TRIVARIATE RESEARCH

DIVIDEND YIELD: DATA SPLITS JUNK FROM QUALITY

ADAM S. PARKER, Ph.D., FOUNDER

adam@trivariateresearch.com
646-734-7070

CHANG GE, ANALYST

chang@trivariateresearch.com
614-397-0038

MAXWELL ARNOLD, ANALYST

maxwell@trivariateresearch.com
347-514-1234

RYAN MCGOVERN, DIR. OF RESEARCH SALES

ryan@trivariateresearch.com
973-271-8017

COLIN COONEY, HEAD OF SALES

colin@trivariateresearch.com
617-910-7934

BACKGROUND AND RESEARCH SUMMARY

<u>Background:</u> Last month, we looked at the case for owning dividend yielding securities, with the S&P500 dividend yield near 50-year lows. We didn't think the case was compelling, as the growth-dominated AI-centric market doesn't appear to have an imminent constitution change. But the case for picking winners and losers within the high dividend-yielding universe is what we address today.

<u>Performance:</u> Among stocks with high dividend yields, junk stocks perform similarly to higher-quality stocks over the long-term. That held true even during sharp market corrections until a year ago, when junk stocks strongly underperformed post the election through April. <u>As has been the case in the broader market, high-yield junk stocks have sharply recovered since April lows, though they have not yet caught up to the higher quality dividend yielders, as typically occurred over the last decade.</u>

<u>Beta differences are substantial:</u> There appears to be a consistent but widening difference between junk and non-junk stocks when it comes to beta. Junk stocks have seen a rise in beta recently, much like non-yielding junk stocks. <u>However, the median high-yield non-junk stock has a beta near 20-year lows</u>. The result is that the difference between the beta of the non-junk vs. junk dividend yielders is at post Global Financial Crisis highs.

<u>Separating junk stocks is critical:</u> We think it is useful to take the dividend yielding universe and separate out "junk" stocks from the rest, as different signals are useful for security selection about high-yield junk stocks. For instance, companies with a higher <u>indicated dividend yield</u> strongly outperform those with a lower indicated dividend yield among high yielding stocks, but indicated yield has no value for stock selection among high-yield junk stocks. <u>Accruals</u> are a powerful signal for stock selection among high-yield junk stocks, but useless among regular high-yielders. These typically include capital spending, inventory, or intangibles increases.

RESEARCH SUMMARY AND INVESTMENT CONCLUSIONS

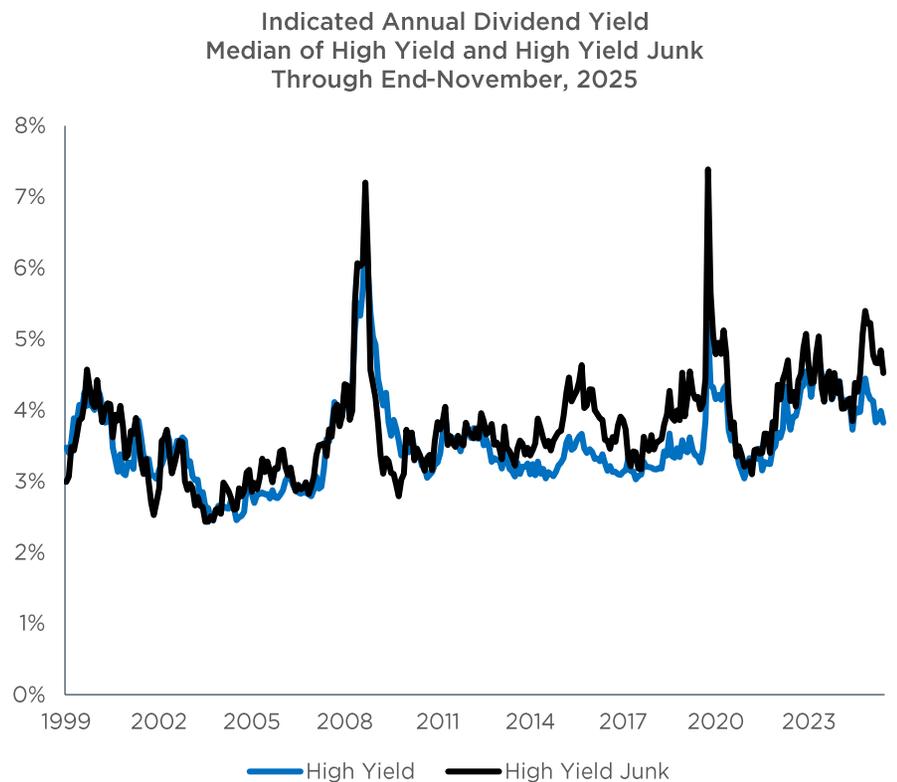<u>Price momentum and default risk don't matter</u>: While price momentum has demonstrably worked for picking stocks, it doesn't work for picking winners from losers among high dividend-yielding stocks, junk or not. We also have a distance to default model which includes net debt to market cap. and volatility. <u>Companies within the high dividend space that are a lower risk to default don't subsequently outperform those that are a higher risk.</u>

