

## Navigator® High Dividend Equity

### Author



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### A Fork in the Road?

Since the market bottom in March 2009, the Russell 1000 growth and value indices produced similar total returns until shortly after the 2016 presidential election. By early 2017, the positive momentum of large-cap growth stocks dramatically increased, outpacing most assets classes to date.

In September, the market experienced a sharp two-day reversal into value stocks prompting the question, "What will be the longer-term style trend and how does it impact dividend payers?" Fortunately for investors, the trend is improving for dividend investors to be represented in growth-oriented sectors including; Technology, Consumer Discretionary and Communications as well as traditional value sectors.

For example, Technology stocks in the S&P 500 now contribute over 16.0% of total index dividends versus the long-term historical average of 6.6% dating back to 1972. Dividend investors have also benefitted from portfolio characteristics such as compounding cash flow, quality fundamentals and lower betas.

Despite the September value rotation, growth has outperformed in the third quarter and year- to-date. While it is too early to determine if the "forgotten" value trade will persist, the performance spread between the styles is stretched to its widest level in nine years. Although value stocks normally trade at a discount to growth, the P/E ratio spread reached an 18-year high, increasing the likelihood of a trend change in the future.

The old principle "water seeks its own level" can rhyme with market pricing when valuation dispersions widen too far. This scenario could be followed by more moderate growth returns and outperformance in value sectors such as Financials, Energy and Materials. There are several catalysts that could contribute to a trend change including a potential China-U.S. trade deal, global growth acceleration or the Federal Reserve reversing consensus easing expectations.

According to FactSet, "In the third quarter, a larger percentage of S&P 500 companies lowered the bar for earnings versus recent quarters. The percentage of companies issuing negative EPS guidance is 73%, which is above the 5-year average of 70%." Historically, value stocks tend to improve as corporate profit growth strengthens. For the balance of the year, the earnings trough witnessed in the second quarter could extend into year-end, but higher single digit earnings growth is projected for the first half of 2020.

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 Your Future.  
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 Journey.

*Past performance is not indicative of future results.  
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## Stock and Sector Attribution

For the quarter, the strongest contributing sectors were Energy, Industrials and Communications while the weakest included Financials, Staples and Materials. The top five contributing stocks were AT&T Inc., Home Depot, Inc., Lockheed Martin Corporation, NextEra Energy, Inc. and Southern Company. The top five detractors were Pfizer Inc., Cisco Systems, Inc., BHP Group Ltd, Philip Morris and UnitedHealth Group.

Source: Ned Davis, Wolfe Research.

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The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 75% of U.S. equities.

The Russell 1000 Index measures the performance of the 1,000 largest U.S. companies based on total market capitalization, which represents 90% of the investable U.S. equity market.

Beta measures volatility, or systematic risk, of an individual stock in comparison to the unsystematic risk of the entire market. In statistical terms, beta represents the slope of the line through a regression of data points from an individual stock's returns against those of the market.

The price-earnings ratio, also known as P/E ratio or P/E, is the ratio of a company's share price to the company's earnings per share.

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Ticker	Quarter Ending September 30, 2019	Average Weight (%)	Contribution to Return (%)
<b>Top 5 Contributors</b>			
T	AT&T Inc.	1.80	0.27
HD	Home Depot, Inc.	2.17	0.26
LMT	Lockheed Martin Corporation	2.81	0.23
NEE	NextEra Energy, Inc.	1.59	0.22
SO	Southern Company	1.60	0.21

Source: Factset. For illustrative purposes only.

Ticker	Quarter Ending September 30, 2019	Average Weight (%)	Contribution to Return (%)
<b>Top 5 Detractors</b>			
PFE	Pfizer Inc.	1.63	-0.30
CSCO	Cisco Systems, Inc.	2.37	-0.29
UNH	UnitedHealth Group Incorporated	2.45	-0.27
BHP	BHP Group Ltd Sponsored ADR	1.57	-0.21
PM	Philip Morris International Inc.	1.54	-0.15

Source: Factset. For illustrative purposes only.

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