by CHRIS KONSTANTINOS, CFA

THE RIVERFRONT WRITING TEAM

ADAM GROSSMAN, CFA
Global Equity CIO |
Co-Head of Investment Committee

CHRIS KONSTANTINOS, CFA
Director of Investments |
Chief Investment Strategist

KEVIN NICHOLSON, CFA
Global Fixed Income CIO |
Co-Head of Investment Committee

DOUG SANDLER, CFA
Head of Global Strategy

ROD SMYTH
Chairman of the Board of Directors

DAN ZOLET, CFA
Associate Portfolio Manager

SUMMARY

- The tech sector has outperformed the S&P 500 year to date in 2023.
- We do not see a return to growth-stock-only purchase strategies.
- We believe the tech sector should be incorporated into income-seeking strategies.

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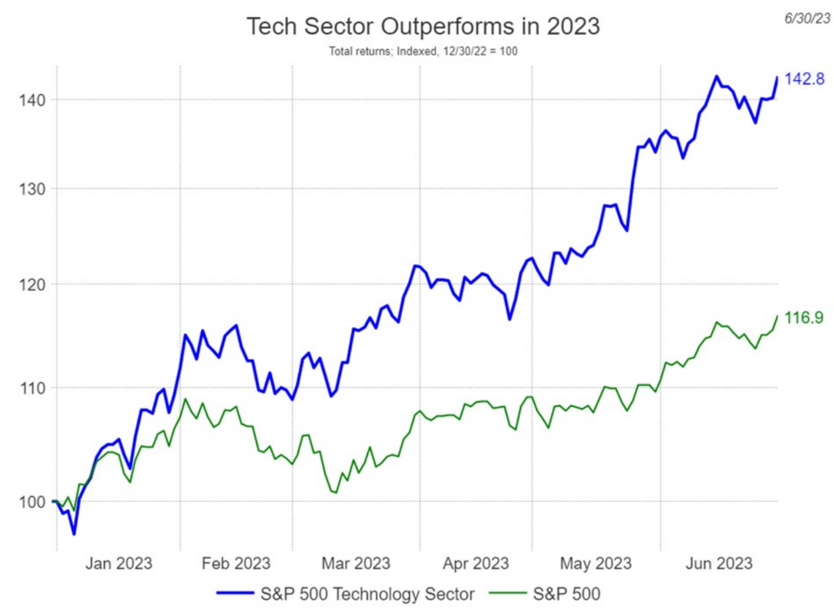
P.A.T.T.Y. in 2023

How the Search for Yield Fits into a Tech-Dominated Stock Market

Back in May 2022, we wrote a Weekly View entitled "Move Over TINA…Here Comes PATTY", where we introduced our new acronym for the post-low interest rate world: P.A.T.T.Y. It stands for 'Pay Attention To The Yield'– and it was another way to say that we believed stable income generation was likely to be one of investors' best weapons against a highly volatile stock and bond market driven by tightening monetary policy, economic uncertainty, and rising interest rates.

Since we wrote this, the US has certainly been through a lot of monetary tightening, uncertainty, and rising rates. Since May 2022 the Fed has raised rates by 4.25 percentage points, undertaking one of its most aggressive hiking cycles in history. We've also lived through a slowing of the US manufacturing economy, a deepening of the US/China 'Cold War', a mini-banking crisis in March, and a narrowly averted debt ceiling crisis.



Source: Refinitiv Datastream, RiverFront. Data monthly as of June 30, 2023. Chart shown for illustrative purposes. An investment cannot be made directly in an index.

Although Tech underperformed the S&P 500 in 2022, since January, the Technology sector has been the highest performing sector in the S&P 500 as shown in the chart above. **Does the recent resurgence of tech mean our PATTY acronym gets relegated to the rubbish bin of misfit investment ideas? We don't think so. Actually, Technology and growth-oriented companies in general can play an important role in a PATTY strategy, in our view.**

We think that some stable, high cashflow technology companies are an appropriate place to seek dividend growth. While dividends are not guaranteed and are subject to change or elimination, some of the largest mega-cap tech companies have been paying and growing dividends in the last five to ten years…a testament to the stable, recurring cash flow generation that we think is typical of the software and tech services business model.

Using the MSCI US Information Technology Index as a proxy for large-cap technology, we have found stable large-cap tech companies to be dividend growers, having averaged approximately 6.8% annual dividend growth over the past 5 years. While the overall yield of the index is relatively low, we think long-term investors should pay as much or more attention to dividend growth ability as in absolute yield. The ability to consistently grow dividend payments over time is potentially a more powerful income generator than simply paying a higher dividend today, in our opinion. In fact, we believe 'high dividend yield, low dividend growth' companies tend to be dividend cutters when times get tough.

Looking at the top ten largest constituents of the US Information Technology index based on market cap reveals an even stronger story: Of the eight companies that pay dividends, 5-year dividend growth has averaged approximately 13% (see table below – data from MSCI and Factset; holdings as of 5/31/23, data as of 6/16/23).

