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CIO Weekly Commentary
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CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Stability amid volatility with dividend growth

Bottom line up top

Steadier as she goes. April showers might bring May flowers, but has last month's torrent of tariff volatility subsided enough for growth to take root and financial markets to bloom? Last week brought some breezes of cautious optimism following the storm clouds. The CBOE Volatility Index (VIX), a measure of implied volatility of the S&P 500, settled lower by the end of April, after spiking to 52.3 early in the month. A combination of tariff exclusions and paused implementations, benign inflation data, better-than-expected corporate earnings and a mostly still-solid labor market data contributed to the smoother ride, although the VIX has stayed above 20 (higher than its long-term average) for 25 consecutive days — the longest such streak since 2022. The S&P 500 closed last week at 5,686 – 7.5% below its all-time high of 6,144 in February, but firmly above its post-"Liberation Day" low of 4,892. Bond markets are also showing signs of normalization. Falling Treasury yields and a rebound in the value of the beleaguered U.S. dollar have boosted confidence, largely putting to rest recent doubts about the dollar's continued status as a global reserve currency.

But investors are sure to be tested again in the months ahead. Whether or how long U.S. economic resilience can withstand the disruptive impacts of tariffs on global trade remains an open question. Last week's initial Q1 GDP report showed the U.S. economy shrank modestly (-0.3%). This mild contraction was driven by a surge in imports as businesses and consumers accelerated purchases ahead of anticipated tariff increases. (Imports, by definition, detract from domestic growth.) While this nuanced decline was not as significant as feared, smooth sailing ahead is by no means assured.

Saira Malik, CFA
Head of Nuveen Equities and Fixed Income, Chief Investment Officer

On behalf of Nuveen's Global Investment Committee

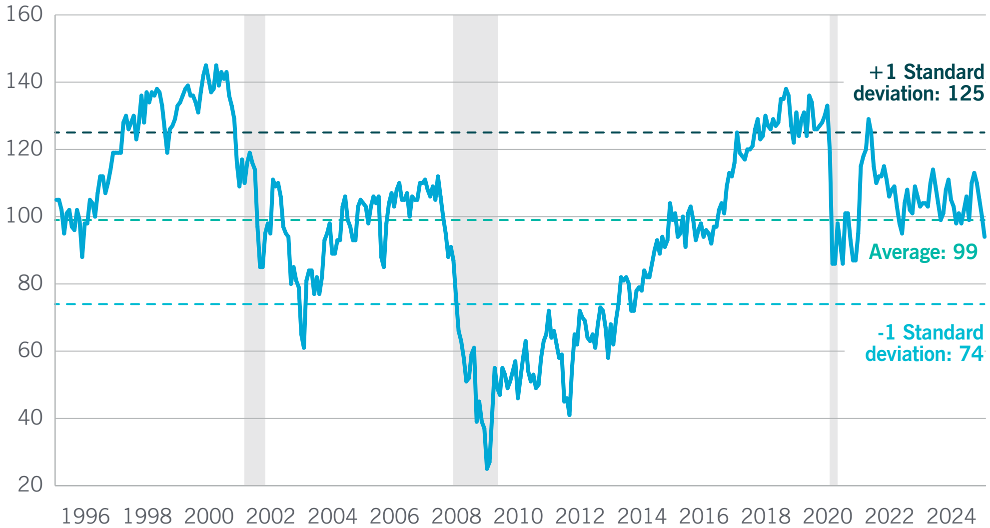
As Head of Equities and Fixed Income, Nuveen's CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas.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

> ***Volatility has moderated over the last couple of weeks, but is likely to remain elevated for quite some time.***

Of particular concern are the various gauges of business and consumer sentiment, which have been flashing red over the past several months. The Conference Board's Consumer Confidence Index, in particular, reached its lowest reading (86.0) since the early days of Covid in April 2020, after experiencing one of its largest two-month drops in the past 30 years (Figure 1). Although a U.S. recession this year is not our base case, the odds have increased. And even if we do avoid a deep and prolonged downturn, markets will likely still need to contend with further volatility from uncertainty on trade, growth, inflation, and both fiscal and monetary policy. These unknowns suggest that incremental portfolio allocations to historically defensive areas of the equity market may be part of a sound investment strategy.

