

## Inflation Compensation

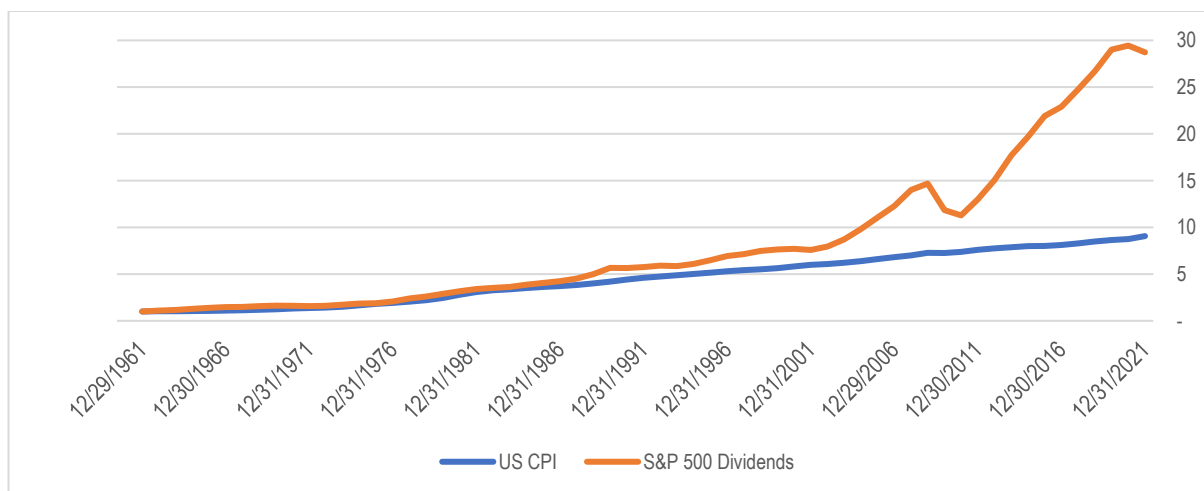
It has been a difficult year for consumers, with rising prices for food, energy and durable goods rippling through the economy. Thankfully, investors with exposure to dividend-growing corporations can shield themselves from some of this inflationary pain by collecting rising income from these stocks. While the ability to surmount inflationary pressures will vary by company, spanning a range from weak to robust, some firms, such as Walmart and Costco, are well placed as inflation beaters. These two leading retailers stand to gain market share, as their low prices become even more attractive to shoppers facing rising grocery costs with every passing week. A smaller portion of the market offers a direct connection between dividends and inflation, such as major UK utility, National Grid, paying a dividend formulaically linked to UK consumer prices. Others benefit from pricing power that can protect shareholder profits, even as costs rise. Pepsi, owner of Frito Lay potato chips, Quaker Oats snacks and Pepsi beverages, is a great example. Currently facing higher ingredient costs, shipping expenses and wage increases, Pepsi has responded with higher prices as an offset; this pricing power has allowed Pepsi to pay a rising dividend for the past 50 years.

To be sure, not every company is able to offset the headwinds of inflation as deftly as National Grid or Pepsi. Regardless, over the entire stock market, dividends have a proven history of matching and surpassing inflation in the economy. The table below compares inflation to stock market dividends over the past 60 years, a stretch including more benign periods as well as the frothy years of the 1970s, the last major spell of inflation. While there are periods when dividends do well to just keep pace, including years when the economy is in a capital investment phase, over the entire stretch, dividends have risen at 5.8% annually, just over 2.0% higher than the pace of inflation.

|                              | <b>Last 60<br/>Years</b> | 2011-<br>2021 | 2000-<br>2010 | 1990-<br>2000 | 1980-<br>1990 | 1971-<br>1981 | 1961-<br>1971 |
|------------------------------|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>US CPI</b>                | <b>3.7%</b>              | 1.9%          | 2.4%          | 2.7%          | 4.1%          | 8.4%          | 3.1%          |
| <b>S&amp;P 500 Dividends</b> | <b>5.8%</b>              | 8.6%          | 5.6%          | 2.8%          | 5.4%          | 8.0%          | 4.3%          |

Sources: U.S. Bureau of Labour Statistics, Factset, December 31, 1961, to December 31, 2021

While this difference might not sound like much, the benefit to dividend investors becomes sizeable over time. Inflation may have brought the price of a \$1 item to just over \$9 since 1961, but \$1 of dividends produced by the stock market has grown to nearly \$29 over the same span. A reasonably diversified equity portfolio will likely contain a mix of stocks with differing attributes, but when inflation starts to exact a toll on consumers, the portion invested in high-quality, dividend-paying companies should help collect a growing income stream as an offset.



Sources: U.S. Bureau of Labour Statistics, Factset

This information is not intended for distribution into any jurisdiction where such distribution is restricted by law or regulation. The opinions expressed are as of the published date and are subject to change without notice. Assumptions, opinions and estimates are provided for illustrative purposes only and are subject to significant limitations. Reliance upon this information is at the sole discretion of the reader. This document includes information and commentary concerning financial markets that was developed at a particular point in time. This information and commentary are subject to change at any time, without notice, and without update. This commentary may also include forward-looking statements concerning anticipated results, circumstances, and expectations regarding future events. Forward-looking statements require assumptions to be made and are, therefore, subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. Investing involves risk. Equity markets are volatile and will increase and decrease in response to economic, political, regulatory and other developments. The risks and potential rewards are usually greater for small companies and companies located in emerging markets. Bond markets and fixed-income securities are sensitive to interest rate movements. Inflation, credit and default risks are also associated with fixed income securities. Diversification may not protect against market risk and loss of principal may result. This commentary is provided for informational purposes only. It is not offered as investment advice and does not account for individual investment objectives, risk tolerance, financial situation or the timing of any transaction in any specific security or asset class. Certain information contained in this document has been obtained from external parties which we believe to be reliable, however, we cannot guarantee its accuracy. Guardian Partners Inc. is a wholly-owned subsidiary of Guardian Capital Group Limited, a publicly traded firm listed on the Toronto Stock Exchange.

©2022 Guardian Partners Inc. All rights reserved.