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A silver lining for income investors

It has been a bleak year for income investors, particularly those backing UK funds which have been among the biggest losers following the widespread dividend cuts in response to Covid-19. UK dividend payments had hit record levels for three years on the spin (2017, 2018 and 2019), with pay-outs last year coming in at £110.5 billion. For 2020, the latest figures from Link Group, which monitors UK dividend payments, expects UK dividends, excluding special dividends, to fall to around £60 billion.

It has been widely said by many fund managers that Covid-19 has accelerated certain pre-existing trends and has created both winners and losers. The standout winners, following millions of people shifting to work from home, have been technology businesses. Among the losers have been sectors and industries that prior to Covid-19 looked structurally challenged and now appear in terminal decline, such as bricks-and-mortar retailers that do not possess an online presence.

While this is a blow for income investors, the UK dividend cuts are another example of the acceleration of a pre-existing trend. At the start of 2020, the UK market stood out for its high dividend yield versus other countries, with payments from the 15 biggest UK dividend payers expected to account for 60% of all income paid out from UK-listed companies.

Some of these industries were struggling to grow and Covid-19 accelerated the decline in some of them, which put pressure on the big firms which dominate the headline figure for overall dividend payments to pay their annual dividends as they were looking less and less sustainable.

But there are reasons for optimism. Although in 2021 dividends for the UK market as a whole are going to be lower when compared to previous years dividend levels, they will now be at more sensible levels, which could be seen as a silver lining for investors. Many higher quality businesses will emerge, and these tend to have a lower dividend yield but have greater scope for dividend growth, as a sufficient amount of cash is being generated to pay dividends.

Another potential silver lining, which will give income-seeking investors hope that 2021 will be a better year, is that many of companies that suspended dividends in 2020 will be ready to resume payments. Many of these companies want to pay a dividend and have the cash to do so, but may have suspended not because they couldn't afford to pay, but because they were either asked to suspend the payments by their regulators or that it would seem inappropriate while at the same time they were furloughing their staff. However, it may not be at the same levels of previous payments. And for the companies that did cut its dividend in 2020, these offer the greatest prospect for dividend growth, making 2021 likely to be a better year for income seekers.

Market Snapshot (20.11.20 – 27.11.20)

Market Snapshot (20.11.20 – 27.11.20)			10 Year Bond Yields			Currency			Commodities		
FTSE 100	6367.58	↑0.25%	UK	0.28	↓15.15%	£/$	1.3310	↑0.20%	Brent Crude	$48.27	↑6.70%
S&P 500	3638.35	↑2.27%	US	0.84	↓1.18%	£/€	1.1131	↓0.67%	Gold	$1783.10	↓4.71%
NIKKEI 225	26644.71	↑4.38%	Germany	-0.59	↓1.89%	€/$	1.1964	↑0.92%			
DAX 30	13335.68	↑1.51%	Japan	0.03	↑50.00%	£/¥	138.6400	↑0.49%			
CAC 40	5598.18	↑1.86%									

Figures quoted are in local currency
Source: FE Analytics & Financial Times

Week Ahead

Monday – China: Caixin Manufacturing PMI (Nov)
Tuesday – Germany: German Unemployment Change (Nov)
Wednesday – US: ADP Nonfarm Employment Change (Nov)
Thursday – UK: Composite PMI (Nov)
Friday – US: Unemployment Rate (Nov)

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