<u>Surprisingly free cash flow yield efficacy is mixed:</u> Recently, high free cash flow yield has outperformed low free cash flow yield among high-yield junk stocks, but over the long-term there has been minimal efficacy. <u>FCF yield has mattered more for non-junk stocks.</u> <u>However, the total yield – buyback plus indicated dividend yield, has consistently worked as a signal, in both junk and non-junk stocks, implying that evidence of other cash, in addition to the dividend, is a sign of corporate health, and reduces the chance of a future dividend cut or cancelation.</u>
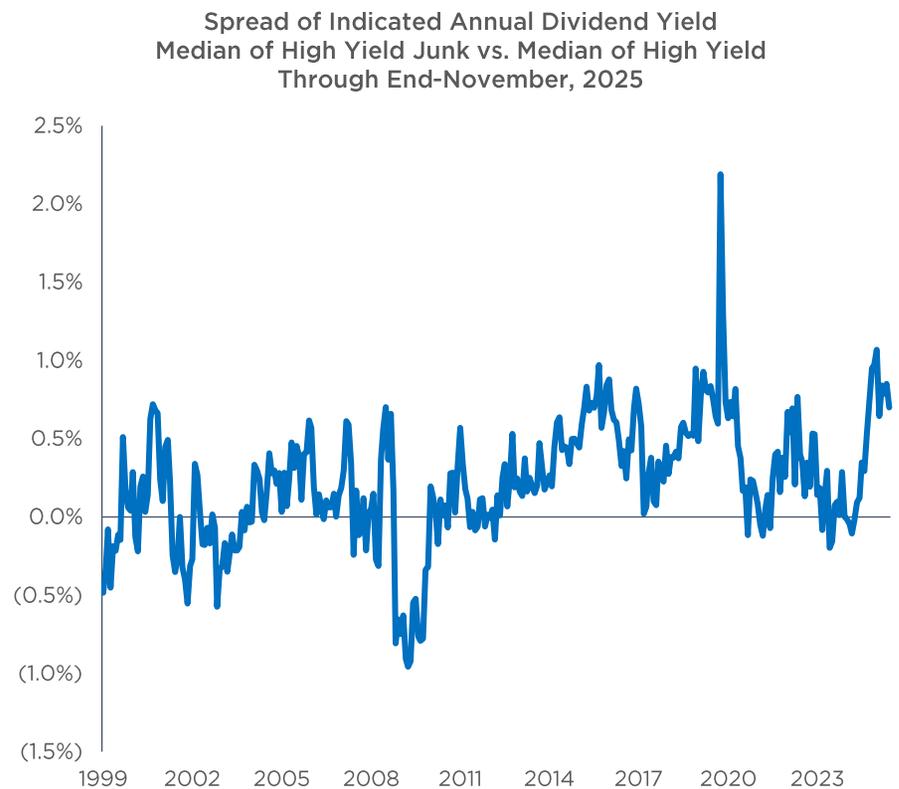
<u>Conclusion:</u> We don't think that dividend paying stocks will be a great asset class in an up tape and may not be particularly good overall in the next couple of years. However, we think there are some useful tools for security selection among dividend yielding stocks, and we wanted to address them in today's work. Please see quantitatively derived long / short ideas on slide 11, including long UPS, DOW, and LYB and short OKE, MCHP, and SW, among others.

JUNKS STOCKS HAVE RELATIVELY HIGH YIELDS TODAY

We take the 20% highest dividend yielding stocks and call them high-yield. Separately, we tag stocks with our proprietary multi-factor substance model into high-,mid-, low-quality, and junk. We then look at attributes of high-yield and high-yield junk stocks. While the median stock has roughly 25bps higher dividend yield on average in the junk category (left), the current disconnect is wider than normal, at 70bps (right), only higher during the initial COVID fear period.

Indicated Annual Dividend Yield
Median of High Yield and High Yield Junk
Through End-November, 2025

Legend: High Yield, High Yield Junk

Source: Trivariate Research

Spread of Indicated Annual Dividend Yield
Median of High Yield Junk vs. Median of High Yield
**Through End-November, 2025**