LARGEST DIVIDEND-PAYING CONSTITUENTS OF THE MSCI USA INFORMATION TECHNOLOGY INDEX

	Dividend Yield	5-Year Dividend Growth %	5-year Cash Flow Growth %	10-Year Dividend Growth %	10-year Cash Flow Growth %	Index Weight (as of 5/31/23)
Apple Inc.	0.52%	8.4	16.9	25.3	10.1	24.34%
Microsoft	0.79%	9.7	15.7	12.0	8.3	20.07%
NVIDIA Corp	0.04%	2.0	16.0	15.6	14.5	8.03%
Visa	0.79%	17.8	16.0	21.2	14.5	3.11%
Broadcom	2.12%	32.1	24.4	40.2	43.1	2.91%
Mastercard	0.61%	17.5	16.0	32.8	14.5	2.70%
Cisco	3.00%	6.4	-0.3	18.3	2.1	1.76%
Accenture	1.40%	9.9	14.6	11.1	8.5	1.66%
AVERAGE	***1.16%***	***13.0***	***14.9***	***22.0***	***14.5***	
					INDEX TOTAL	***64.58%***

Source: Factset Data Systems as of June 16, 2023. Table above is shown for illustrative purposes only. References to individual securities above are not intended as an investment recommendation. Past performance is no guarantee of future results. Dividends are not guaranteed and subject to change or elimination. See below for important disclosures at the end of this publication.

Importantly, these companies have also generated similar free cash flow growth of approximately 14.9% over the same period. As we wrote last May: *"A key common attribute for these (P.A.T.T.Y. stocks) is not only current dividend payments, but the stable earnings and cash flow needed to support dividend payments in the future. We caution investors against looking for dividend love in 'the wrong places'."*

Conclusion: Finding PATTY Plays Across the Stock and Fixed Income Spectrum

In conclusion, a 'PATTY' stock strategy isn't one that just relies on finding the highest-yielding stocks. To the contrary, a sensible PATTY strategy in our opinion also relies on owning stocks with the ability to grow dividends over time in a sustainable way. From this perspective, certain technology-related companies that have shown a history of funding and growing dividends via cash flow generation have a place in a yield-oriented portfolio, in our opinion.

A PATTY strategy is about delivering income as well as share price growth. It is a long-term strategy, and as such it requires patience. We expect continued heightened volatility in financial markets and believe regular income payments whether reinvested or withdrawn can help investors navigate this volatility.

Risk Discussion: All investments in securities, including the strategies discussed above, include a risk of loss of principal (invested amount) and any profits that have not been realized. Markets fluctuate substantially over time, and have experienced increased volatility in recent years due to global and domestic economic events. Performance of any investment is not guaranteed. The value of stocks of technology companies and companies that rely heavily on technology is *particularly vulnerable to rapid changes in technology product cycles, rapid product obsolescence, government regulation and competition, both domestically and internationally, including competition from foreign competitors with lower production costs. Stocks of technology companies and companies that rely heavily on technology, especially those of smaller, less-seasoned companies, tend to be more volatile than the overall market. Technology companies are heavily dependent on patent and intellectual property rights, the loss or impairment of which may adversely affect profitability. Additionally, companies in the technology sector may face dramatic and often unpredictable changes in growth rates and competition for the services of qualified personnel. Please see the end of this publication for more disclosures.*

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All charts shown for illustrative purposes only. Technical analysis is based on the study of historical price movements and past trend patterns. There are no assurances that movements or trends can or will be duplicated in the future.

Dividends are not guaranteed and are subject to change or elimination.

Stocks represent partial ownership of a corporation. If the corporation does well, its value increases, and investors share in the appreciation. However, if it goes bankrupt, or performs poorly, investors can lose their entire initial investment (i.e., the stock price can go to zero). Bonds represent a loan made by an investor to a corporation or government. As such, the investor gets a guaranteed interest rate for a specific period of time and expects to get their original investment back at the end of that time period, along with the interest earned. Investment risk is repayment of the principal (amount invested). In the event of a bankruptcy or other corporate disruption, bonds are senior to stocks. Investors should be aware of these differences prior to investing.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa). This effect is usually more pronounced for longer-term securities). Fixed income securities also carry inflation risk, liquidity risk, call risk and credit and default risks for both issuers and counterparties. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Foreign investments involve greater risks than U.S. investments, and can decline significantly in response to adverse issuer, political, regulatory, market, and economic risks. Any fixed-income security sold or redeemed prior to maturity may be subject to loss.

Index Definitions:
Standard & Poor's (S&P) 500 Index measures the performance of 500 large cap stocks, which together represent about 80% of the total US equities market.

The MSCI USA Information Technology Index is designed to capture the large and mid cap segments of the US equity universe. All securities in the index are classified in the Information Technology sector as per the Global Industry Classification Standard (GICS®).

Definitions:
Mega cap is a designation for the largest companies in the investment universe as measured by market capitalization. While the exact thresholds change with market conditions, mega cap generally refers to companies with a market capitalization above $200 billion.

Interest rate sensitivity is a measure of how much the price of a fixed-income asset will fluctuate as a result of changes in the interest rate environment. Securities that are more sensitive have greater price fluctuations than those with less sensitivity. This type of sensitivity must be taken into account when selecting a bond or other fixed-income instrument the investor may sell in the secondary market. Interest rate sensitivity affects buying as well as selling.

Technology and internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.

1214 East Cary Street, Richmond, Virginia 23219 / 804-549-4800 / RiverFrontIG.com