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BMO Dividend Fund 2025 Outlook



Presented by the BMO GAM
Fundamental Equities Team



Global Asset Management

INTRODUCTION

Getting ahead of bond yield volatility in 2025



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We believe that many of the positive economic and macro trends that are in place today are going to continue to create a friendly backdrop for risk assets, including Canadian equities. We are two years into a bull market that has navigated several potentially life-ending blows—the return of comprehensive land wars, a U.S. banking crisis, global threats to democracy, generational inflation, central bank tightening, and a continuous recession call, to name a few. Despite these headwinds, investors have been buoyed on by the prospect of an unexpected economic soft landing and an easing of pricing trends, which have allowed central banks to embark on a global rate cutting cycle, with markets

pricing in three additional cuts equivalent to 75 basis points (bps) easing by the Bank of Canada (BoC) in the coming 12 months. The improved economic outcome has lifted corporate sentiment, investment, and profits, which has been a positive boon to stock prices.

That said, the easy money may have been made. While equity markets have clearly accepted the Trump presidential win as pro-business and pro-risk, it is yet to be seen if his trade, fiscal, and immigration policies could potentially create hurdles to economic growth and disinflation expectations. In addition to these potential policy risks, work by BMO Capital Markets suggests that year three of equity bull markets tends to be relatively soft, with a wider dispersion amongst the winners and losers.

Exhibit 1: S&P 500 performance comparison by bull market year

Bull start	Bull end	Length (years)	Year 1	Year 2	Year 3	Year 4	Year 5
10/03/1974	11/28/1980	6.2	38.0%	21.2%	-7.3%	6.7%	6.4%
08/12/1982	08/25/1987	5.0	58.3%	2.0%	13.8%	27.8%	38.5%
12/04/1987	07/16/1990	2.6	21.4%	29.0%	5.2%	-	-
10/11/1990	03/24/2000	9.5	29.1%	5.6%	14.3%	-0.3%	25.8%
10/09/2002	10/09/2007	5.0	33.7%	8.0%	6.6%	12.9%	15.0%
03/09/2009	02/19/2020	11.0	68.6%	15.7%	3.5%	13.6%	21.1%
03/23/2020	01/03/2022	1.8	74.8%	14.0%	-	-	-
10/12/2022	?	?	21.6%	33.7%	-	-	-
	Average	5.9	43.2%	16.1%	6.0%	12.1%	21.4%

Source: BMO Capital Markets Investment Strategy Group, FactSet.

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Our dividend outlook

With this backdrop, we believe the cash a business returns to shareholders via dividend streams will become increasingly front and centre for investors as interest rates move lower, in particular for Guaranteed Investment Certificate (GIC) holders who may be opting for high quality sustainable dividends as a first step back into riskier assets via equities from the safety of GICs. Canadian dividend equities, in particular, offer an attractive starting yield of 3.02% given the income tilt of the S&P/TSX Composite. Over the longer term, dividends are a quiet, yet powerful return generator accounting directly for 30-40% of the total return for equities. The dividend story becomes even more attractive once the element of dividend growth is factored in, which not only combats the risks of higher inflation and bond yields, but long-term studies show strong outperformance for stocks with growing dividends versus those that either do not pay a dividend or show no growth, and certainly against stocks that have a history of cutting their dividends.



