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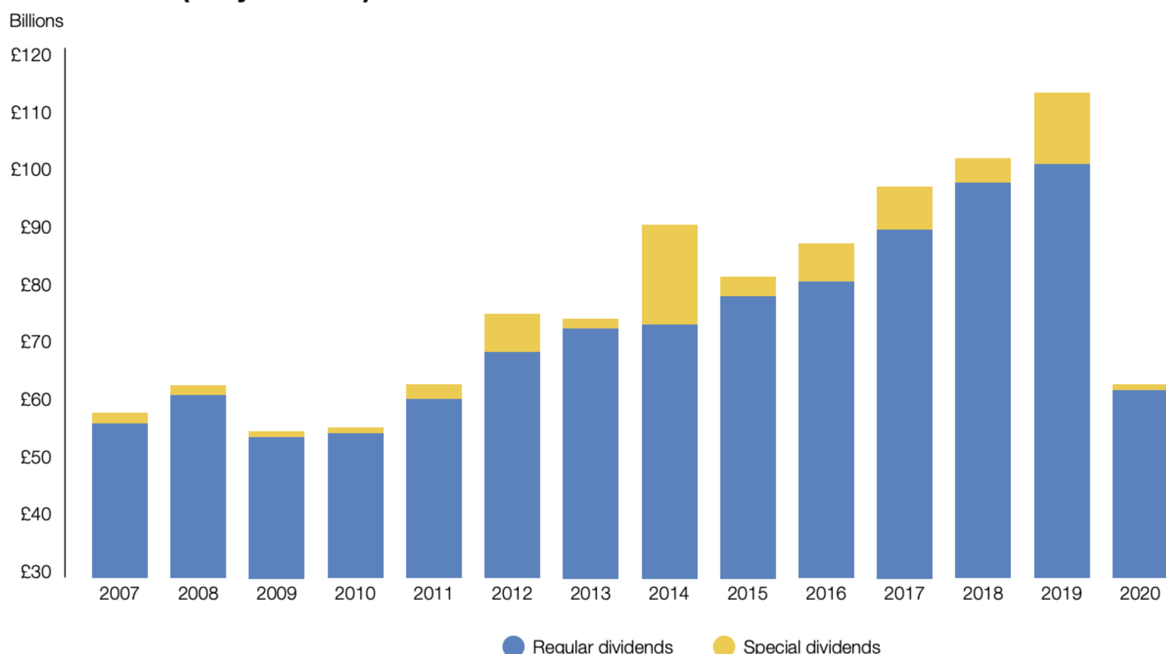
UK dividends: A bad 2020, but a better 2021?

New data show how far UK dividends fell last year, but projections for 2021 suggest the declines are nearly over.



In January 2021, Link Asset Services published its latest UK Dividend Monitor covering the final quarter of 2020 and the year as a whole. The headline figure was that total dividends fell by 44% over the year, equating to £48.7bn less dividend income received by investors in 2020 than in 2019. In fact, the level of dividend payments in 2020 was just £0.1bn higher than in 2011.

The decline in payments was spread across sectors with around two thirds of companies either cancelling or cutting their dividends between the second and fourth quarter of the year. Within that broad decline, three factors accounted for almost 75% of the lost income:

- The financial sector cut or cancelled £16.6bn of dividends. Early in the pandemic, the Bank of England told all the major banks to suspend dividend payments. HSBC, which in 2019 was the second largest dividend payer, did not pay a cent in 2020 (it declares dividends in the US currency, not sterling).
- The oil sector cut its dividend payments by £8bn in 2020, with two household names, BP and Shell, leading the charge. The oil price fall was a contributing factor, but there was probably also some opportunism. The pandemic gave BP and Shell, along with many other companies, cover for reducing dividend levels that had become increasingly unsustainable.

- Special dividends – one-off payments usually associated with corporate restructurings – crashed from £12bn in 2019 to just £0.8bn in 2020.

2021 started with another lockdown in force, but in Link Asset Services' comments on the outlook for the year, it does not envisage any further dramatic falls in dividends. For a start, the Bank of England has said the banks can resume dividend payments, albeit subject to tight constraints. Any company that wanted to 'rebase' its dividend has probably done so by now. Add those two factors together and Link's best case is that dividends could rise by 10.0% this year, while its worst case is a decline of 0.6%.

Last year's dividend performance may have been grim, but the dividend yield on the UK stock market is still around 3.25%, which in the current environment is not easy to beat.

Four financial lessons from the Covid-19 pandemic

As the pandemic enters its second year, what have we learned?

The World Health Organisation declared Covid-19 a pandemic on 11 March 2020, coincidentally the day that Chancellor Rishi Sunak presented his first Budget. At the time, the Chancellor announced a £12bn stimulus to counter the impact of the pandemic. By November, the Office of Budget Responsibility was estimating the cost had reached £280bn.

