Yardeni Research

MORNING BRIEFING
March 18, 2021

Dividends & Hydrogen

Check out the accompanying chart collection.

(1) Rising confidence reflected in rising dividends. (2) Many companies reversing 2020 dividend suspensions. (3) Some retailers and REITs reinstate dividends, but travel-related companies not there yet. (4) Will banks boost dividends too? (5) S&P 500 dividend yield and 10-year Treasury yield coming into balance. (6) Large truck manufacturers and upstarts alike exploring hydrogen fuel. (7) Hyundai leads with a hydrogen-fueled truck being tested on the road today.

Strategy I: Dividends Sprouting. It's one thing for a CEO to say she's optimistic about the future. It's another for her to be confident enough to initiate or raise the company's dividend. But that's exactly what many CEOs have done recently as economic visibility has increased and demand in many sectors has normalized.

Forty-two S&P 500 companies suspended their dividends from March through July of last year as Covid-19 shut down the economy for an indeterminate length of time, according to data from S&P Dow Jones Indices. Since then, 10 of those companies have reinstated their dividends.

It is also impressive that the dollar value of the dividends paid by S&P 500 firms has rebounded quickly. Dividend payouts per share rose to $14.64 at year-end, up from $13.97 at the end of September and nearly back to the peak of $15.32 a share paid in Q1-2020. The rebound owes much to companies that have reinstated their dividends, along with those that actually increased their dividends last year, like Microsoft and Apple. So far in 2021, only one company in the S&P 500 has decreased its dividend and one company has suspended its dividend, S&P Dow Jones Indices reports. Meanwhile, 110 companies have increased their dividends and three companies have reinstated them.

Let's take a quick look at which CEOs have put their money where their mouths are:

(1) *Retailers seeing the light.* Exactly half of the S&P 500 companies that suspended dividends in 2020 were in the index's Consumer Discretionary sector. But consumer demand has held up far better than was expected, thanks in part to massive government payments. The essential retailers that never shut down—such as Walmart, Costco, and Target—didn't have to cut their dividends last year. And many of the smaller retailers that did shut down and suspended their dividends early in 2020 have started reinstating them in recent months (*Fig. 1*).

Discount retailers Ross Stores and TJX both have reinstated their dividends. Ross announced earlier this month that it would reinstate its dividend at 28.5 cents a share, which is the same amount it was when it was suspended in May. TJX announced it would reinstate its divided at a rate that's 13% higher than it was when the company last paid a dividend in March 2020. Estee Lauder reinstated its dividend in August and then increased it in November, leaving it 10% higher than when it was suspended in April.

Last week, S&P 500 member L Brands announced it will repay more than $1 billion in debt, reinstate its dividend, and start buying back shares up to $500 million. The dividend, at 60 cents per share, will only be half of what it was when it was suspended last spring. A number of non-S&P 500 retailers—including American Eagle Outfitters, Dick's Sporting Goods, Kohl's, and Steve Madden—also have resumed paying dividends.

(2) *REIT dividends return.* Kimco Realty, Weyerhauser, and Tanger Factory Outlet Centers each reinstated their dividends after suspending them in 2020, but at much lower payout levels.

Kimco Realty's dividend was reinstated at eight cents a share instead of the 28 cents it paid before being suspended in May 2020. Likewise, Weyerhauser's dividend was reinstated at 17 cents a share, half of what it was in May. The forest products company also gave itself more flexibility by instituting a "variable supplemental dividend." It allows the company to have a small dividend that it can supplement when possible.

Tanger Factory Outlet Centers isn't a S&P 500 member, but it too lowered the bar when it reinstated its dividend. The dividend now stands at $0.178 per share, down from $0.355 prior to the pandemic. Despite a high vacancy rate, the outdoor outlet mall operator remained profitable and cash-flow positive in the second half of 2020. S&P 500 member Simon Property Group never suspended its dividend but did cut it sharply to $5.20 a share, down from $8.35 a share early in 2020.

(3) *Travel companies not paying out … yet.* Many companies that suspended dividends last year were in the travel industry and have yet to reverse their decisions. But as vaccinations roll out, more people appear to be venturing out. Spring breakers are once again causing mischief in Florida, the number of fliers passing through TSA checkpoints has surged past the million-person mark consistently in recent days, and on Tuesday JetBlue called back flight attendants who took leaves of absence this spring (*Fig. 2*).

