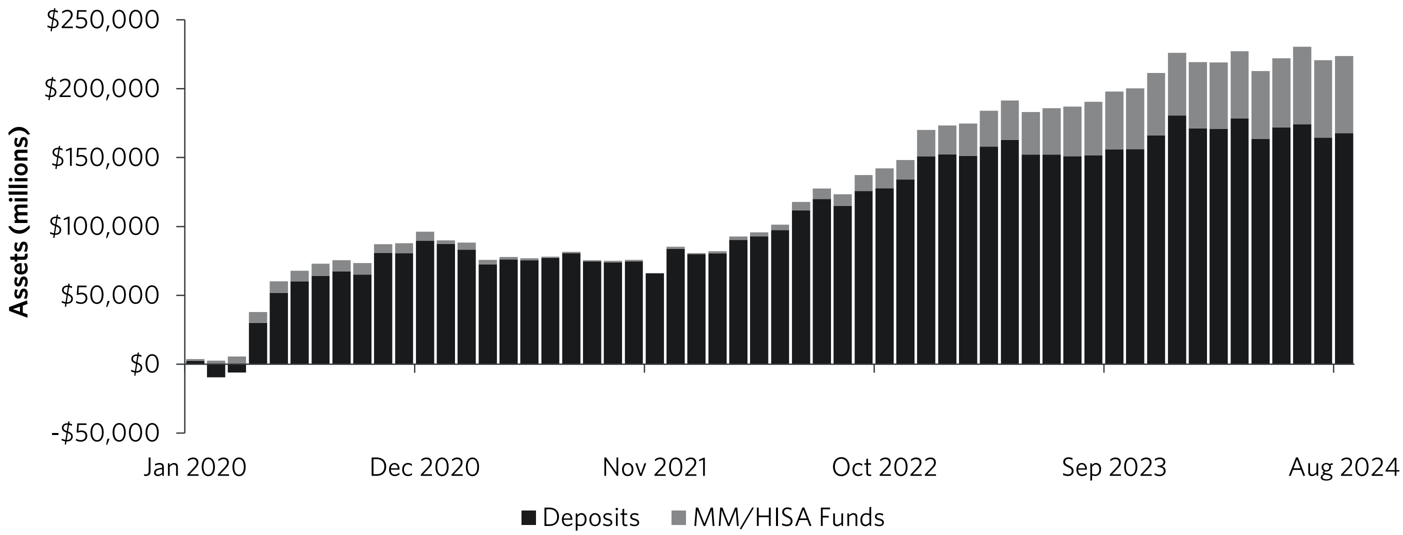
5 Reasons Canadians are considering dividend stocks

November 2024

As interest rates decline, Canadian investors are looking for alternatives to short term assets, such as Guaranteed Investment Certificates (GICs), High Interest Savings Accounts (HISAs) and money market assets. Canadian companies paying eligible dividends offer investors an attractive way to put this money back to work, while generating income. This strategy is already benefiting Canadian investors, as demonstrated by the recent performance of dividend-heavy sectors, like utilities and financials. The rotation into dividend heavy sectors should continue to benefit from the large excess deposits in GIC's and HISA's that will need to be re-invested as they come due over the next couple of years. As these short term investments come due, the income seeking investors will need to re-allocate to dividend paying securities to achieve their income needs.

What is a dividend: When a company makes a profit, it can choose to retain those profits to invest in the business, buy back shares, or distribute a portion to its common shareholders. A company may distribute some of its profits if it has more cash than it requires to support the business. This distribution – or dividend – is a component of total returns earned by shareholders.

Excess funds in term deposits and money market funds ($MM)



