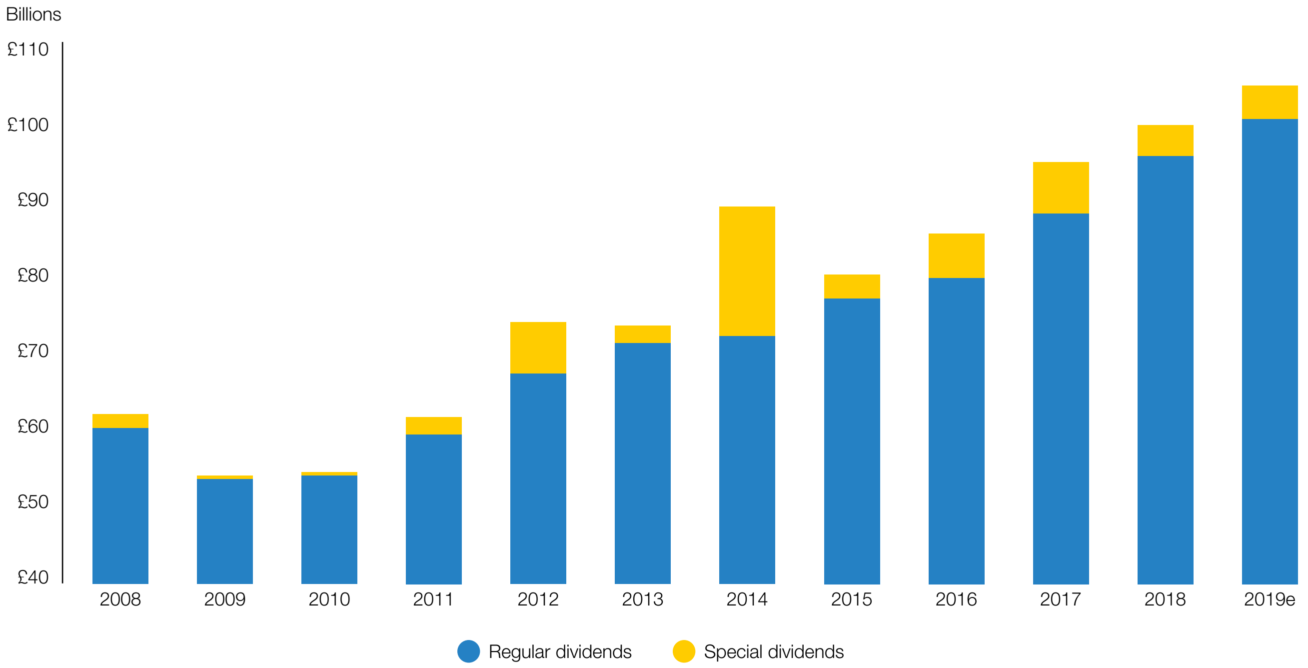
Our forecast for 2019 is for growth of 4.2% in headline terms, bringing dividends to a total of £104.1bn, comfortably a new record. This assumes specials fall further (simply because we assume reversion towards the mean), and exchange-rate gains of £1.7bn, based on the assumption that the current exchange rate persists all year (we do not attempt to forecast sterling).

Underlying growth (which excludes specials) is set to be 5.3%, pushing UK payouts to a record total of £101.1bn. This also includes the exchange-rate gain of £1.7bn, so if we strip that out, we are forecasting 3.6% underlying growth on a constant-currency basis. If the pound recovers from its current very low levels, this exchange-rate effect will be smaller.

Our forecast marks a slowdown compared to 2018. This reflects the higher risks to growth now, and the fact that the easy wins provided by the mining sector's recovery are now behind us.

1. Based on average of year-end yields

## UK dividends (full-year basis)



# Statistical Methodology

Link Asset Services analyses all the dividends paid out on the ordinary shares of companies listed on the UK Main Market. The research excludes investment companies such as listed investment trusts, whose dividends rely on income from equities and bonds. The Dividend Monitor takes no account of taxation on dividends, which varies according to investor circumstances. The raw dividend data was provided by Exchange Data International, and additional information is sourced directly from companies mentioned in the report.

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