S&P 500 airlines with suspended dividends include: Alaska Air Group, American Airlines, Delta Air Lines, and Southwest Airlines. Hilton Worldwide Holdings, Host Hotels & Resorts, Las Vegas Sands, Marriott International, and Wynn Resorts are the hotel giants that suspended dividends in 2020. Cruise operators Carnival Corporation and Royal Caribbean Cruises grounded their dividends as well.

(4) *Dividends to watch*. Energy companies' dividends, which were considered endangered species when the price of Brent crude sank to $19.33 a barrel on April 21, 2020, once again are viewed as viable with the price of a barrel of crude at $68.06 (*Fig. 3*). Marathon Oil reinstated a 12-cent-per-share dividend in Q4, below the 20-cent dividend it suspended earlier in the year.

Ford, GM, and Disney have not reinstated the dividend payments they suspended last year. They've been rewarded for redirecting their cash into developing future technologies. The automakers are developing electric cars and batteries, and Disney has focused on developing and streaming content on Disney+. GM's CEO Mary Barra told analysts in November that the company was looking at reinstating a payout in the middle of this year, a November 25 *Barron's* article reported. However, those comments were made prior to the chip shortage that has plagued the auto industry this year. Meanwhile, Disney CEO Bob Chapek has said the company aims to reinstate dividend payments "at some point" in the future, a March 9 Reuters article reported. The company got one step closer to that point Wednesday when it announced its California parks will be reopening at reduced capacity on April 30.

Other S&P 500 companies that haven't reinstated dividends after suspending payments in 2020 are: Aptiv, Boeing, Coty, DXC Technology, Expedia Group, Freeport-McMoRan, Gap, Nordstrom, Ralph Lauren Macy's Maxim Integrated Products, Molson Coors Beverage, PVH, Tapestry, and Western Digital.

Large banks proved resilient last year and didn't have to cut their dividends. But banks may raise dividends this year after the Federal Reserve loosened restrictions on payouts in December. Now, banks' dividend and stock buybacks can't surpass their average earnings over the past four quarters, and banks must show that they are profitable. Minutes after the Fed announcement, JPMorgan Chase announced it would repurchase $30 billion of its shares in Q1, a December 18 *NYT* article reported. No news yet on any changes in its dividend payment plans.

Strategy II: Dividends & Treasury Yields Dance. By the end of last year, the S&P 500's dividend yield had fallen a bit, and in recent weeks the 10-year Treasury yield has risen a bit—leaving the two more in sync. During Q4-2020, the S&P 500 dividend yield fell to 1.55% from a high of 2.30% in Q1-2020 (*Fig. 4*). That's based on the four-quarter trailing sum of dividends, which was $484.7 billion for the S&P 500 through Q4. Conversely, the 10-year US Treasury bond yield has risen from its low of 0.52% on August 4, 2020 and broken through the 1.00% level to 1.62% recently.

Our Blue Angels analysis imputes the hypothetical levels of the S&P 500 price index at various dividend yield levels by dividing the actual S&P 500 dividend (on a four-quarter trailing sum basis) by the various dividend yields used. It shows that the S&P 500 has been tracking dividend yields of 2.00% since 2010 (*Fig. 5*). That's been a remarkably stable trajectory for the S&P 500. We had suggested that S&P 500 shares would rally sharply if the market ever priced in a dividend yield that was closer to the Treasury yield. And in recent weeks, the stock market has rallied, reducing the S&P 500 dividend yield to 1.45% as of March 16, much closer to both the implied dividend yield of the Blue Angels and the yield of the 10-year US Treasury.

If the 10-year Treasury note yield rises to 2.00%, stocks may hold onto their current gains assuming that dividend payments increase enough to boost the S&P 500's dividend yield to 2.00%. But if Treasury yields rise faster than the S&P 500's dividend yield, that could leave stocks vulnerable.

Disruptive Technologies: Hydrogen-Fueled Trucks. Much as passenger cars are migrating toward electric batteries as their future power source, large tractor trailers are gravitating toward hydrogen fuel cells to power them. Fuel cells offer the benefit of propelling a truck further before refueling is needed. In addition, hydrogen refueling is much faster than recharging a battery, only a matter of roughly 15 minutes instead of 30 minutes to an hour.

There are drawbacks to depending on hydrogen fuel, however, including the lack of refueling infrastructure. That has created a chicken/egg problem, where it's risky to build hydrogen-powered trucks without the existence of hydrogen-refueling areas and it's risky to build hydrogen-refueling areas before there are hydrogen-powered trucks to use them.

