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Income Through Global Diversification: The Case for MSCI EAFE High Dividend Yield

Higher yield. Stronger dividend growth. And a valuation that makes the income more sustainable — not less.

Research insight: The international dividend advantage

When advisors think about income, international equities often get overlooked. That's potentially a missed opportunity. **The MSCI EAFE High Dividend Yield Index** (HDY) yielded **4.11%** as of Mar. 31, 2026, versus **2.83%** for the MSCI USA High Dividend Yield Index — a **128 basis point premium that reflects valuation, not desperation**.

The first question advisors ask is: **Can those dividends be sustained?**

The historical data provides additional context. Payout ratios remain close — 60.4% for EAFE HDY versus 55.4% for USA HDY — so the higher yield continues to reflect a lower share price, not companies stretching to pay out more than they earn. And as of Mar. 31, 2026, EAFE HDY's dividend growth has been faster: 7.8% over one year versus 4.2% for USA HDY, widening to 9.2% versus 6.6% annualized over five years. Historically: more income, growing faster, from cheaper companies.

Why does this gap exist?

European and Asia-Pacific companies have long-established dividend cultures — paying and growing distributions is simply how they return capital. Their sector mix, weighted toward financials and industrials, generates steady cash flows that support consistent payouts. And unlike US growth stocks, these companies haven't been re-rated to expensive multiples, which means more of the total return can come from income rather than valuation expansion.

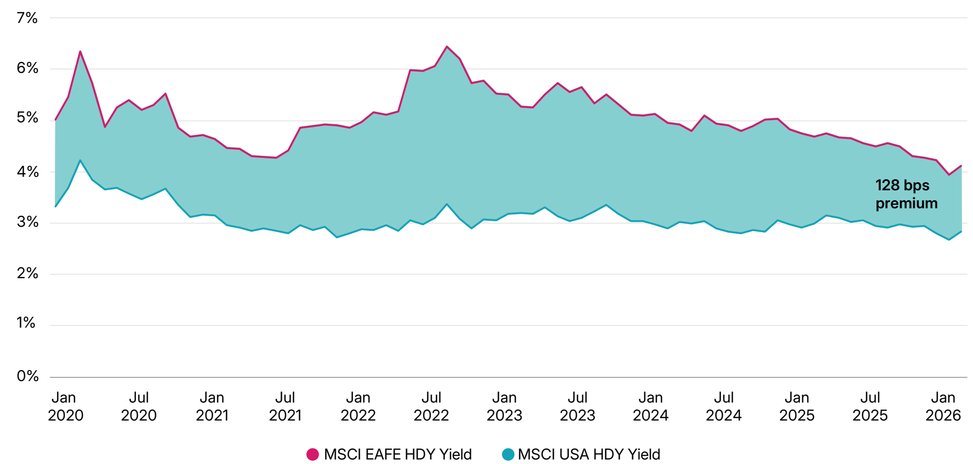

Figure 1: MSCI EAFE High Dividend Yield vs. MSCI USA High Dividend Yield — monthly dividend yield, January 2020 through March 2026. The teal-shaded band illustrates the persistent yield premium. Source: MSCI.

Index methodology: Designed to avoid yield traps

A yield trap occurs when unsustainably high payouts lure investors in, only to be followed by a falling stock price and a dividend cut that erases the income advantage. **The MSCI EAFE High Dividend Yield Index is built to seek to reduce exposure to such outcomes** it draws from the MSCI EAFE Index — large- and mid-cap equities across 21 developed markets outside North America — and puts every stock through four screens before it makes the cut. The goal is to own companies paying real, growing dividends — not ones with unsustainably high payouts.

Step 1 – Eligible universe

- REITs are out from the start. They carry structurally high yields because regulations require large distributions — not because the underlying business is generating exceptional income. Including them would skew the picture

Step 2 – Dividend sustainability screen

- Companies with zero, negative, or anomalously high payout ratios are removed. The latter is defined as the top 5% by payout ratio within the eligible universe — because a very high payout is often the warning sign before a dividend cut. This is the index's core protection against yield traps.

Step 3 – Dividend persistence screen

- A stock has to show that its dividend has been growing, not shrinking. Five years of dividend per share history are evaluated, and companies with a consistent downward trend are excluded. Existing constituents benefit from a small degree of flexibility — a brief dip in the five-year trend is acceptable if the most recent year shows positive growth, reducing unnecessary turnover driven by short-term earnings noise.

Step 4 – Yield selection and quality screening

- To make the final cut, a stock must yield at least 1.3 times its regional parent index. That's a relative bar — it keeps the index tilted toward genuine income producers without chasing an arbitrary absolute number. Quality factors (return on equity, earnings variability, and leverage) add another layer of screening. Stocks exhibiting significant price depreciation over the past 12 months are also removed - as sustained price declines may signal deteriorating fundamentals and an elevated risk of a dividend cut.
- **The index is free-float market cap weighted and rebalances twice a year — in May and November — in line with the MSCI Semi-Annual Index Review. Proposed changes are announced nine business days in advance, giving portfolio managers time to prepare.**

Index results: Performance and characteristics

As of Mar. 31, 2026, the index holds 113 stocks across developed markets in Europe, Asia-Pacific and the Middle East — companies that have cleared every screen and demonstrated the ability to sustain and grow their dividends.

