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Why dividend growth?

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The S&P 500 has seen back-to-back years of 25% gains, driven by growth stocks and companies poised to benefit from demand for artificial intelligence. We believe it is an ideal time to reassess the benefits of dividend growth investing within a diversified portfolio. Dividend growers have historically outperformed non-dividend paying companies, with less volatility. Companies with persistent dividend growth have provided competitive returns during periods of market volatility. And with inflation still running higher than average, a dividend growth-oriented portfolio may provide a slight hedge against rising costs while providing an attractive level of income with potential for growth.

DIVIDEND GROWTH STOCKS HAVE OUTPERFORMED IN VARIOUS MARKET ENVIRONMENTS

Dividend growth stocks have provided an attractive combination of earnings and cash flow growth potential, healthy balance sheets and sustainable dividend policies. These stocks have historically offered compelling performance during up markets and provided a buffer during market drawdowns and in volatile environments.

Over the long term, dividend growers and initiators have generated higher returns with less risk, measured by standard deviation, than companies that maintained their dividends, paid no dividend and reduced or eliminated their dividends (Figure 1).

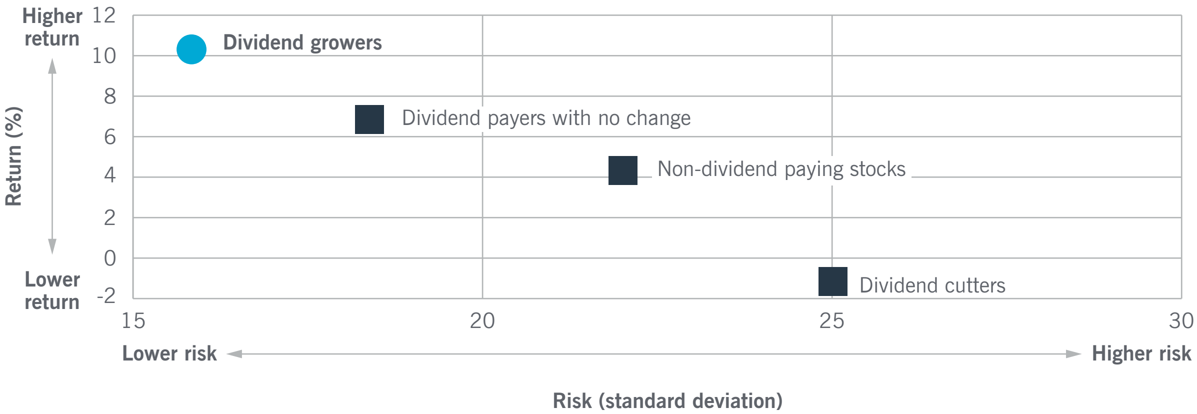
Additionally, while dividends are not guaranteed and will fluctuate, they have contributed significantly to equity total return over the decades. In fact, from 1930 to 2024, 40% of the annualized total return of the S&P 500® was derived from the payment and reinvestment of dividends, with capital appreciation contributing the rest (Figure 2).

The income produced by dividends may be an essential complement to a strong capital appreciation strategy, as it may limit volatility and contribute to total return over time. Market volatility can cause swings in the price return of a portfolio, but the performance of companies with

> *Dividends have contributed significantly to equity total return over the decades.*

