

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Dividend growth may sing of yield-tied treasure

Bottom line up top

Decking the halls with belated data. Last week's macro tone was set by the U.S. Labor Department's Employment Situation release, which bundled October and November nonfarm payroll numbers and other details delayed by the government shutdown. The economy shed -105,000 jobs in October, then added +64,000 in November, for a net loss of -41,000 during the two months. That's like a lump of coal compared to the monthly average job creation rate of nearly +140,000 over the past decade. Meanwhile, the headline unemployment rate in November ticked up to 4.6%, a four-year high. For younger workers (ages 16-24), the unemployment picture was even less favorable, at 10.6%. Moreover, the "underemployment" rate, a broader measure that includes part-time workers who want to work full-time and discouraged workers who've stopped looking for a job, hit 8.7%, consistent with labor market softening.

Weaker jobs data and inflation that remains above the U.S. Federal Reserve's 2% target have complicated the outlook for rate cuts. That said, November's Consumer Price Index came in cooler than expected, with headline CPI dipping to 2.7% year-over-year, and the core rate (excluding volatile food and energy components) falling to 2.6%, its lowest level since March 2021. Equity markets cheered the CPI data upon its release, though whether it marks the resumption of a true disinflationary trend remains to be seen. However, investors should interpret these headline figures with caution given the report's omission of several components due to the government shutdown.



Saira Malik, CFA
Chief Investment Officer

On behalf of Nuveen's Global Investment Committee

As Nuveen's Chief Investment Officer and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she is a portfolio manager for several key investment strategies.

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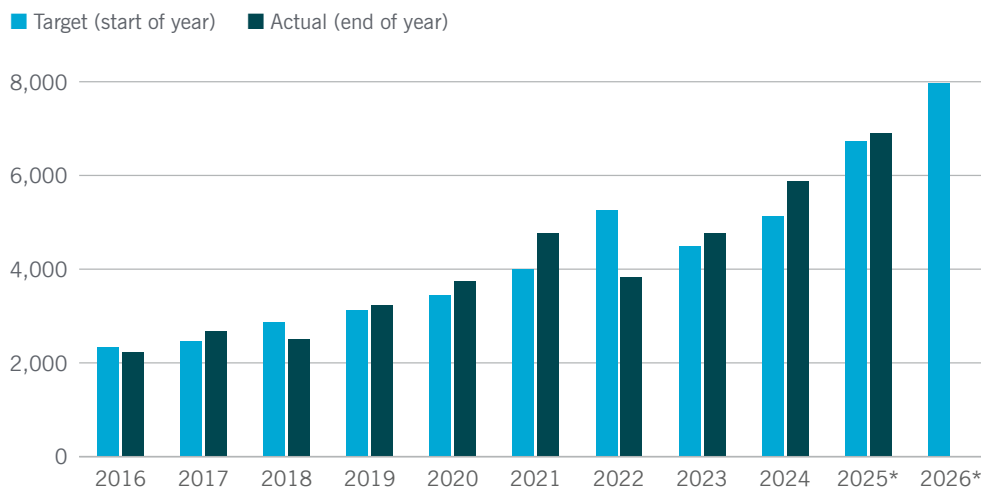
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Economic uncertainty, narrow market leadership and signs of weakness in the AI trade could lead to a nervous new year.

Will the end of the year bring an end to the drear? “Auld Lang Syne,” the nostalgic and bittersweet holiday singalong, is a suitable soundtrack for mixed investor sentiment heading into 2026, with greater optimism for Fed rate cuts tempered by labor market worries. In addition to economic uncertainty, narrow market leadership amid signs of weakness in the AI trade could also contribute to a nervous new year. On balance, though, expectations still favor further equity market appreciation, based on FactSet estimates (Figure 1). There are no guarantees of comfort and joy, but the Ghost of Christmas Forecasts Past has been right more often than not in predicting gains for the coming year.

FIGURE 1: THE S&P 500 HAS SURPRISED TO THE UPSIDE VERSUS ESTIMATES IN RECENT YEARS

S&P 500 bottom-up target price estimate, start of year versus year-end actual



Data source: FactSet. 11 Dec 2025. Note: The asterisks indicate that Actual for 2025 and Target (start of year) for 2026 reflect values as of 11 Dec. The 2026 actual value is not yet available. Performance data shown represents past performance and does not predict or guarantee future results.

