

Sustainable Global Dividend Outlook 2023

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As 2022 draws to a close, several themes remain top of mind for sustainable global dividend investors. We expect that regulators will tighten up on their scrutiny of all things sustainability related. Strong reporting processes do not necessarily mean strong sustainability credentials, and strong sustainability credentials can be masked by poor reporting processes. Nothing beats looking under the bonnet and doing your own due diligence. In 2023 we expect more criticism of companies' sustainability efforts and expect more funds changing their sustainability claims and accreditation.

2022, like 2021, was a good year for dividend investors. Gross dividends are likely to have grown over 10% again as the recovery following a weak 2020, continues. Strong free cash flow growth and strong balance sheets are key to the delivery of sustainable dividend growth. In 2023 we expect free cash flow growth to be harder to come by. Profitability is likely to suffer at the hands of recessionary or slow growth environments. Higher interest rates mean debt is more expensive. Continuing supply chain blockages will likely mean higher levels of inventories and elevated inflation will mean inventories held are more highly priced. These factors are all headwinds for free cash flow growth. In 2023 dividend growth may not match that of 2022 and 2021.

In 2023 our focus, as always, will be on ensuring our portfolio holdings have a combination of strong dividend and sustainability credentials and all that entails. At the start of 2022 the MSCI World Index was at an historic high and has since declined. This has been in part due to the starting valuations; the declining macro and geopolitical environment; and to higher discount rates. Factors which are interlinked. How these factors play out in 2023 will be key to the direction of travel of equity markets.

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