Nonetheless, large and small truck manufacturers have started to throw real money at developing hydrogen-powered trucks, propelled by restrictions on diesel-fuel-powered trucks coming soon in Europe and California. California's Advanced Clean Truck rule requires a percentage of a fleet's trucks to have zero carbon emissions beginning in 2024, and other states are expected to adopt similar rules. Meanwhile, politicians in Brussels are using a carrot: "Under the plans, zero-emission trucks would get a minimum of a 50 percent discount through April 2023 on the tolls charged for use of some European highways, which can reach as much €25,000 a year," a December 15 article in Green Tech Media reported.

I asked Jackie to give us a rundown of the largest players' projects. Here's what she found:

(1) *Hyundai in the lead.* South Korea's Hyundai Motor appears to be in the lead with hydrogen-powered trucks already on the road being tested. Ten of the company's Xcient fuel cell trucks were delivered to Switzerland in July, and it plans to test trucks in the US this year. Hyundai will focus on selling to companies that have fleets of 3,000 to 5,000 trucks. The companies then will build their own refueling stations, allowing Hyundai to avoid building a hydrogen-fueling infrastructure, a September 22 FreightWaves article reported.

(2) *Daimler and Volvo join forces.* Germany's Daimler Truck and Sweden's Volvo Group formed a joint venture last April to develop hydrogen-powered trucks. The joint venture, dubbed "cellcentric," aims to have fuel-cell-powered trucks ready for testing by customers in about three years, with production beginning in the second half of this decade.

The two companies are also working with Austrian oil and gas company OMV Aktiengesellschaft, Shell New Energies, and IVECO to form the H2Accelerate program. The companies are developing hydrogen trucks and infrastructure for a hydrogen-fueling network simultaneously, a December 15 Volvo press release stated. H2A will look for public funding during the development of pre-commercial projects.

(3) *Toyota and Kenilworth get hitched.* Toyota is working with Kenilworth, a unit of PACCAR, to develop a fuel-cell freight truck with a 300-mile range while carrying an 80,000-pound payload.

It's based on the fuel-cell work that Toyota began in 1992, which culminated in the fuel-cell-powered car, the Mirai, in 2014, a March 16 Hot Cars article reported. The Mirai's fuel-cell technology is paired with the Kenilworth T680 chassis. The truck has six hydrogen tanks, a lithium-ion battery, and an electric motor. The trucks will be tested at the ports of Los Angeles and Long Beach, transporting cargo to other warehouses and ports within a set area that have built hydrogen-refueling systems.

(4) *Navistar taps GM's fuel cells.* Navistar, which agreed to be acquired last year by VW, plans to use General Motors' Hydrotec fuel-cell power cubes to replace its diesel engine. The cubes will use hydrogen from OneH2, which makes hydrogen by using steam methane gas, a January 27 article in FreigthWaves reported. Navistar bought a minority stake in the privately held OneH2. JB Hunt Transport will test the trucks, which are slated to have a range of 500 miles and refuel in 15 minutes.

Navistar is also working with engine manufacturer Cummins to develop a fuel-cell truck that will be tested by Werner Enterprises. The project, which uses grants from the US Department of Energy, aims to develop trucks with a 300-mile driving range. Werner will use the trucks in local and regional deliveries out of Fontana, California, evaluating how they work in hot and cold climates and estimating their cost of ownership, a November 11 FreightWaves article reported.

(5) *And then there are the upstarts.* Nikola Motor will forever be known as the company that showed investors a truck that needed a downhill push to propel it. With a new CEO at the helm, the company plans to test a prototype of its hydrogen vehicle in 2022. Nikola announced earlier this week that it plans to sell $100 million of stock to fund general corporate purposes and to complete the construction of its manufacturing facility in Arizona.

Hyzon Motors is building a fuel-cell material factory in a Chicago suburb that's expected to begin operation in Q4 and have the capacity to help produce materials for up to 12,000 hydrogen fuel-cell-powered trucks annually. It is renovating another factory in Monroe County, New York and has partnered in the US with Berkshire Hathaway subsidiary Fontaine Modification to assemble the trucks, a March 1 TechCrunch article reported.

Spun off in March 2020 from Singapore-based Horizon Fuel Cell Technologies, Hyzon plans to go public by merging in Q2 with Decarbonization Plus Acquisition Corp., a special-purpose acquisition company. It has contracts with corporate and government customers in Asia, Australia, and Europe and expects to build about 85 trucks this year, ramping to a run rate of at least 3,000 vehicles in 2023, a March 2 *Chicago Tribune* article reported. Of course, Tesla is building an electric truck, but we'll save electric trucks for another day.