Source: Trivariate Research

OVER LONG PERIODS OF TIME JUNK STOCKS LAG

Among stocks with high dividend yields, junk stocks perform similarly as higher quality stocks over the long-term. That held true even during sharp market corrections until a year ago, when junk stocks strongly underperformed post the election through April. <u>As has been the case in the broader market, high-yield junk stocks have sharply recovered since April lows, though they have not yet caught up to the higher quality dividend yielders, as typically occurred over the last decade.</u>
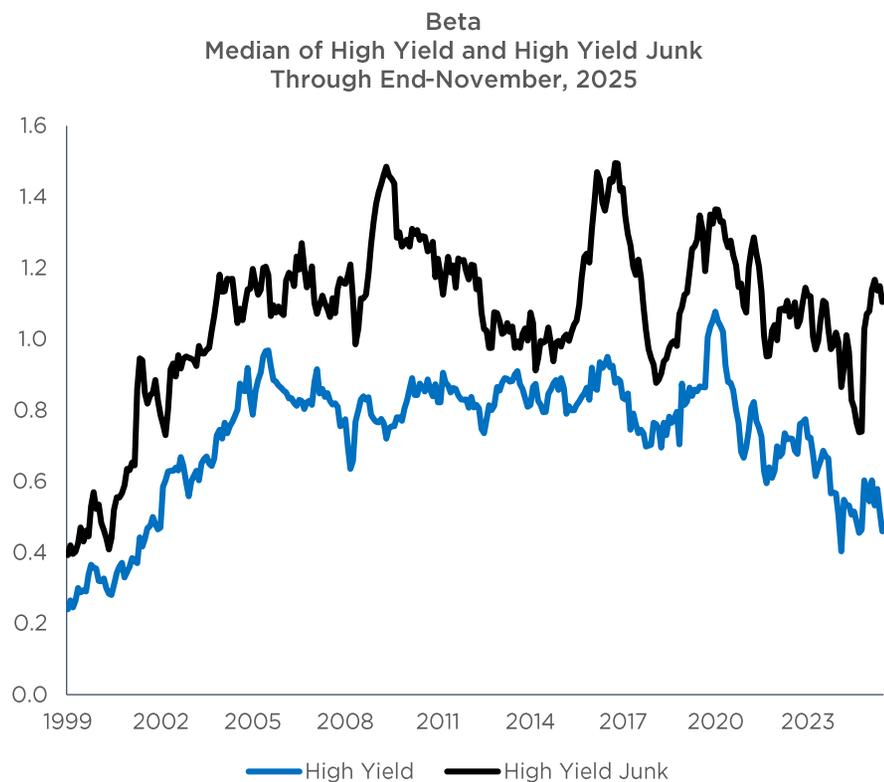
Cumulative Return of High Yield and High Yield Junk
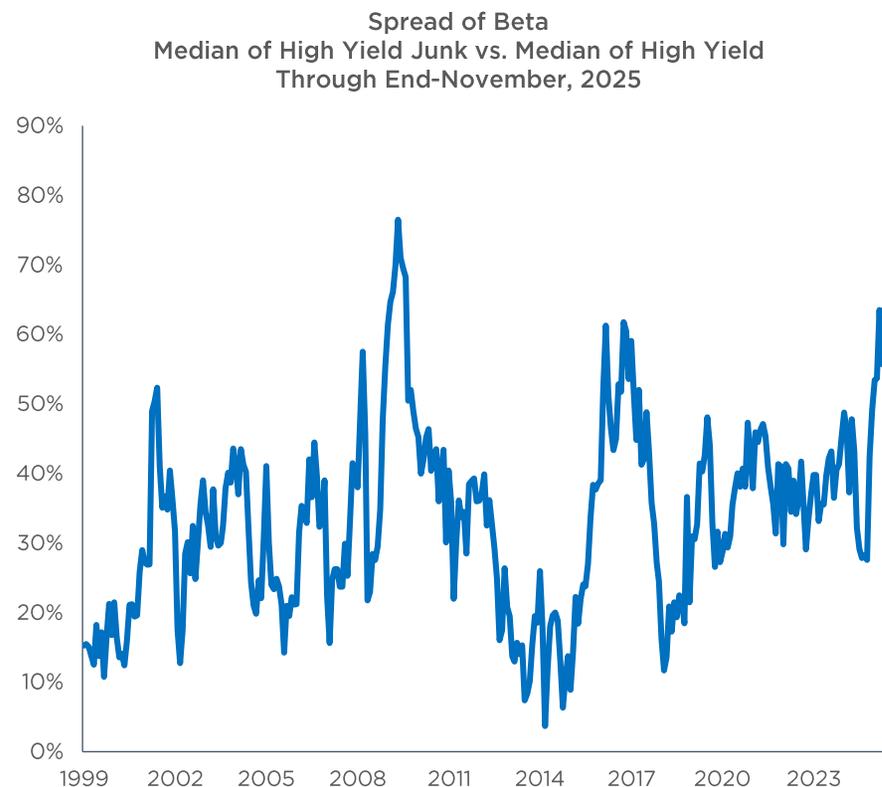**Through December 9th, 2025**