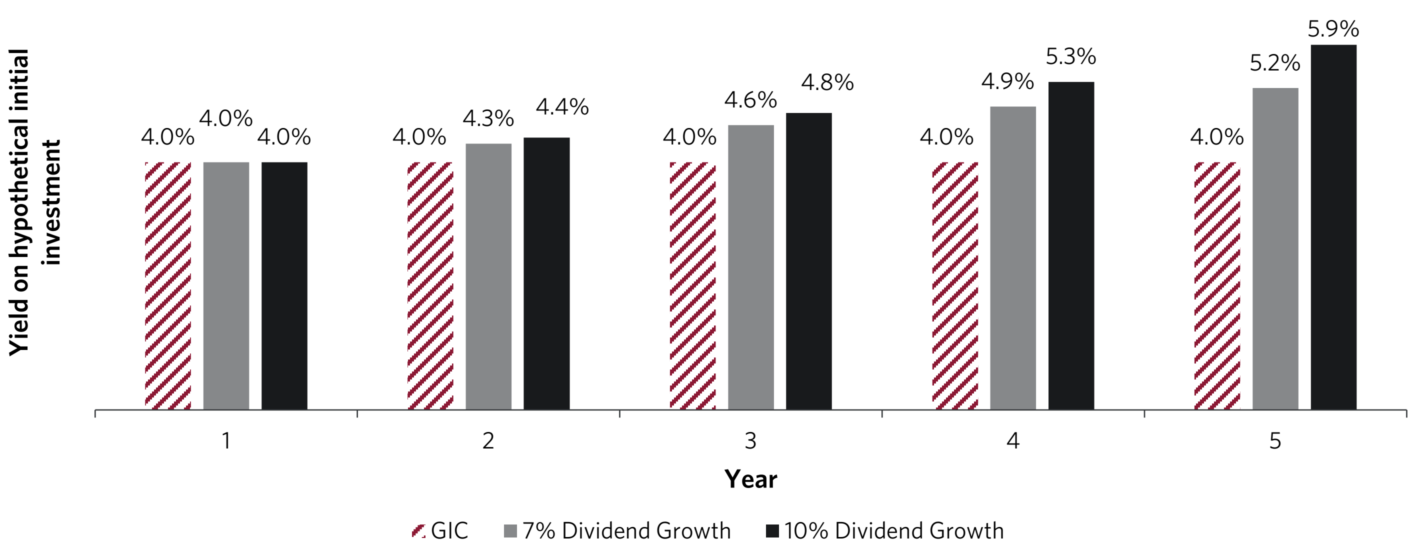
Source: Bank of Canada, Lipper, Bloomberg, and CIBC World Markets Inc. Latest date is August 2024.

Below are 5 reasons Canadians are considering investing in dividend-paying Canadian companies today

1. Steady income that can grow

As HISA, GIC, and money market yields decline alongside interest rates, dividend paying stocks become more competitive. Unlike HISAs, GICs and money market assets, companies tend to grow their dividends over time. This helps investors in dividend-paying companies grow their income and stay ahead of inflation. Canadian companies have demonstrated a strong record of growing their dividends. Banks and Insurance companies have 5 year dividend growth rates of over 7% while Telco's have dividend growth rates of close to 12% (source: CIBC Asset Management, Bloomberg, June 2024.)

Yield on initial investment for dividend paying stocks can grow over time

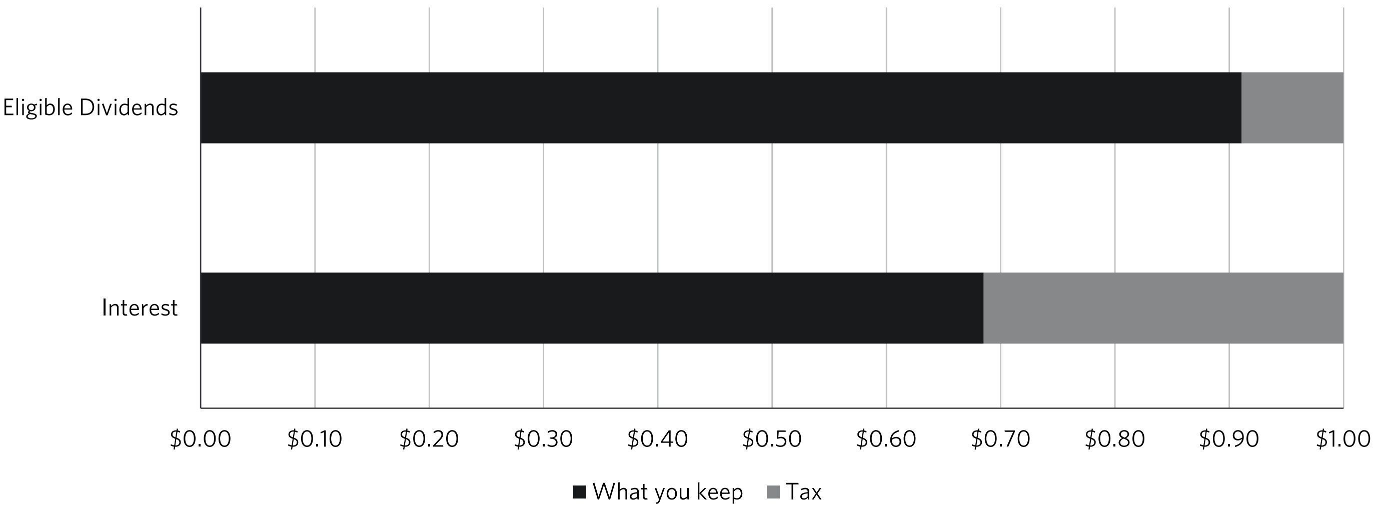


For illustrative purposes only. Source: CIBC Asset Management. Comparison of 4% GIC vs 4% yielding stock with 7% and 10% dividend growth rate. This hypothetical scenario is shown for illustrative purposes only and is not indicative of future results. Please refer to the Disclaimer page for further information.