CALENDARS

US: Thurs: Leading Indicators 0.3%, Initial & Continuous Jobless Claims 700k/4.07m, Philadelphia Fed Manufacturing Index 23.0, EIA Natural Gas Storage. **Fri:** Baker-Hughes Rig Count. (DailyFX estimates)

Global: Thurs: European Car Registrations, UK Gfk Consumer Confidence -20, Japan Core CPI -0.4% y/y, BOE Interest Rate Decision & Quantitative Easing 0.1%/£875b, BOJ Interest Rate Decision -0.1%, LaGarde, McCaul, Guindos, Mauderer, Schnabel. **Fri:** Canada Retail Sales Total & Ex Autos -3.0%/-2.5%, Panetta. DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators (*link*): The Bull/Bear Ratio (BBR) climbed to 2.85 this week on a rebound in bullish sentiment—most coming from the correction camp; the BBR had dropped the prior three weeks from 3.27 to 2.48. Bullish sentiment jumped 4.9ppts this week to 55.9% after falling 8.1ppts (to 51.0% from 59.1%) the previous three weeks. Meanwhile, the correction count sank 3.9ppts to 24.5% this week after jumping 5.6ppts (to 28.4% from 22.8%) the prior three weeks. Bearish sentiment dipped to 19.6% this week after climbing from 18.1% to 20.6% the previous three weeks—with most of the increase occurring last week, when it posted its largest weekly change in five months. The AAII Ratio jumped to 67.7% last week after falling from 65.9% to 61.4% the prior week as bullish sentiment rebounded from 40.3% to 49.4% and bearish sentiment retreated from 25.3% to 23.5%.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin remained steady at 12.1% this week, its highest level since September 2019. Forward revenues and earnings were at record highs for a second week and for the first time since February and March 2020, respectively. The rapid pace of Covid-19 estimate cuts during the first half of 2020 has turned into a V-shaped recovery as analysts play catch-up from their lowball estimates prior to the better-than-expected earnings seasons since Q2-2020. Consensus S&P 500 forecasts had been falling at rates paralleling the declines during the 2008-09 financial crisis. Forward revenues growth rose 0.1ppt w/w to 8.6%, down from a record high of 9.0% in mid-February. Forward revenues growth has come a long way from the

0.2% that it had dropped to in April 2020, which was the lowest reading since June 2009. Forward earnings growth rose 0.4ppt w/w to 21.6%. It had been at 22.8% at the end of January, its highest level since July 2010 and up substantially from its record low of -5.6% at the end of April. Analysts expect revenues to rise 9.4% in 2021 and 6.8% in 2022 compared to the 2.3% decline reported in 2020. They expect an earnings gain of 25.5% in 2021 and 15.2% in 2022 compared to a 12.8% decline in 2020. The forward profit margin of 12.1% is up 1.8ppts from 10.3% during April, which was the lowest level since August 2013. It's still down 0.3ppt from a record high of 12.4% in September 2018. Analysts expect the profit margin to rise 1.5ppt y/y in 2021 to 11.8%—from 10.3% in 2020—and to improve 0.9ppt y/y to 12.7% in 2022. Valuations rose last week. The S&P 500's weekly forward P/E was up to 21.7 from a 17-week low of 21.3. That compares to 23.1 in early September, which was the highest level since July 2000 and up from a 77-month low of 14.0 in mid-March. The S&P 500 price-to-sales ratio gained 0.05pt w/w to 2.62, which compares to a record high of 2.67 in mid-February and its 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): Last week saw consensus forward revenues rise w/w for eight of the 11 S&P 500 sectors, but forward earnings advanced for 10 sectors. Energy and Materials had both measures rise markedly w/w. Forward P/E ratios for nearly all sectors now are back above their record or cyclical highs prior to the Covid-19 bear market. During 2019, just two sectors' margins improved y/y: Financials and Utilities. Consumer Staples, Tech, and Utilities were the only sectors with an improved profit margin in 2020. For 2021, all but Real Estate and Utilities are expected to improve y/y. Back in 2018, the forward profit margin was at record highs for 8/11 sectors, all but Energy, Health Care, and Real Estate; since then, it has moved lower for nearly all the sectors. The forward profit margin rose for two of the 11 sectors last week and was at a record high for Information Technology and Utilities. Real Estate has been improving since December's lowest level since January 2012 and Energy from its record low in April 2020. Here's how the sectors rank based on their current forward profit margin forecasts versus their highs during 2018: Information Technology (23.4%, a new record high), Financials (17.3, down from 19.2), Communication Services (14.7, down from 15.4), Utilities (14.5, a new record high), Real Estate (13.5, down from 17.0), S&P 500 (12.1, down from 12.4), Materials (11.4, down from 11.6), Health Care (10.9, down from 11.2), Industrials (8.9, down from its record high of 10.5% in mid-December), Consumer Staples (7.6, down from 7.7), Consumer Discretionary (6.9, down from 8.3), and Energy (5.1, down from 8.0).