Legend: ━ High Yield ━ High Yield Junk

5
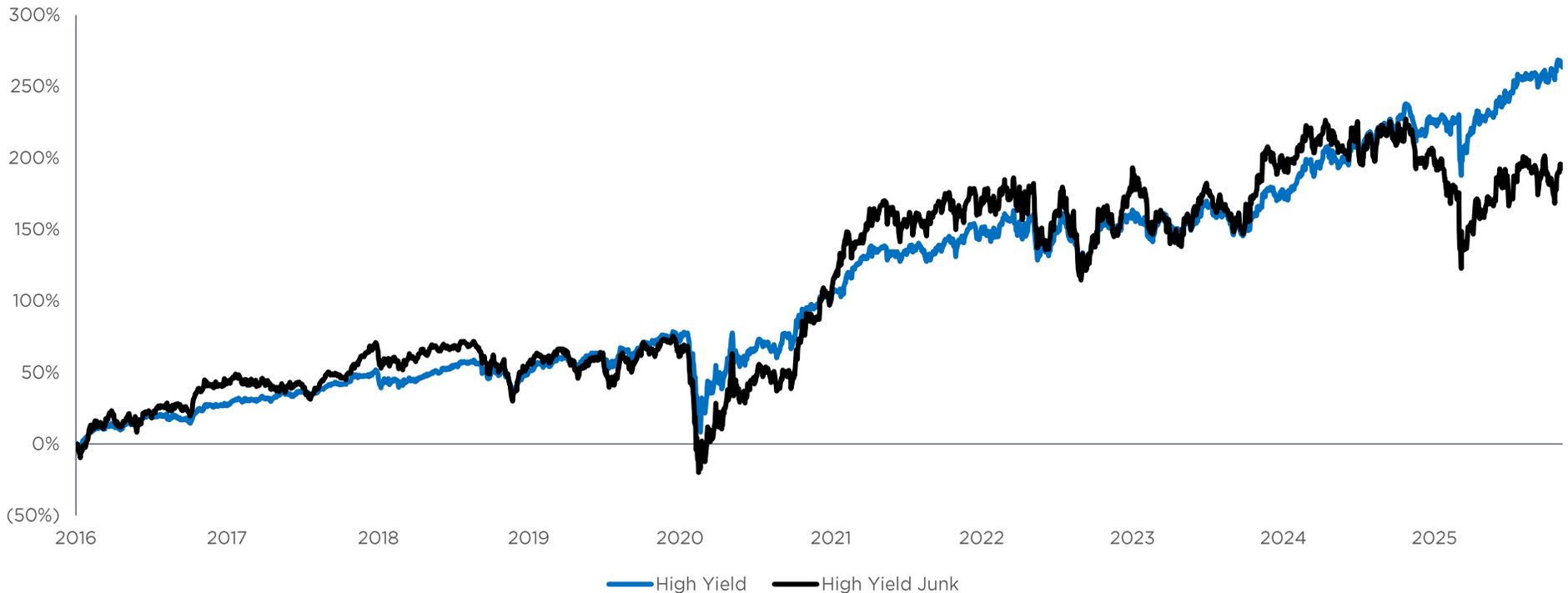
HIGH-YIELD JUNK STOCKS HAVE MUCH HIGHER BETAS

There appears to be a consistent but widening difference between junk and non-junk stocks when it comes to beta. Junk stocks have seen a rise in beta recently, much like non-yielding junk stocks (left). <u>However, the median high-yield non-junk stock has a beta near 20-year lows</u>. The result is that the difference between the beta of the non-junk vs. junk dividend yielders is at post Global Financial Crisis highs (right).

Beta
Median of High Yield and High Yield Junk
Through End-November, 2025

High Yield — High Yield Junk

Spread of Beta
Median of High Yield Junk vs. Median of High Yield
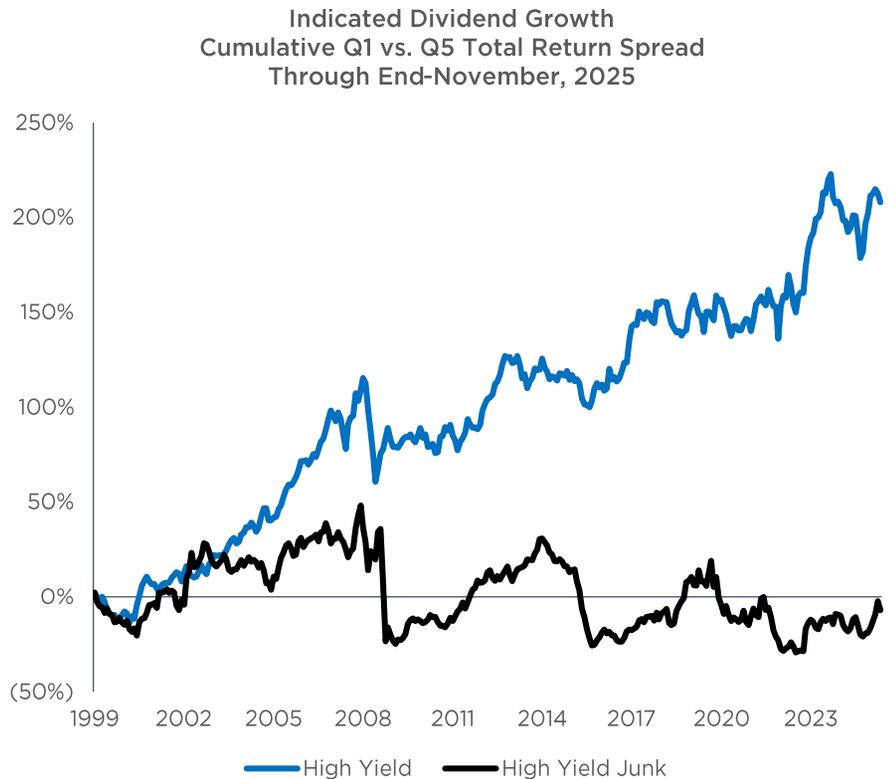**Through End-November, 2025**
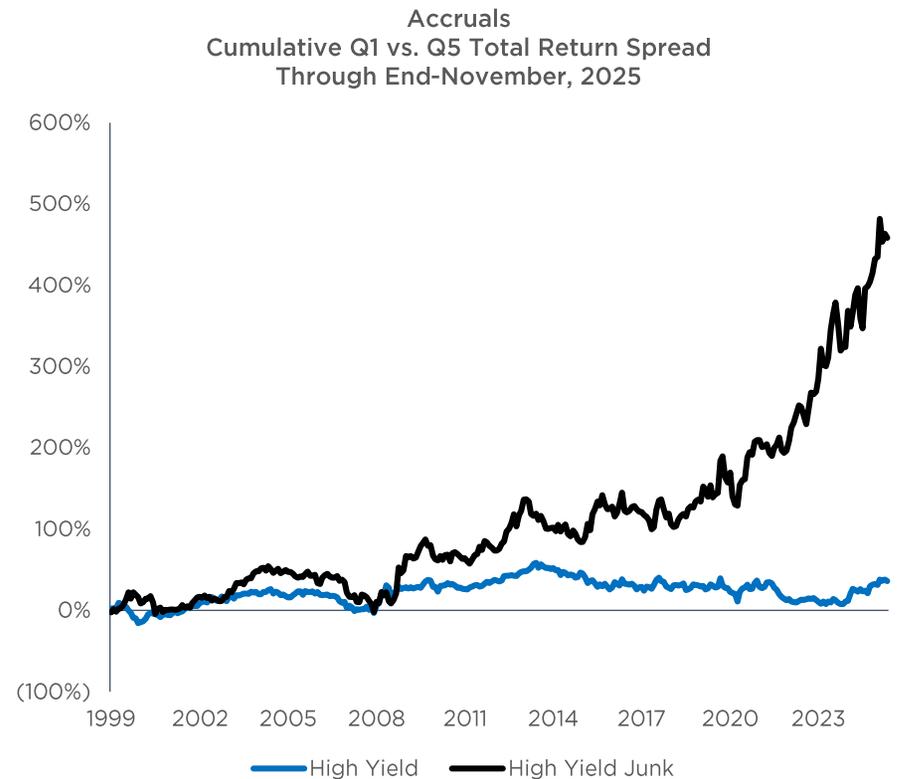