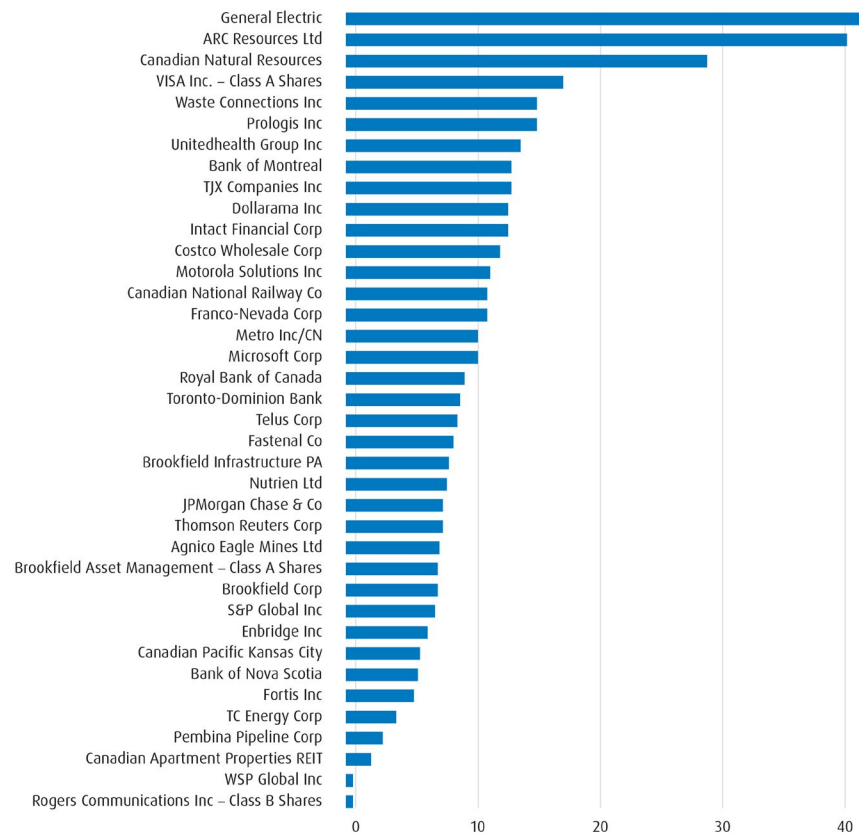
Our dividend methodology

As dividend investors, we are concerned far less about the day-to-day headlines and much more about the underlying fundamentals that will drive sustainable dividend trends of companies well into the future. We continue to believe that the best defense for market and bond yield volatility is dividend growth, which can protect a portfolio in times of uncertainty and investor nervousness.

Our ability to deliver a high-quality dividend growth portfolio comes down to investing in businesses that can generate resilient and growing cash flows under a variety of changing economic landscapes and macro-economic surprises. A closer look at the dividend performance within the **BMO Dividend Fund** over the past three years has been very strong, with dividend growth of 9.8% annually. Over the past 12 months, the investments held within the BMO Dividend Fund have had 35 dividend increases and no cuts. Furthermore, portfolio holdings have, on average, hiked their dividends for over 14 consecutive years.

Confidence in this dividend growth comes from the variety of sticky secular growth themes that the fund is exposed to, including urbanization, demographics, energy transition, artificial intelligence (AI), cashless society, deglobalization, global infrastructure and a changing consumer trends—which we believe will continue to move forward regardless of short-term cyclical shifts. High conviction holdings such as Intact Financial, Visa, Brookfield, United Healthcare, WSP Global, Costco and Dollarama are all levered to these drivers.

Three-year dividend compound annual growth rate (CAGR)



Source: Bloomberg, as of December 2024.

Dividend stocks to play an important role in 2025

While the outlook for Canadian equities remains positive, albeit more muted than we have experienced over the past two years, we are well aware that forecasting over shorter time periods can be fraught with risk and errors in judgement. What is not fraught with risk is our confidence in the longer-term sustainability of the strength of the business models we invest in. This upcoming year will surely be one of elevated policy uncertainty and risk under Trump 2.0. With the market quick to reflect the potential tailwinds of his presidency with higher equity multiples, we believe that the defensive attributes of dividend paying businesses will be particularly important for investor returns this year.

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PERFORMANCE & DISCLAIMERS

Performance (%)

	Year-to-date	1-month	3-month	6-month	1-year	3-year	5-year	10-year	Since inception
BMO Dividend Fund - Series F	22.17	5.33	8.04	15.12	27.93	9.16	9.10	8.77	9.21

As of November 30, 2024. Inception date: November 3, 2008.

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