

Should Income Investors' Race to America?



I have come across a few articles recently, highlighting the fall in European dividend payments due to COVID-19, whilst US dividends remain more-or-less unchanged.

Several go on to suggest US dividend stocks are the way to go in the midst of COVID-19.

But I'm not so sure.

Income investors holding British stocks have had a miserable time in the past three months.



The shutdown has savaged the prospects of some of the biggest companies, particularly in the oil, mining and banking sectors, which has led them to restrict or cancel dividend payments to maintain their own liquidity.

As well as the need to retain liquidity, the political, press and social media pressure on boardrooms to reduce dividends has been immense.

With some £30bn in dividends cancelled so far to date in Britain and total payouts for 2020 expected to halve, according to research firm Link Group, British income investors may want to look elsewhere for dividend income.



Research from Janus Henderson, suggests that dividends in America are less likely to be affected by Covid-19 compared with British and European companies.

This is because there are more technology firms which are operating successfully and also have vast cash accounts to continue dividend distributions.

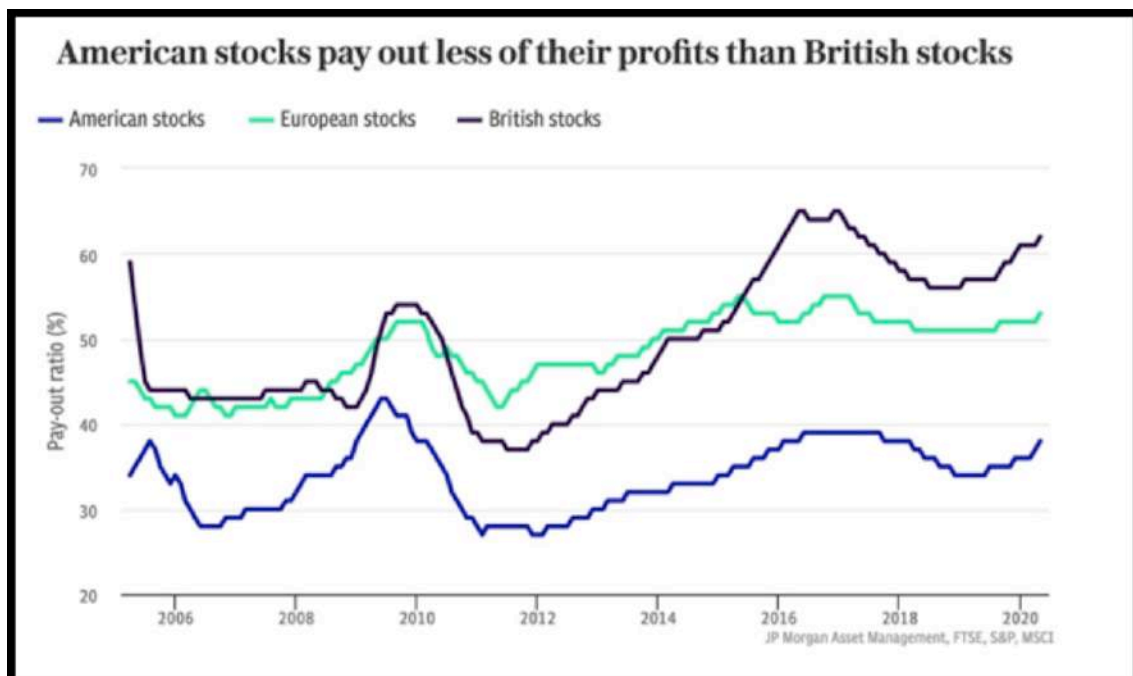
Amazon, Facebook and Alphabet have never paid a dividend, but despite this, US technology companies pay \$1 in \$7 of all American dividends - about three times the proportion in the rest of the world.



The American healthcare and consumer basics sectors also distribute more dividends than elsewhere, and both seem to be coping with COVID 19 better than most.

American companies are also more resilient because they typically pay out less of their profits as dividends compared to Britain and Europe, and this means companies have more flexibility to maintain dividends during periods where earnings are weak.

Part of the reason for this lower payout ratio is that American companies tend to use share buybacks as a way of returning value to shareholders.



But even though American dividends may be more consistent, they actually pay investors much less than British stocks. Britain is, even now, a higher dividend-paying market than America and yields more for investors.

British stocks are expected to yield 2 to 3pc this year, compared with a typical 4%+ average for the FTSE100. The S&P 500 is expected to yield between 1.6pc and 1.9pc this year, little changed from the average of 1.95% over the last 5 years or so.

Quality wins