Dividend & Valuation Characteristics (March 31, 2026)

Metric	EAFE HDY	USA HDY	EAFE advantage
Dividend Yield	4.11%	2.83%	+128 bps
Payout Ratio	60.4%	55.4%	similar
1-Year DPS Growth	7.8%	4.2%	+360 bps
5-Year DPS Growth (ann.)	9.2%	6.6%	+260 bps
Trailing P/E	14.6×	19.5×	25% cheaper
Price-to-Book	2.1×	3.9×	46% discount
Return on Equity (ROE)	14.2%	19.8%	—

Table 1: Key dividend and valuation metrics as of March 31, 2026. Source: MSCI.

Total Return Performance — GRTR, USD (as of March 31, 2026)

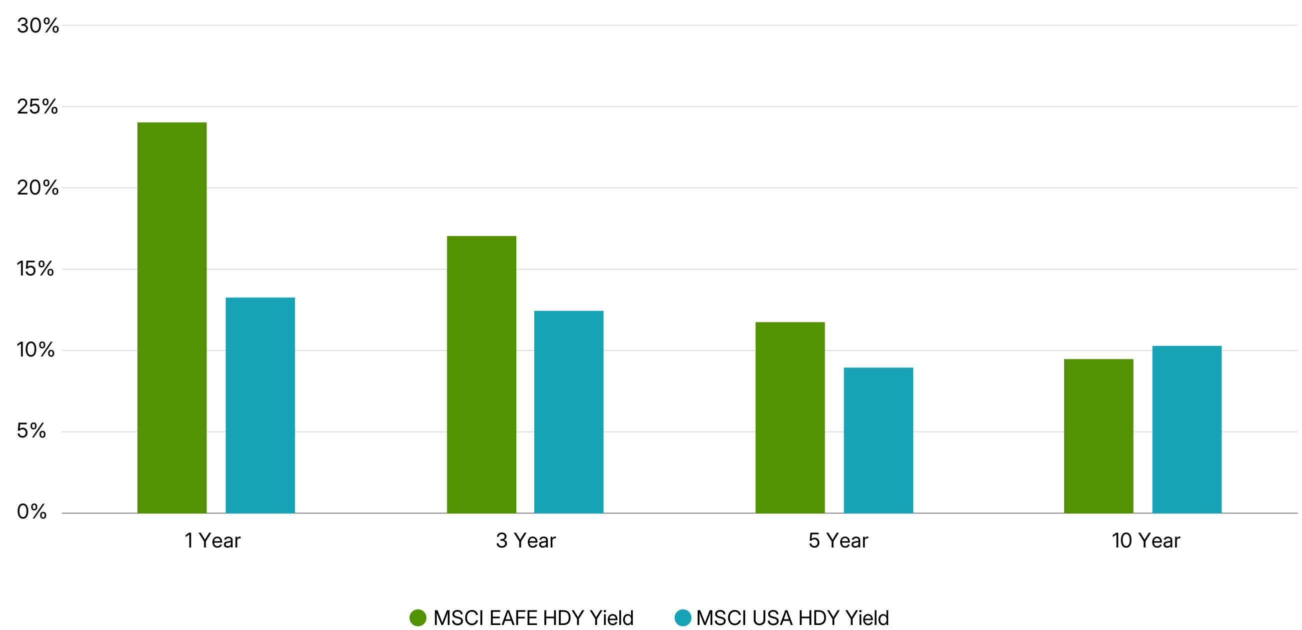

Figure 2: Gross total return performance, USD. Periods beyond 1 year are annualized CAGR.
Past performance is not indicative of future results. Source: MSCI.

The numbers back it up. Over one year, EAFE HDY delivered a meaningful return advantage over USA HDY — 24.1% vs. 13.3% — and the outperformance extends to three years as well: 17.1% vs. 12.5% annualized, suggesting the yield premium has come with a tangible performance benefit. Past performance is not indicative of future results. Over longer time frames, US equities have benefited from a decade-plus re-rating. But EAFE HDY still trades at a 25% lower P/E multiple than its US counterpart. For advisors building income-oriented portfolios, that combination — more yield, growing dividends, and a cheaper starting valuation — may warrant further analysis.. Advisors seeking both equity income and international diversification may find the **MSCI EAFE High Dividend Yield Index** a compelling starting point.

Advisors seeking equity income and international diversification should consider the **MSCI EAFE High Dividend Yield Index**.

For more information: www.msci.com/indexes/group/high-dividend-yield-indexes

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