Source: Trivariate Research

Source: Trivariate Research

ACCRUALS NOT INDICATED YIELD FOR HIGH-YIELD JUNK

We think it is useful to take the dividend yielding universe and separate out "junk" stocks from the rest, as different signals are useful for security selection about high-yield junk stocks. For instance, companies with a higher indicated dividend yield strongly outperform those with a lower indicated dividend yield among high yielding stocks, but indicated yield has no value for stock selection among high-yield junk stocks (left). Accruals are a powerful signal for stock selection among high-yield junk stocks, but useless among regular high-yielders (right). Accruals are typically big increases in capital spending, inventory, or intangibles from bad deals.

Indicated Dividend Growth
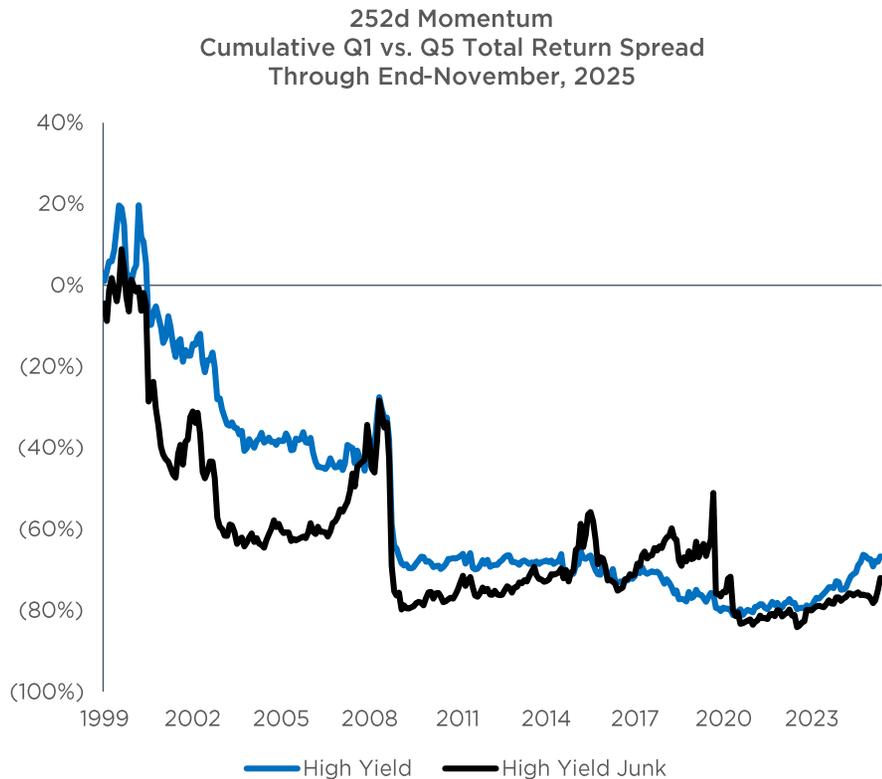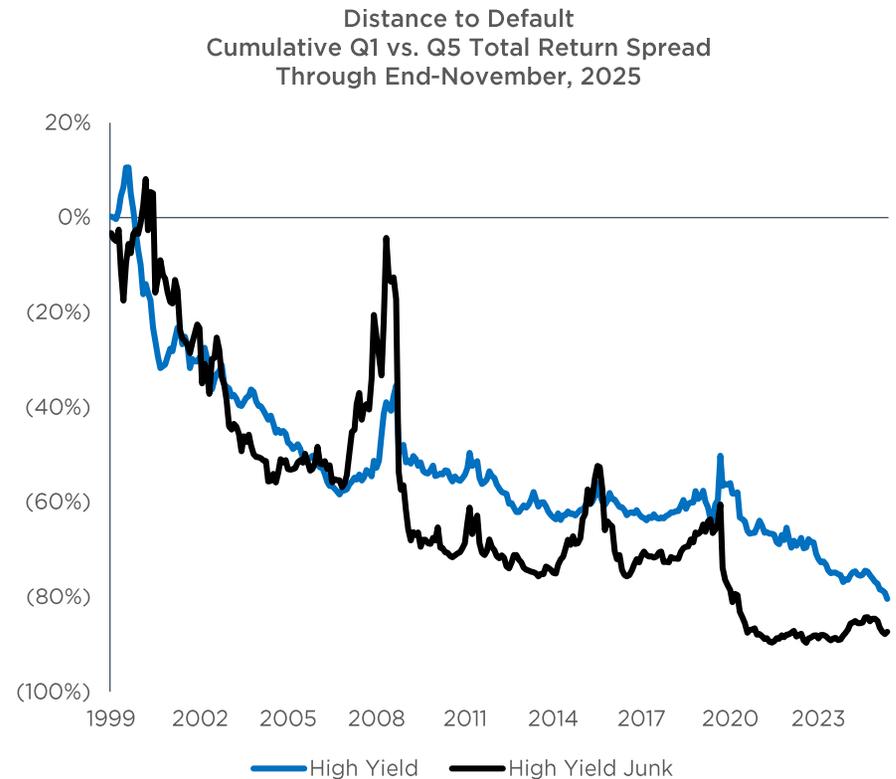### Cumulative Q1 vs. Q5 Total Return Spread
Through End-November, 2025

