For UBS marketing purposes

Source: UBS

Quality dividend stocks and market leaders in earnings growth

25 March 2024, 12:17 pm CET, written by Daniel Kalt

Even if the focus of attention on the equity markets is elsewhere, Swiss investors are well advised to put quality Swiss dividend stocks and market leaders in earnings growth at the core of their portfolio.

While the S&P 500 in the US and the DAX in Germany have recently scaled new heights to around 5,200 points and just below 18,000 points respectively, the Swiss equity market has performed relatively modestly since the start of the year and, at around 11,600 points, is some way below its high of almost 13,000 points recorded at the end of 2021. The US stock exchanges are currently being driven by an impressive rally in tech stocks. Meanwhile, a lot of Swiss companies experienced strong headwinds in the final quarter of 2023 because of the strong Swiss franc. Even though a reasonable global diversification and a sufficiently large allocation to booming tech stocks are important, we believe that Swiss investors are well advised to make selected use of solid Swiss stocks for the core of their equity portfolio.

We continue to regard quality Swiss dividend stocks as an attractive proposition. The average dividend yield, at more than 3%, beats the returns on Swiss franc bonds. In the past, dividend yields have typically been on a level with or lower than bond yields. Balance sheets and profitability are solid overall. That suggests that payouts over the market as a whole are sustainable, even if subdued economic prospects mean there is a danger of reductions in earnings. The importance of an attractive dividend yield should not be underestimated. However, in the long term, the growth factor is of equal importance. We would define quality as dividends that are sustainable as well as growing. Dividends constitute an important and defensive component of stock market performance. Over the last 30 years, more than half of the total returns on the Swiss Performance Index have come from dividends and the rest from stock price gains. We are also focused on the leaders in earnings growth, meaning stocks that are likely to produce double-digit growth in earnings per share both this year and next year. You can read more on these topics in the latest issue of our publication Equity Radar.

An additional and substantial component in overall returns in a portfolio of (dividend) stocks can be generated by selling short-term call options systematically and repeatedly on the underlying stocks. This is a particularly good move if the equity markets are expected to tread water or slide, because writing call options means forgoing some of the upside potential on the stocks in exchange for the option premium. In addition, products aimed at boosting returns may come with preventive mechanisms to protect against falling prices, offering a limited safety net if the price of the underlying drops. Ideally, investors will seek to achieve as broad a diversification as possible in these solutions as in other investments, and so will construct a portfolio of several underlying stocks.

Please read the legal disclaimer applicable to this publication.