Portfolio considerations

The 2025 U.S. equity market rally has been fueled by AI euphoria, robust corporate earnings, share buybacks and strong retail flows — a powerful combination that has driven the price-to-earnings (P/E) ratio of the S&P 500 Index to 22.1x forward earnings. That puts it in the 91st percentile for the 35-year period beginning in 1990. While valuations are lofty, so are earnings expectations: 12-month earnings per share (EPS) growth for 2026 is currently estimated at +14%, according to Bloomberg.

Bouts of volatility, such as those sparked by macro, geopolitical and policy uncertainty, as well as periodic shifts in sentiment around AI, are likely to remain a feature of equity markets, meaning investors should expect more hiccups in the coming year. There may be no surefire cure for hiccups, but history shows that **dividend growth companies** have yielded higher

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Dividend-growing companies may help mitigate the impact of market bumpiness.

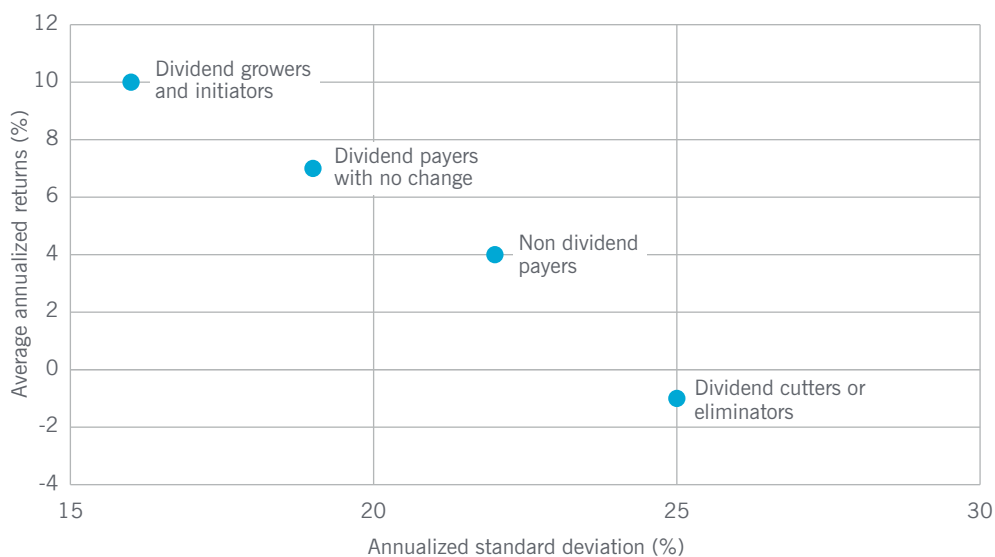
returns with lower risk than their market peers (Figure 2). In addition, dividend growers have typically outperformed non-dividend payers during periods of elevated volatility. Dividends, and dividend growth, are not guaranteed, but they tend to be more predictable and consistent than earnings growth, helping mitigate the impact of market bumpiness.

Supporting the ability of dividend growers to provide such a cushion are businesses with relatively attractive fundamentals, healthy balance sheets, strong cash flow, a focus on maintaining and potentially expanding profit margins despite cost inflation, and management teams committed to returning capital to shareholders.

These factors make dividend growth stocks a worthy allocation to diversified portfolios. Additionally, we think investing in this category is well-suited to active management, in our view, as it allows for due diligence to analyze individual companies and identify those believed to have the financial strength to maintain and increase dividends regardless of the economic environment.

FIGURE 2: DIVIDEND GROWERS EXHIBIT LOWER VOLATILITY AND HIGHER RETURNS THAN OTHER COHORTS

S&P 500 cohorts, average annualized returns versus annualized standard deviation, 2008-2024



Data source: Ned Davis Research and Refinitiv. Copyright 2025 © Ned Davis Research, Inc. All rights reserved. Performance data shown represents past performance and does not predict or guarantee future results.

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Regular meetings of the GIC lead to published outlooks that offer:

- macro and asset class views that gain consensus among our investors
- insights from thematic “deep dive” discussions by the GIC and guest experts (markets, risk, geopolitics, demographics, etc.)
- guidance on how to turn our insights into action via regular commentary and communications

For more information, please visit nuveen.com.

Endnotes

Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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Nuveen, LLC provides investment services through its investment specialists.

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