FIGURE 1: CONSUMERS UNCONFIDENT

Conference Board Consumer Confidence Index



Data source: FactSet and The Conference Board, Apr 1995 to Apr 2025. Shaded areas represent recessions. **Standard deviation** is a statistical measure of historical volatility.

Portfolio considerations

Following a rough first quarter, the S&P 500 Index slid further in April, lowering its year-to-date return to -4.9%. In contrast, dividend growth stocks, as measured by the S&P 500 Dividend Aristocrats Total Return Index, are down just -0.7%.

This better relative performance isn't surprising based on historical patterns, as dividend growers have tended to outperform nondividend payers when equity volatility rises (Figure 2). Given the slowing U.S. economy, increased recession risk and the likelihood that tariffs will drive inflation higher from here, we expect volatility to persist in the coming quarters. Adding to the tough terrain are downward earnings revisions and the rising uncertainty highlighted by companies in their guidance this earnings season.

Dividend growth stocks have typically held up well in prior periods of market volatility.

In such an environment, we believe it's crucial to allocate to areas of the market that have typically held up well during volatile times. Companies that have initiated or continued to raise dividends in these periods tend to fit the bill, having generated higher annualized returns with lower annualized standard deviation versus the broader market. Our preference for dividend-paying companies is further supported by:

- attractive fundamentals, including healthy balance sheets and ample free cash flow to support sustainable growth
- confidence in their ability to maintain and potentially expand profit margins despite cost inflation
- management teams committed to returning capital to shareholders

While dividends — and dividend growth — are not guaranteed, they tend to be more predictable and consistent than earnings growth, providing investors with a cushion against market volatility.

We believe investing in dividend growth stocks is well-suited to active management, which allows for due diligence to analyze individual companies and find those with the financial ability to maintain and increase their dividends regardless of the economic environment. Although we still expect equity markets to move higher over the coming quarters, gains are likely to be more modest compared to the past several years (and accompanied by higher volatility). Dividends, meanwhile, will represent a larger component of total return, in our view.

FIGURE 2: DIVIDEND-GROWING STOCKS COULD OFFER OPPORTUNITIES AMID HIGHER VOLATILITY

VIX monthly increase 01 Apr 2005 – 31 Mar 2025	**Dividend Growers average excess return (%)**
>20%	1.0
10% – 20%	0.9
<10%	0.4
Average (across all months when VIX increased)	0.8

Data sources: FactSet, Ned Davis Research Inc., and Refinitiv, 01 Apr 2005 – 31 Mar 2025. Copyright 2025 © Ned Davis Research, Inc. All rights reserved. **Performance data shown represents past performance and does not predict or guarantee future results.** Periods greater than one year have been annualized. For more information, see the Dividend Policy Description in the ending disclosures.

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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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Dividend Policy Description: The performance of each group is based on the equal-weighted geometric average of dividend-paying and non-dividend-paying historical S&P 500 stocks, rebalanced monthly. Each stock's dividend policy is determined on a rolling 12-month basis. For example, a stock is classified as dividend-paying if it paid a cash dividend at any time during the previous 12 months. A stock is reclassified only if its dividend payments change. Dividend growers and initiators include stocks that raised their existing dividend or initiated a new dividend during the preceding 12 months. Dividend cutters or eliminators include stocks that lowered their existing dividend or stopped paying regular dividends during the preceding 12 months. The returns do not reflect the deduction of any fees, expenses or taxes that would reduce performance in an actual client portfolio. Returns for stocks that paid dividends assume reinvestment of all income. The periods shown do not represent the full history of the S&P 500; it is the history maintained by the data source. It is not possible to invest in an index. These groups have been determined by Ned Davis Research, Inc. Further distribution of this information is prohibited without prior permission.

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