Abrdn's Duitz: Recessionary Pressure Is Good For Infrastructure, Dividend Plays

Friday, September 2, 2022

Chuck Jaffe, in this episode of The NAVigator podcast interviewed Josh Duitz, deputy head of global equities at Abrdn, portfolio manager for Abrdn Global Infrastructure Income and two of the firm's dynamic dividend funds. Read the Q&A below as Josh says that the macro drivers for infrastructure – globalization, upgrades and repairs, urbanization and increased demand – coupled with current inflationary pressures have created an environment that is solid for recession-resistant infrastructure stocks. Meanwhile, with rising interest rates pushing demand higher, dividend stocks have been outperforming as well, and are likely to continue to remain in the market's sweet spot until the economy rebounds and convinces the public that it wants to focus again on growth rather than looking at total return. Duitz says that among dividend plays, he is most interested right now in sectors that can raise revenue to keep pace or stay ahead of inflation, so that they are not squeezed by the macro picture, which means the most-fertile hunting grounds now tend to be among health care, real estate, materials, industrials, utilities and consumer-staples companies.

Josh Duitz

The podcast can be found on AICA's website by clicking here: https://aicalliance.org/alliance-content/pod-cast/

CHUCK JAFFE: Josh Duitz, deputy head of global equities at Abrdn is here, and we're talking infrastructure investing, dividend plays and more now on The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator's going to point you in the right direction. And today we're heading in the direction of dividend investing, infrastructure, and more with Josh Duitz, deputy head of global equities at Abrdn, where he manages the Abrdn Global Infrastructure Income Fund, that's ASGI, Abrdn Total Dynamic Dividend, AOD, and Abrdn Global Dynamic Dividend, AGD among others. You can learn more about Josh, the firm, and the funds at Abrdn, which is now spelled without the E's, A-B-R-D-N, Abrdn.com. Or to do the funds, use their ticker symbols, so make it AbrdnASGI.com, and you'll get directed information on the individual funds. To learn more about closed-end funds, business-development companies, and interval funds check out AICAlliance.org, the website for the Active Investment Company Alliance. Josh Duitz, thanks for coming back to The NAVigator.

JOSH DUITZ: Thanks for having me back, Chuck. Appreciate it.

CHUCK JAFFE: Josh, I want to start with infrastructure. Because, well, we've been waiting and talking about what infrastructure legislation might do, then we've got the government as it exists right now. I'm not making a political statement, I'm just saying, hey, as an infrastructure investment, what happens in Washington matters. So given where we're at with the economy, and inflation, and interest rates, where are we on infrastructure investing?

JOSH DUITZ: You know, Chuck, we think this is a tremendously good time to be invested in infrastructure for basically the reasons you mentioned. So first of all take the macro environment, a lot of investors think we're heading towards a recession, tremendous inflation, we haven't had this inflation for 40 years. But what does infrastructure really provide? It provides companies, these are essential services, these are utilities, they're roads and airports that you're traveling on, they're cell towers. We're going to use our cell phones whether there's a recession or not. So these companies provide steady, predictable cashflows. They have a defensive earnings profile as well. If you look back to the 2008 Global Financial Crisis, listed infrastructure funds grew their EBITDA during that time period, so very defensive, and there's a good deal of inflation protection too. So for example, many of the roads we invest in, the road owner, concession owner, has the ability to raise the tariff or toll with inflation on a yearly basis. Every concession contract's different, but in general there's an inflation protection component to it, so we think it's an ideal time. And then there's macro drivers. We've been talking about the macro drivers for infrastructure for over a decade. We're talking about growing population, urbanization, repairing old infrastructure, building out the infrastructure for cell phones and smartphones. But over the past two years since Covid, we've now had seamless packages with a focus on infrastructure. And finally in the United States there was a Bipartisan Infrastructure Bill of $1.2 trillion. In addition, the Inflation Reduction Act, which was recently passed, provides another $369 billion in tax credits for EVs and renewables. Now I'm not sure if it's going to reduce inflation, the IRA, but I do believe it allows us another stimulus and tailwind for infrastructure spending. So we really thinking both from the macro environment, and then from the bottom up, this is a terrific time to be investing in infrastructure.

CHUCK JAFFE: What about the timing for dividend investing? Because, A, hugely popular space because given what's happening with the market, everybody wants a little bit of payout, and at least they get paid to wait if I've got dividends. B, as the market suffered at the beginning of the year, as it has taken a turn for the worse recently, prices coming down means dividend yields are going up. But also a very crowded space, and dividend yields that looked good before don't necessarily look great when you've got inflation running as high as it is right now. So what does that space look like?