The last year has been a traumatic one in which much has changed, perhaps never to revert to the old 'normal'. It has also provided some useful financial lessons:

- *Make sure you have an up-to-date will* – Early on in Lockdown 1.0 the importance of having an up-to-date will (or, in some cases, any will) was highlighted to many people just as it became difficult to arrange one.

- *Relying on a state safety net is dangerous* – The pandemic saw the number of Universal Credit (UC) claimants more than double to 5.8 million in the year to November 2020. The lowly level of benefits – even after a £1,000 temporary uplift – was a shock for many of those new claimants, including people who fell between the gaps in the job support schemes.

- *Keep an adequate cash reserve* – In a world of near zero interest rates, you may be reluctant to leave cash on deposit, earning next to nothing. However, cash gives you valuable flexibility and time to react to changed circumstances.

- *Don't panic* – The UK's FTSE 100 hit its low for 2020 on 23 March, the day that the Prime Minister launched Lockdown 1.0. It was a dark time, but any investor who panicked and sold up at that point, when the FTSE 100 was below 5,000, would have chosen the worst time to pull out. By the end of 2020, the index was 29.4% above its March nadir. That performance was also a reminder of another lesson: market timing is almost impossible.

If any of that quartet resonate with you, will you be ready for next time?

Prepare for the new tax year

Taking some time to start planning for 2021/22 now can be worthwhile.

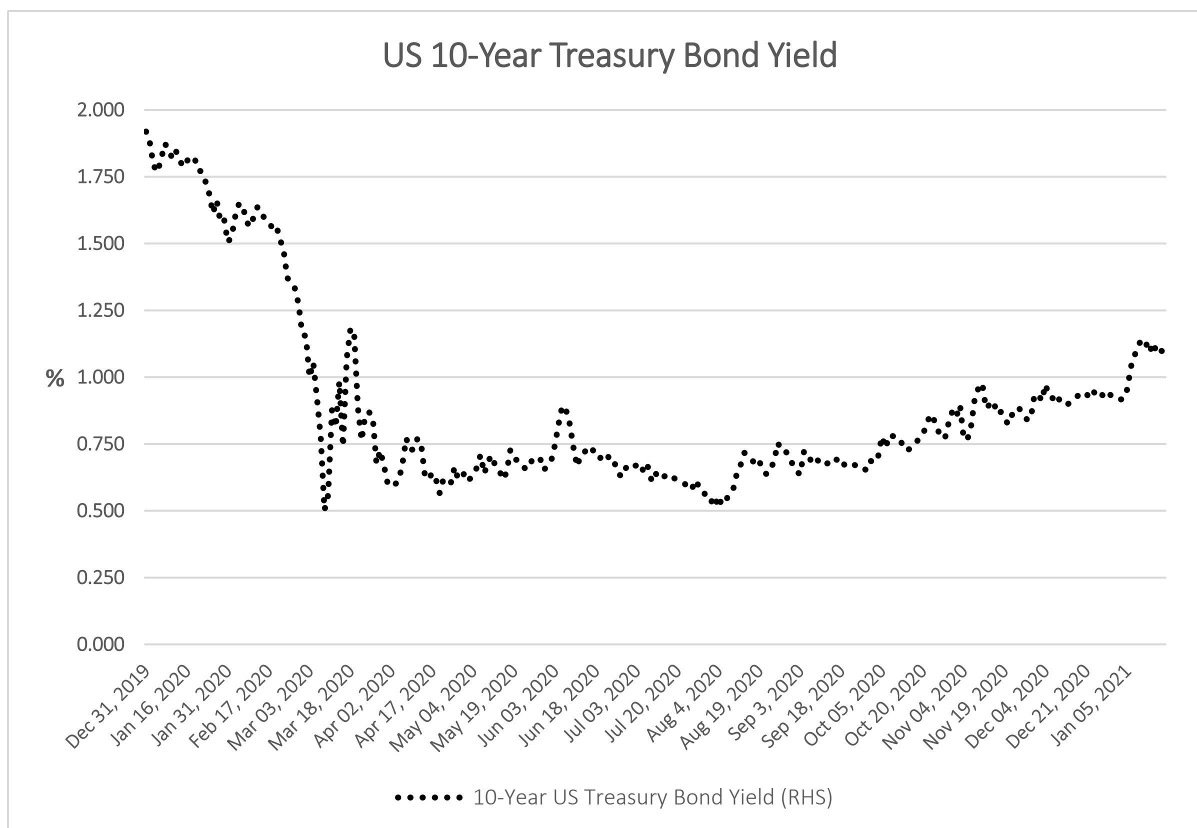
While there is often a focus on planning for the end of the tax year, much less attention is paid to the start of the tax year. The lack of an obvious deadline is probably one reason – deadlines tend to concentrate the mind. Nevertheless, some planning at the beginning of the year can be a rewarding exercise.