— High Yield — High Yield Junk

Accruals
Cumulative Q1 vs. Q5 Total Return Spread
Through End-November, 2025

— High Yield — High Yield Junk

PRICE MOMENTUM AND DEFAULT RISK DON'T MATTER

While price momentum has demonstrably worked for picking stocks in the US market, it doesn't work for picking winners from losers among high dividend-yielding stocks, junk or not (left). We also have a distance to default model which includes net debt to market cap. and beta. Companies within the high dividend space that are a lower risk to default don't subsequently outperform those that are a higher risk (right). Evidently that is already in the price.

252d Momentum
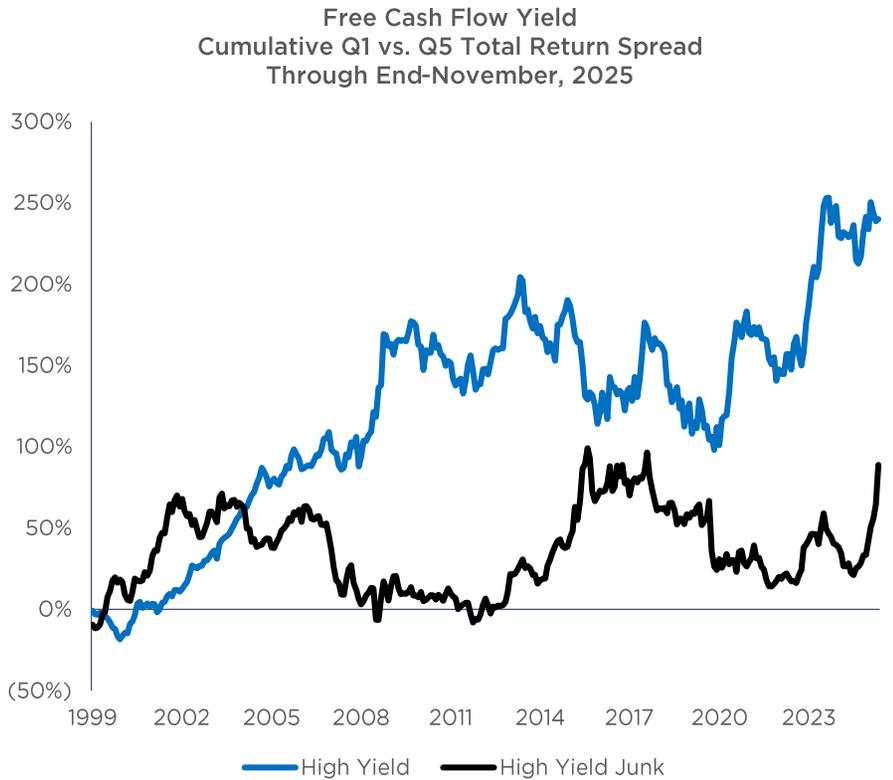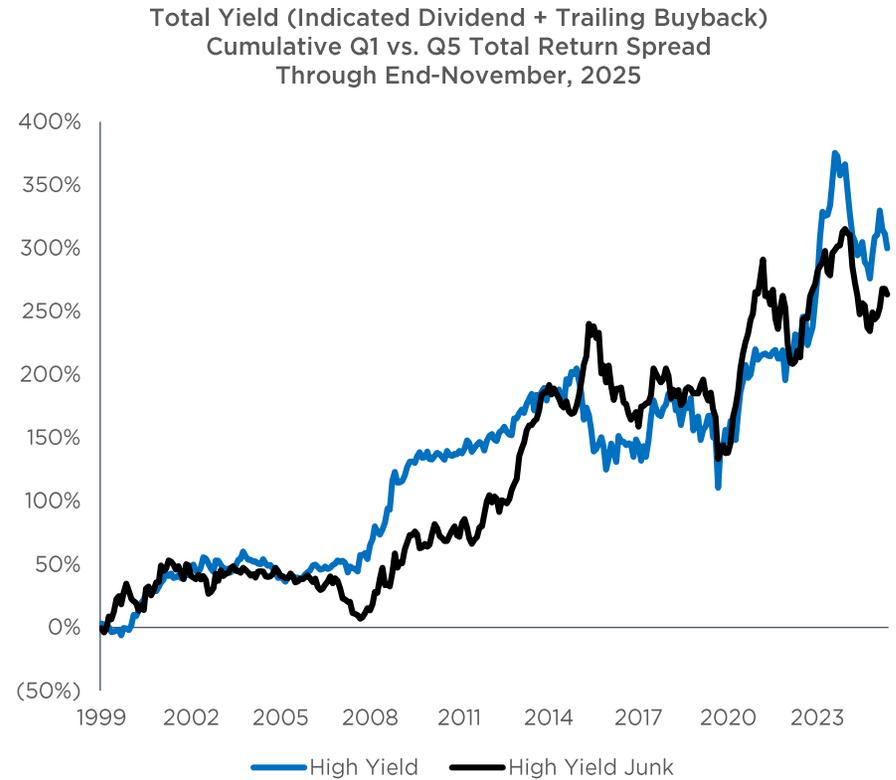**Cumulative Q1 vs. Q5 Total Return Spread**
Through End-November, 2025