JOSH DUITZ: It's interesting for dividends because you mentioned it, and you talked about the high inflation, which again we haven't seen in 40 years, been a lot of shock to the system. And recently the New York Fed president, John Williams said that it looked like we still have inflation and they need somewhat restrictive policy for it. So in terms of it, you mentioned dividends have outperformed, and in periods of higher inflation we want to own those shorter duration equities that return money to shareholders, and should outperform long-duration stocks trading at steep price to sales ratios. And in general, regardless of inflationary periods or not, companies that have increased their dividends have outperformed in the long run. And we believe dividends will continue to play an integral role in the return profile for stocks moving forward, as policy has really shifted from loose monetary policy and low inflation, and we think this higher inflation's going to persist for some time. Historically, dividends have contributed 36% of total returns since 1936, but just 14% since 2013, and dividend growth has lagged earnings per share growth by about 30% recently and companies have to raise their dividends. Historically the payout ratio's been about 52%, and now about 35%. US consumer and US corporates hold about $20 trillion in cash, which is a 35% increase since 2019. So we see the ability, companies have to raise [inaudible], they have to raise the dividends. And in 2022, so this year we expect companies in the MSCI All Country World Index to raise their dividends by about 7% year over year. So we think that this is just the beginning of the trend, that you really want to own those dividend names for the longer term.

CHUCK JAFFE: Now that's dividend investing, but that was not sector specific. Obviously in the first half of this year there was only one sector of the 11 tracked by Standard and Poor's that was up, and that was energy, which a lot of people do turn to for dividend investing. But some would say that play is maybe a little long in the tooth, others would say it's the safest thing going right now. So dividend investing by sector, where are finding the things that you want that most exemplify this is a good time to be dividend investors?

JOSH DUITZ: So our funds, AOD and AGD, really we're fundamental stock pickers, we're not trying to just pick sectors or momentum trades. But when you're looking at it, you can't avoid the macro environment of what's going on, and really we want to invest in companies that have the ability to raise their revenues with inflation, so this way their margins aren't getting squeezed. And you look at the sectors that have real revenue growth year over year, not nominal but real revenue growth, those include healthcare, and real estate, materials, industrial, utilities, those are the type of companies that we want to invest in. Consumer staples are there as well. So those are the sectors that we think should continue to outperform going forward. And then we're looking for tailwinds within each of those sectors. So for utilities for instance, in both the dividend funds and the infrastructure funds, ASGI as well as AOD and AGD, we're looking for the companies that could take advantage of the renewable growth that we're going to have over the next several decades. So this strong support from the infrastructure packages, and if you look at Europe, now what's going on with the energy crisis there, they need to supplement their energy with more and more renewables. So we think there's strong tailwinds regardless of the economic environment for the utility sector. So that's the way we really try to look at each sector, find the companies that have strong tailwinds regardless of the macro environment.

CHUCK JAFFE: Do you expect that we're going to get to a spot where instead of biding our time, collecting our dividends, etcetera, but that we're going to wind up seeing significant growth come back into the dividend space? And if so, when?

JOSH DUITZ: So when you say significant growth coming back into the space, we do believe that even in this environment we're going to continue to have dividend growth because of the payout ratios being so much lower, so there is room for that. These companies that we're trying to invest in have strong balance sheets, the ability to raise their prices, the margins should not get squeezed as much as others. So that's where we see it, we are not trying to play the macro in our funds. Again, we're very aware of the macro environment, but we're not macro investors. And you just see the markets flipping around, and I think you get caught in trying to play the momentum trades. We're trying to invest in companies that have strong fundamentals regardless of the macro environment. We think dividend companies benefit in this macro environment because generally the growth companies, when you look at the terminal value, they've become extremely expensive. But we're always trying to look at the relative value sector by sector to find the best companies that can outperform over the long term rather than trying to say, "I'm going to invest in this company today and sell it tomorrow based on the macro." So again, fundamental stock pickers, and that's what we're looking for when we're investing in the type of companies we're looking to invest in.

CHUCK JAFFE: Josh, thanks so much for joining me on The NAVigator to talk about.

JOSH DUITZ: Thank you for having me. Really appreciate it, Chuck.

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Recorded on September 1, 2022

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