- *Estimate your total income for 2021/22* – If you have a rough estimate of what your income will be, it will give you an idea of what to watch out for and what each extra £1 of gross income will be worth. For example, if your estimate is around £50,000, that means you are on the borders of higher rate tax (or well into the 41% band if you are resident in Scotland). £50,000 is also the threshold at which the child benefit tax charge comes into play.
- *Check whether you will cover your allowances* – The allowances to which you are entitled often depend upon your income, although the £2,000 dividend allowance applies universally. Couples have the opportunity to cover two sets of allowances, possibly by transferring investments between each other or changing from single ownership to joint ownership.
- *Check your PAYE code* – If you have received a 2021/22 PAYE coding, check that it is correct. The wrong code could mean you pay too much tax during the year.
- *Top up your ISA* – If it makes tax sense for you to invest in an ISA because of the potential income and capital gains tax savings, then the time to do so is as soon as possible, not just as the tax year end approaches.
- *Consider making pension contributions* – The sooner your contribution is invested, the longer it benefits from a tax-favoured environment and the less likely it is to be 'lost' in other expenditure.

For more 2021/22 tax planning, talk to us *now*… not March 2022.

Interest rates double since March 2020

No, the headline is not wrong…



Interest rates matter. At the personal finance end of the spectrum, they determine what you earn from bank deposits (virtually nothing at present) and what interest you pay on your mortgage (about 4.4% if you are paying the average standard variable rate (SVR), but much less for most other loans). In the investment and commercial world, interest rates determine what business borrowers pay and are often the basis for valuing assets, from shares to property.

While the primary focus in the UK is the rate set by the Bank of England (0.1% at the time of writing), it is not the most significant interest rate for professional investors. The Bank of England rate is a driver of short-term rates in the UK, although they are currently very similar to the corresponding rates from the US, European and Japanese central banks. The professionals' focus is generally longer term and in particular on the yield of the US Treasury 10-Year Bond.

Although the US no longer has the top AAA rating as a borrower, the 10-year T-Bond, as it is often called, is widely regarded as the benchmark for long-term, risk-free returns. That is not to say it is without risk: like all government bonds, its price fluctuates over time and payment of both interest and at maturity depend upon the issuing government. However, even in the Trump era, there were few suggestions that the US would ever renege on its debts.

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As the graph shows, the T-Bond yield had a rollercoaster ride in the first few months of last year, falling from 1.92% at the start of 2020 to a low of 0.502% in early March as concerns about the pandemic rattled markets. By mid-January 2021, the yield had more than doubled to around 1.1%.

So far, the rise in the yield has not affected the US stock market, despite the fact that it has increased the relative attractiveness of government bonds to shares. US investors expect an economic recovery in 2021, which gives support to share values. If that bounce-back falters, the security of the T-Bond could once again come to the fore. It is a point to watch if you are contemplating where to place this year's ISA cash.

First-time buyer deposits rise after Covid-19 property boom

The average deposit paid by first-time homebuyers jumped by £10,000 in 2020.

When the pandemic took hold in the first half of last year, it looked as if the housing market was headed for a fall, if not something more dramatic. There were problems about viewing properties, arranging surveys, organising removals – you name it, there was a raft of obstacles set to hit the sale of residential property. And yet…

In early July, as new virus case numbers fell to what proved to be the year's low, the Chancellor announced that until 31 March 2021, stamp duty land tax (SDLT) would not apply to the first £500,000 of property value. It was a surprise move, but rapidly followed by more modest reductions in the corresponding taxes in Scotland and Wales (Northern Ireland is subject to SDLT).

The combination of a temporary tax cut – which also applied to buy-to-let investors – and an easing of lockdown restrictions was an estate agent's dream come true. According to data from Halifax, after falling by 0.5% between January and June, the average house price then rose by 6.5% across the remainder of the year, leaving the overall increase for 2020 at 6.0%.

The combination of the pandemic-cooled first half of the year and the subsequent SDLT-induced jump in house prices was that the number of first-time buyers fell by 13%. However, that drop was broadly in line with the overall market, so the first-time buyers' share of mortgaged purchases was only down 1%, at 50%, according to Halifax. More surprising was the increase in the average deposit paid by first home buyers – Halifax says this rose by over £10,000 to £57,278. In London, the average deposit was £130,357, although this was a smaller increase in percentage terms (18%) over 2019 than the national average of 23%.

There is little doubt that the Bank of Mum and Dad (BOMAD) played a significant part in financing those substantial deposits. If you can see yourself becoming part of that major banking group, make sure you take advice and start planning as soon as possible before your potential borrower(s) come calling.