High Yield   High Yield Junk

Distance to Default
Cumulative Q1 vs. Q5 Total Return Spread
Through End-November, 2025

High Yield   High Yield Junk

DIVIDEND PLUS BUYBACK WORKS, FCF YIELD IS INCONSISTENT

Recently, high free cash flow yield has outperformed low free cash flow yield among high-yield junk stocks, but over the long-term there has been minimal efficacy (left). FCF yield has mattered more for non-junk stocks. However, the total yield – buyback plus indicated dividend yield, has consistently worked as a signal, in both junk and non-junk stocks (right), implying that evidence of other cash, in addition to the dividend, is a sign of corporate health, and reduces the chance of a future dividend cut or cancellation.

Free Cash Flow Yield
Cumulative Q1 vs. Q5 Total Return Spread
Through End-November, 2025

Total Yield (Indicated Dividend + Trailing Buyback)
Cumulative Q1 vs. Q5 Total Return Spread
Through End-November, 2025

Source: Trivariate Research

Source: Trivariate Research

MOMENTUM FAILS, VALUATION WORKS FOR DIVIDEND YIELDERS

We evaluated the efficacy of over 200 signals in our factor library to pick winners from losers among high dividend yielding stocks. Overall, factor efficacy historically was better among high yielding stocks (left) than high-yield junk (right). Indicated dividend growth and price-to-forward earnings, combined with mean reversion on three-month momentum works for high yield (left), attributes which generally fail for the broader market. Among high-yield junk, accruals and total yield are best, and while not strongly effective, low margin and growth is better than high.

High Yield Universe, Best and Worst Signals
Top 2,000 US Equities, Rebalanced Monthly
1999 to End-November, 2025

Signal	Annualized Mean Return	Annualized Std. Dev.	Sharpe Ratio
Price-to-Forward Earnings	7.9%	13%	0.62
Indicated Dividend Growth	4.6%	8%	0.55
EV-to-Forecast Sales	6.5%	12%	0.53
Indicated Total Yield	5.9%	12%	0.51
Free Cash Flow Yield	5.3%	12%	0.46
Buyback Yield	3.6%	11%	0.32
Quick Ratio Growth	(0.5%)	7%	(0.06)
EPS Growth	(1.6%)	9%	(0.18)
1-Year Momentum	(2.9%)	16%	(0.18)
Forecast Revenue Growth	(4.8%)	12%	(0.40)
Distance-to-Default	(5.4%)	12%	(0.44)
3-Month Momentum	(7.4%)	14%	(0.54)

High Yield Junk Universe, Best and Worst Signals
Top 2,000 US Equities, Rebalanced Monthly
1999 to End-November, 2025

Signal	Annualized Mean Return	Annualized Std. Dev.	Sharpe Ratio
Accruals	7.7%	15%	0.50
Total Yield (Trailing)	7.1%	14%	0.50
Total Yield (Indicated)	5.7%	13%	0.44
Quick Ratio Growth	5.2%	13%	0.41
Short Interest-to-Value Traded	4.7%	14%	0.34
Buyback Yield	4.9%	15%	0.33
Gross Margin	(1.1%)	16%	(0.07)
3-Month Momentum	(3.6%)	22%	(0.16)
Incremental Gross Margin (Mean of 12Q)	(3.6%)	18%	(0.20)
Distance-to-Default	(4.9%)	23%	(0.21)
Revenue Growth (Trailing)	(4.7%)	18%	(0.26)
Operating Margin	(4.7%)	17%	(0.28)

QUANTITATIVELY DERIVED LONG / SHORT IDEAS

Below we suggest long / short ideas in our high yield and high yield junk universes. We select the top and bottom stocks by average ranking on several metrics. For the high yield universe, we use price-to-forward earnings, indicated dividend growth, indicated total yield, and free cash flow yield. For the high yield junk universe, we use accruals, total yield (trailing), and quick ratio growth. On the left are stocks that screen well, including UPS, DOW, and LYB, among others. The right shows short ideas, including OKE, MCHP, and SW.