Figure 1: Dividend growth stocks have outperformed with less risk

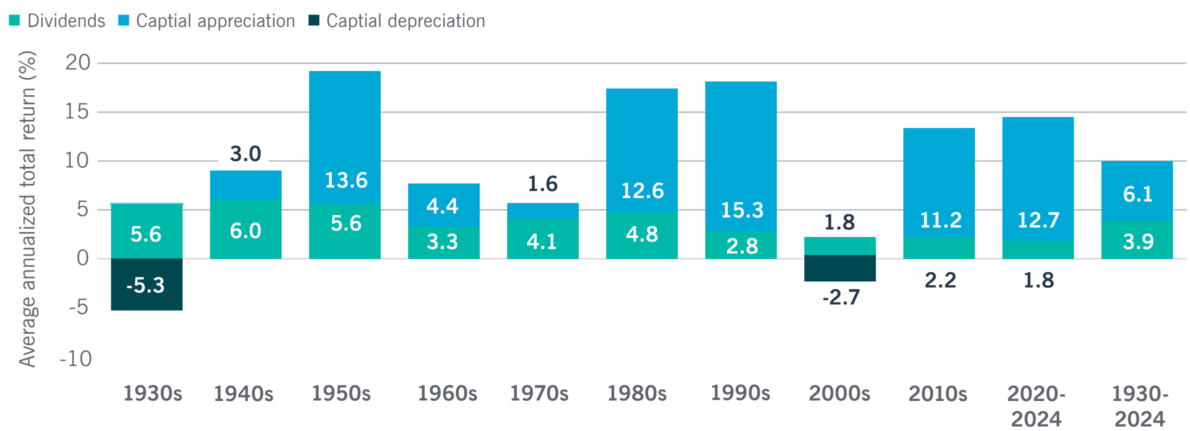
Risk vs. return, annualized, 1973 – 2024



Data source: Ned Davis Research, Inc. and Refinitiv, 31 Jan 1973 – 31 Dec 2024. Further distribution prohibited without prior permission. Copyright 2025 © Ned Davis Research, Inc. All rights reserved. **Performance data shown represents past performance and does not predict or guarantee future results.** Performance represents the historical risk/return performance of S&P 500 stocks grouped by dividend policies. For more information, see the Dividend Policy Description on the last page.

Figure 2: Dividends have been a significant component of total return

S&P 500 Index returns from dividends and capital appreciation



Data source: Ned Davis Research, Inc., 31 Dec 2024. Further distribution prohibited without prior permission. Copyright 2025 © Ned Davis Research, Inc. All rights reserved. **Performance data shown represents past performance and does not predict or guarantee future results.** The analysis provided by Ned Davis indicates that the data is not applicable (N/A) because the Dividend Income Return data for the 1930s and 2000s is disproportionately high versus the other decades due to the low or negative total returns during these periods. The information provided in this analysis may not represent the full value of reinvested dividends. For more information, see the Endnotes for Figure 2 on the last page.

Figure 3: Dividend growers have provided excess returns during market volatility

Excess returns during months when volatility increased (%)

VIX monthly increase	Average out/under performance of dividend growers vs. non-dividend payers
>20	0.98
10-20	0.72
<10	0.41
Average (Across all months when VIX increased)	0.72

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healthy balance sheets and the financial strength necessary to support dividend growth can help mitigate volatility (Figure 3).

DIVIDENDS CAN BE AN IMPORTANT CHECK ON CORPORATE GOVERNANCE AND FINANCIAL HEALTH

Management teams allocate capital based on a belief that the payoff will provide a positive net present value. A sound capital allocation plan, which includes paying and growing dividends, can indicate a management team's commitment to their shareholders. Companies are currently sitting on a near record pile of cash and liquid assets and they are increasingly putting that cash back into the hands of investors in the form of dividends (Figure 4).

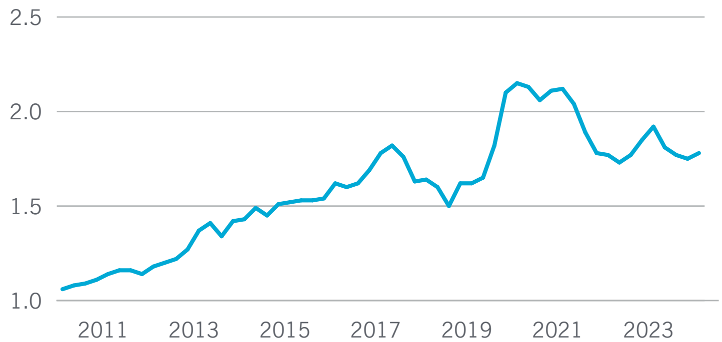
MORE TECHNOLOGY-ORIENTED COMPANIES ARE PAYING DIVIDENDS

While dividend yields have steadily declined during the past decade given above-average price returns, capital returns to shareholders remain robust, and more companies are starting to pay dividends.

