中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

Subject: 3 Key Elements for Enhancing Stock Returns

Video highlights:

- The P/E ratio of the S&P is relatively expensive compared to other major equity markets. However, that doesn't mean the U.S. stock market lacks attractiveness. In 2023 and 2024, less than 30% of S&P 500 constituents outperformed the S&P 500 index, a situation last seen in 1998-1999. The market has become too focused on a narrow range of stock categories, especially in technology.

- However, the earnings growth of U.S. stocks, along with breakthroughs in artificial intelligence, has propelled Q2 performance. As of July 11, the estimated earnings growth for S&P 500 companies in the Q2 is only 5.7%, lower than Q1. Nevertheless, AI-related industries, including technology and communication services, still maintain double-digit growth, which may support overall performance.

- Investing in the stock market isn't just about corporate earnings; indeed, U.S. stock valuations remain high. If they become overly concentrated in a specific area or category, once the market reverses, risks will increase.

- Looking back at the first half of this year, European stocks have risen significantly, but their current price-to-earnings ratio is at the average level of the past decade, lower than that of U.S. and Japanese stocks. Moreover, Europe also offers more stable dividend-paying opportunities compared to other regions, such as consumer products, finance, and industrial sectors. Stocks in these categories often have ample cash flow, allowing for dividend distribution.

- Stable and growing dividends can become a key driver of future total returns. Over the past 20 years, reinvested dividends have contributed over 50% to total returns in major global regions. This highlights how reinvesting dividends can complement capital appreciation. During market corrections, dividend strategies become particularly important. Companies with consistently growing dividends tend to excel in buffering downside risks. Companies that maintain and increase dividends through various market cycles typically experience lower volatility and declines during market adjustments. This demonstrates their financial strength to sustain dividend growth and reflects a robust business model capable of withstanding market turmoil.

- In this challenging environment, investors need to focus on corporate earnings prospects. Key elements that sustain strong earnings include: business model, financial strength, and competitive advantages.

- Investors can focus on identifying and investing in companies with strong balance sheets, ample dividends, and cash generation capabilities, while also reinvesting in their businesses to provide consistently growing dividends. This approach helps us avoid companies with excessive payouts, weak balance sheets, or volatile earnings sources, strengthening the dividend outlook and supporting total returns.

Full version is only available in Chinese language.

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