High Yield & High Yield Junk Universes, Top 2k US Equities
Long Ideas That Screen Well on Top Metrics
End-November, 2025

Ticker	Company	Sector	Market Cap. (US$ Bil.)
UPS	United Parcel Service, Inc.	Industrials	81.27
DOW	Dow Inc.	Materials	16.95
LYB	LyondellBasell Industries N.V.	Materials	15.77
SWKS	Skyworks Solutions, Inc.	Info. Technology	9.81
DINO	HF Sinclair Corporation	Energy	9.73
OTEX	Open Text Corporation	Info. Technology	8.33
CHRD	Chord Energy Corporation	Energy	5.34
HRB	H&R Block, Inc.	Cons. Discretionary	5.33
FRO	Frontline plc	Energy	5.24
MTN	Vail Resorts, Inc.	Cons. Discretionary	5.04
MUR	Murphy Oil Corporation	Energy	4.58
APAM	Artisan Partners Asset Management	Financials	2.92
LCII	LCI Industries	Cons. Discretionary	2.75
ASH	Ashland Inc.	Materials	2.42
OLN	Olin Corporation	Materials	2.41
PAX	Patria Investments Limited	Financials	2.31
PTEN	Patterson-UTI Energy, Inc.	Energy	2.20
DHT	DHT Holdings, Inc.	Energy	2.10

Source: Trivariate Research

High Yield & High Yield Junk Universes, Top 2k US Equities
Short Ideas That Screen Poorly on Top Metrics
End-November, 2025

Ticker	Company	Sector	Market Cap. (US$ Bil.)
OKE	ONEOK, Inc.	Energy	45.82
MCHP	Microchip Technology Incorporated	Info. Technology	28.96
SW	Smurfit Westrock Plc	Materials	18.59
BEPC	Brookfield Renewable Corporation	Utilities	14.08
HAS	Hasbro, Inc.	Cons. Discretionary	11.59
SWK	Stanley Black & Decker, Inc.	Industrials	11.08
PNW	Pinnacle West Capital Corporation	Utilities	10.88
WLK	Westlake Corporation	Materials	8.57
OMF	OneMain Holdings, Inc.	Financials	7.30
VNOM	Viper Energy, Inc.	Energy	6.15
BKH	Black Hills Corporation	Utilities	5.57
SR	Spire Inc.	Utilities	5.23
OGS	ONE Gas, Inc.	Utilities	5.02
PBF	PBF Energy Inc.	Energy	3.99
KGS	Kodiak Gas Services, Inc.	Energy	3.02
AVNT	Avient Corporation	Materials	2.80
HP	Helmerich & Payne, Inc.	Energy	2.75
WD	Walker & Dunlop, Inc.	Financials	2.20

Source: Trivariate Research

DISCLOSURES

Disclaimer

This presentation is confidential and may not be reproduced or distributed without the express prior written permission of Trivariate Research LP and its affiliates (collectively, "**Trivariate**").

The information contained herein reflects the opinions and projections of Trivariate as the date of publication, which are subject to change without notice at any time subsequent to the date of issue. Trivariate does not represent that any opinion or projection expressed herein will be realized. All information provided is for informational and research purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific portfolio investment, security or other asset. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data or other information presented. Information obtained by Trivariate from third party sources in connection with the preparation of this presentation has not been independently verified by Trivariate. Additional information regarding Trivariate is available on request.

Any projections, forecasts, targets or other estimates presented herein constitute "forward-looking statements" that can be identified by the use of forward-looking terminology such as "may," "will," "should," "could," "would," "predicts," "potential," "forecasted," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," or the negatives thereof or other variations thereon or comparable terminology. Furthermore, any projections, targets, forecasts or other estimates in this presentation are "forward-looking statements" and are based upon certain assumptions that may change. Due to various risks and uncertainties, actual events or results or the actual performance of the funds may differ materially from those reflected or contemplated in such forward-looking statements. Moreover, actual events are difficult to predict and often depend upon factors that are beyond the control of the Trivariate. Nothing herein shall under any circumstances create an implication that the information contained herein is correct as of any time after the earlier of the relevant date specified herein or the date of this presentation. In addition, unless the context otherwise requires, the words "include," "includes," "including" and other words of similar import are meant to be illustrative rather than restrictive. Forward-looking statements and discussions of the business environment included herein (e.g., With respect to financial markets, business opportunities, demand, investment pipeline and other conditions) are subject to the ongoing novel coronavirus outbreak ("**COVID**" or "**COVID-19**"). The full impact of COVID-19 is particularly uncertain and difficult to predict, therefore such forward-looking statements do not reflect its ultimate potential.

This shall not constitute an offer to sell or the solicitation of an offer to buy any interests in any fund, product or account that is or may in the future be advised or managed by, Trivariate or any of its affiliates.

All data sourced from S&P Global, Bloomberg, or our Trivariate estimates. All forward-looking-statements reflect the opinion of Trivariate.