> *The income produced by dividends may be an essential complement to a strong capital appreciation strategy.*

Figure 4: High corporate cash levels are funding dividend payments

Corporate cash levels ($ trillions)

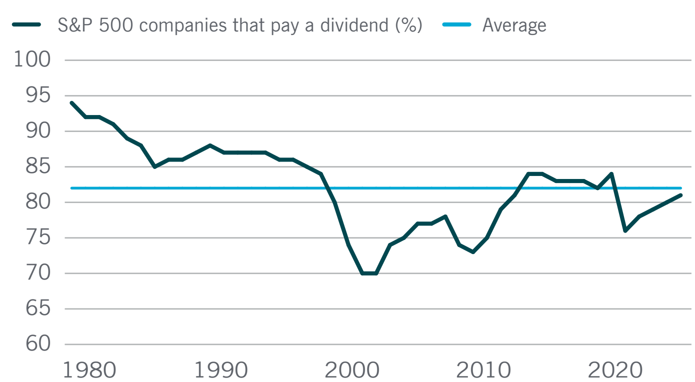


Data sources: FactSet and S&P Dow Jones Indexes, 30 Sep 2010 – 30 Sep 2024. **Performance data shown represents past performance and does not predict or guarantee future results.** Most recent quarter-end data available based on individual company earnings releases. Corporate cash levels and dividends paid are represented by nonfinancial companies in the S&P 500.

Many technology-oriented companies initiated dividends in the years following the great financial crisis. Management teams emphasized more balanced capital allocation policies given their rising earnings growth potential, expanding profit margins, improved balance sheets and durable profitability.

However, numerous economically sensitive companies halted dividend payments during the pandemic in 2020 (Figure 5). Many of these companies have since reinstated their dividend policies, and several mega cap technology-oriented companies initiated dividend policies in 2024. We

Figure 5: The number of dividend-paying companies has increased



Data sources: S&P Dow Jones Indexes, 31 Dec 1980 – 31 Dec 2024. Performance data shown represents past performance and does not predict or guarantee future results.

view this as a sign of greater capital discipline and expect more non-dividend paying companies to initiate a dividend in the coming years.

Ultimately, the more expansive universe provides diversification advantages for dividend managers with a flexible investment approach and the willingness to own lower-yielding companies and recent dividend initiators.

A COMBINATION OF DIVIDEND YIELD AND GROWTH MAY PROVIDE OPTIMAL OUTCOMES

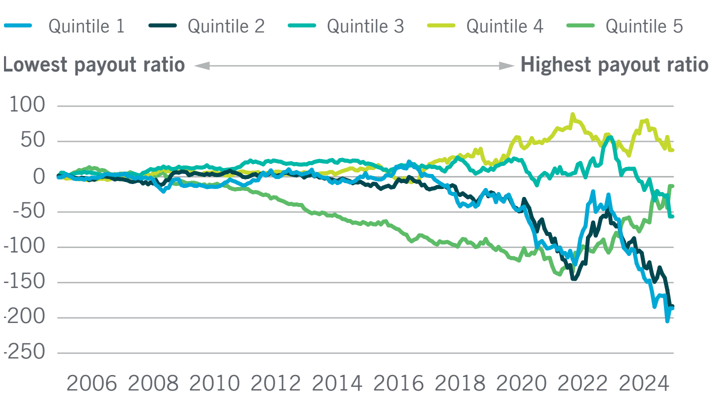
While dividend-paying stocks have provided compelling long-term performance (Figure 1), not all dividend stocks are the same. Dividend-paying stocks with a combination of yield and consistent dividend growth can indicate quality, given their ability to balance dividend payments with additional capital reinvestment for future growth initiatives.

A firm's dividend payout ratio is a key indicator of dividend policy flexibility (Figure 6). Companies earning just enough to pay dividends or paying most of their earnings as dividends may be vulnerable to competitive pressure, as cash flow may be insufficient to support operations. In addition, a company with a high dividend yield, or more importantly, high payout ratios, may be at risk of low growth in the future that could threaten both share price appreciation and dividend growth.