S&P 500 Sectors Forward Revenues and Earnings Recovery from Covid-19 Trough

(*link*): The S&P 500's forward revenues and earnings as well as its implied forward profit margin bottomed at cyclical lows on May 28 after 14 weeks of Covid-19-related declines. Since then, S&P 500 forward revenues has risen 9.3% to a record high, forward earnings has gained 28.7% to a record high, and the forward profit margin has risen 1.9pt to an 18-month high of 12.1%. During the latest week, all 11 sectors posted gains in either their forward revenues, earnings, or profit margin. Here's how the 11 sectors rank by their changes in forward revenues and forward earnings since May 28: Information Technology (forward revenues up 13.9%, forward earnings up 22.6%), Communication Services (13.8, 25.6), Materials (13.7, 46.6), Industrials (11.6, 34.9), Financials (10.0, 41.4), Health Care (9.1, 18.6), S&P 500 (9.3, 28.7), Energy (9.5, 880.4), Consumer Staples (5.1, 11.7), Consumer Discretionary (3.4, 51.6), Real Estate (2.7, -2.3), and Utilities (-0.9, 3.8). Tesla's addition to the S&P 500 on December 21 caused revenue and earnings forecasts to fall for the index and the Consumer Discretionary sector. Before then, S&P 500 revenues were up 7.1% and earnings 19.6%. The similar readings for Consumer Discretionary then were 11.2% and 39.7%, which would have ranked the sector first in the revenues derby instead of near the bottom.

US ECONOMIC INDICATORS

Housing Starts & Building Permits (*link*): Severe winter weather during February caused housing starts to fall further below December's 14-year high, while building permits (a good leading indicator of housing starts) tumbled after reaching a new cyclical high in January. Rising lumber prices this year have lowered homebuilders' confidence, though sentiment remains in record territory. Housing starts dropped sharply for the second month, sinking 10.3% in February and 14.9% over the period to 1.421mu (saar); it was at a cyclical high of 1.670mu at the end of 2020. Single-family starts tumbled 21.3% the first two months of this year, to 1.040mu (saar), after an eight-month surge of 94.7% to a new cyclical high of 1.322mu in December. Meanwhile, volatile multi-family starts slumped 15.0% to 381,000 units (saar) last month, after rebounding 28.7% in January; they were at 628,000 units at the start of last year. Building permits plunged 10.8% to 1.682mu (saar) last month after rising seven of the prior nine months, by 76.9%, to a cyclical high of 1.886mu (saar) in January. Single-family permits plunged 10.0% last month to 1.143mu (saar) and rose 90.7% during the nine months through January to a cyclical high of 1.270mu (saar). Multi-family permits tanked 12.5% last month to 539,000 units (saar) after jumping to 616,000 units in January—which was the highest since mid-2015. NAHB's March Housing Market Index (HMI) shows builders' confidence ticked down to 82 this month after ticking up to 84 in February. It's 8 points below

November's record high of 90. The three measures were mixed in March, with the future sales measure up 3 points to 83, the current sales measure down 3 points to 87 and the traffic of prospective homebuyers unchanged at 72. These measures were at record highs of 89, 96, and 77 four months ago.

GLOBAL ECONOMIC INDICATORS

Eurozone CPI (*link*): February's CPI headline rate held steady, while the core rate eased a bit. February's rate remained at January's 0.9% y/y rate, following a string of readings at -0.3% from October through December. The core rate decelerated to 1.1% y/y after accelerating sharply to 1.4% in January—which was the highest since October 2015—following record-low readings of 0.2% from September through December. Looking at the main components, rates for food, alcohol & tobacco (to 1.3% from 1.5% y/y), services (1.2 from 1.4), and non-energy industrial goods (1.0 from 1.5) all slowed, while the decline in energy (-1.7 from -4.2) prices narrowed for the third month from November's -8.3%. Of the top four Eurozone economies, rates for Germany (1.6% y/y) and Italy (1.0) were above the headline rate of 0.9%, with France's (0.8) slightly below. Meanwhile, Spain's (-0.1% y/y) CPI rate dipped back into negative territory after a brief blip above in January (0.4)—Spain experienced deflation during the last nine months of 2020.

Contact us by email or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-775-6823