2. Favourable tax treatment

It's not what you earn, but what you keep that matters. Investors moving from interest paying assets – like GICs – into Canadian stocks that pay eligible dividends can benefit from more favourable tax treatment, within a non-registered account. For example, a Ontario resident with a $100,000 income in 2024 would pay a marginal tax rate on interest of 31.48% compared to a tax rate on eligible dividends of 8.92%.[1] In other words, a dollar earned in eligible dividend income is worth more than a dollar earned in interest.

Favourable tax treatment for each dollar earned

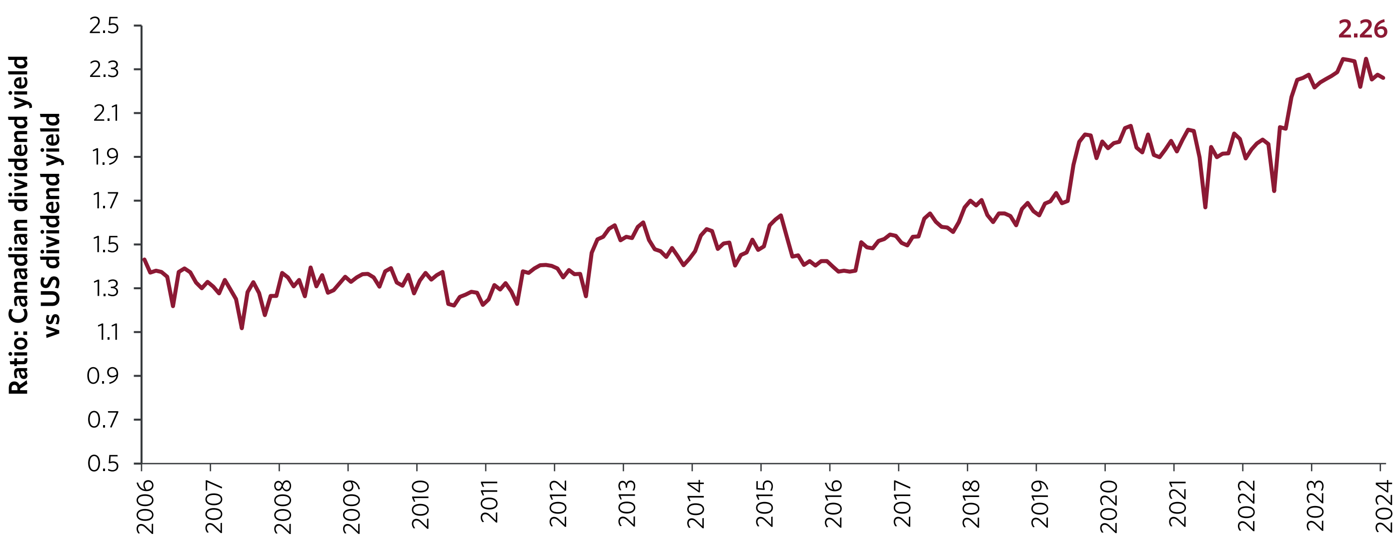


For illustrative purposes only. Source: CIBC Asset Management, using data from EY. This hypothetical scenario is shown for illustrative purposes only and is not indicative of future results. Please refer to the Disclaimer page for further information.

3. Canadian dividend yields

Currently, Canadian stocks are paying the largest yield differential compared to US stocks in over 15 years. This presents a unique opportunity for Canadian investors seeking dividends. This yield differential is supported by an expected earnings recovery in Canada in 2025 and beyond as well as an Energy and Materials super cycle that benefits high quality dividend paying companies that have been able to pay down debt over the past several years and significantly improve their free cash flow generation.

S&P/TSX Composite dividend yield / S&P 500 Index dividend yield



Source: Bloomberg, CIBC Asset Management Inc., September 30, 2024.

4. Returns buffer

The total return on a stock includes price appreciation and dividends. While stock prices may fluctuate, dividend payments are relatively consistent providing a modicum of predictability to expected returns on dividend-paying stocks. Even if the price of a stock temporarily declines, an investor can continue to receive their dividend payments. Prudent and professional due diligence helps identify companies with the most stable dividends. Clients invested in Canadian equities benefit from the total returns generated.

5. Stable companies

Businesses that pay dividends tend to generate high, stable and sustainable returns on capital and attractive levels of free cash flow. These attributes allow high-quality companies to compound their fair market value over time and grow their dividend distribution to shareholders. These companies tend to avoid dividend cuts. Many large Canadian banks, for example, have not cut their dividend in over a century.

To learn how to incorporate dividend-paying investments into your portfolio, contact your CIBC representative.

About CIBC Asset Management

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Across a spectrum of investment solutions, we commit to robust research. Dedicated sector and regional analysts focus on industry research and security-specific idea generation. Our investment professionals leverage deep and diverse expertise by sharing proprietary research across asset-class teams. By sharing insight across asset class teams, we maximize opportunities to add value to our client portfolios.

[1] https://www.eytaxcalculators.com/en/2024-personal-tax-calculator.html