



Basis Points – July 14, 2022

westwoodgroup.com/weeklyblog/basis-points-july-14-2022/

Above the Fold

Dividend Payouts Hit Records, but Do Your Homework Before Buying

Dividends have risen steadily over the last 10 years — barring a slight decrease in 2020 — and the trend seems to be picking up speed. S&P 500 companies paid out a record-high \$140.6 billion in dividends this most recent year quarter. So far, dividends are projected to continue their growth this year. Howard Silverblatt, a senior index analyst at S&P Dow Jones Indices, estimates that this year's dividend payments will jump 10% over the record \$511.2 billion in payments last year. This would be the first double-digit, year-over-year increase since 2014. Investors have been paying extra attention to corporate earnings as inflation still hovers at a 40-year high and the Federal Reserve continues its monetary tightening strategy. While consumer spending has cooled a bit, the threat of a recession still looms heavily in the minds of investors.

While dividends are paying out higher than ever, the broader equity market is struggling. There are 80 high-yield S&P 500 companies present in the S&P 500 High Dividend Index, which is down 4.7% in 2022, narrower than the downturn of 20% in the S&P 500. Coca-Cola, AT&T and Valero Energy are among the dividend stocks that are outperforming the market carrying a yield of 2.5% or more. Target, Levi Strauss and FedEx have all raised their payouts as well. Paying out a chunk of the earnings is a good sign that companies tend to have strong profits, which makes them appealing since investors are concerned that extra costs and tight consumer budgets could reduce profits. Companies also continue to buy back their own shares at record rates. Unfortunately, the buyback trend is expected to cool off as the year goes on and tight economic conditions continue to weigh on companies' earnings. Overall, the dividends outlook remains attractive, especially in the slowing growth environment the market is in now.

Three Things

CPI Reveals Continued Inflation, but ...

U.S. inflation jumped again to a nearly 41-year peak of 9.1% year over year. The consumer price index (CPI) jumped 1.3% for the month, marking the third time in the last four months it's topped 1%. The rise in prices was driven in large part by the continued surge in energy costs, but the reading may not have included recent corrections we've seen in oil, natural gas and even gasoline. The core reading, which strips out food and energy costs, saw a more moderate 0.7% month-over-month rise. The CPI is a lagging indicator and may have a delay in reflecting the Fed's interest rate hike impacts.

Netflix Begins Negotiations With Studios for Coming Ad-Supported Platform

The ad support that Netflix has been pursuing has taken its first steps toward reality as the streaming giant starts conversations with big Hollywood studios. Warner Brothers, Universal and Sony are among the studios that have been approached by Netflix to keep hit shows on their roster as ad revenue will need to be negotiated in the new format of the platform. Sources close to the matter expect studios to seek 15% to 30% over their current agreements to allow Netflix to offer their content in their ad-supported tier. While no decisions have been made, investors will want to keep an eye on these negotiations as some of the top-rated shows on Netflix come from these studios.

Bitcoin Mines in Texas Shut Down as Heatwave Spikes Demand

Heatwaves in Texas have caused a spike in energy demands across the state. This has prompted bitcoin mines to shut down temporarily to free up grid space so the state can use that energy to keep homes cool. The U.S. has become the global hub for bitcoin mining after China banned the practice. This migration of mines is predicted to inflate Texas' energy demand to 6 gigawatts by mid-2023. Annually, the bitcoin network uses more energy than the entire country of Belgium. But, as bitcoin prices drop and energy costs rise, mining operations are in a tough spot as the process becomes less and less profitable every day. Currently, the bitcoin miners are trying to remain thoughtful with their energy consumption, but the state of bitcoin may be hanging in the balance.

In the Know

The Bastille and the French Revolution

On July 14, 1789, Parisian and mutinous troops stormed the royal fortress and prison, the Bastille, signaling the start of the French Revolution. The fortress stood as a symbolic representation of the tyranny of the Bourbon monarchs. The French Revolution successfully dethroned King Louis XVI eventually leading to his, and thousands of others, including Marie Antoinette, being executed. Fearing the Bastille would be the likely target for the revolutionaries, Bernard-René Jordan de Launay, the Governor of the Bastille, requested reinforcements. Just days before the attack, 250 barrels of gunpowder and cannons were brought to the fortress and the drawbridges were raised. When the attack began, the revolutionaries were severely outgunned, but the overwhelming numbers ended in the Governor eventually surrendering the Bastille. From there, the revolutionaries had the arms they needed to continue their fight.

The information contained herein represents the views of Westwood Wealth Management at a specific point in time and is based on information believed to be reliable. No representation or warranty is made concerning the accuracy or completeness of any data compiled herein. Any statements non-factual in nature constitute only current opinion, which is subject to change. Any statements concerning financial market trends are based on current market conditions, which will fluctuate. Past performance is not indicative of future results. All information provided herein is for informational purposes only and is not intended to be, and should not be interpreted as, an offer, solicitation, or recommendation to buy or sell or otherwise invest in any of the securities/sectors/countries that may be mentioned.