Historically, stocks with the highest payout ratio (Quintile 5) have not been the best long-term performers. Among those companies that paid a dividend over the past 20 years, stocks with medium and medium-high payout ratios (Quintiles 3 and 4) have outperformed.

Figure 6: The highest payout ratios don't make the best performers

Excess return relative to the S&P 500 (%)



Data source: FactSet Fundamentals via FactSet Alpha Testing, 31 Dec 2004 – 31 Dec 2024. **Performance data shown represents past performance and does not predict or guarantee future results.** The chart illustrates the historical performance of S&P 500 dividend-paying stocks grouped by dividend payout ratio quintiles. Quintile 1 represents the lowest payout ratio and Quintile 5 the highest. The returns do not reflect the deduction of any fees, expenses or taxes, and assume reinvestment of all income.

DIVIDEND GROWERS HAVE PERFORMED WELL AMID FED TIGHTENING

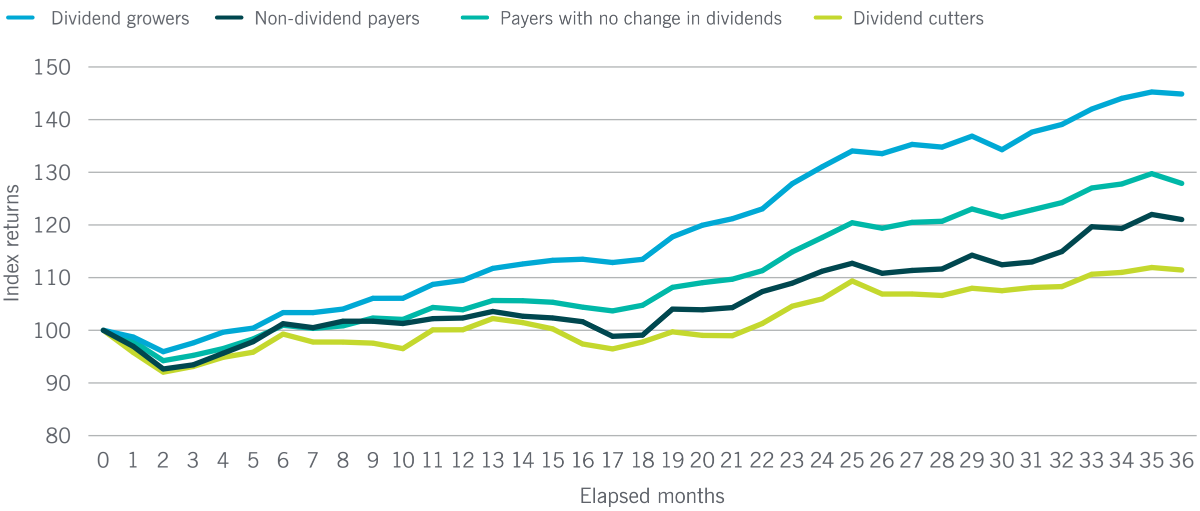
The U.S. Federal Reserve and U.S. government provided extraordinary levels of monetary and fiscal stimulus to help boost the economy in the wake of the Covid pandemic. To combat the resulting inflation, the Fed started raising rates in early 2022 at a historically aggressive pace, with its last increase at the July 2023 meeting. The U.S. equity markets have performed well in previous tightening cycles (Figure 7). Historically, dividend growers and initiators have outperformed the other cohorts of the S&P 500 during the three years after the initial Fed interest rate increase.

While the Fed started to cut interest rates in 2024, we expect a more normalized interest rate environment and a slower pace of rate cuts in 2025 given continued inflationary pressures.

With higher interest rates in mind, we believe investors should focus on dividend paying companies supported by positive fundamentals, balance sheet strength, ample free cash flow and management teams committed to sustainable dividend growth. On the contrary, higher yielding sectors with high debt levels might be challenged given their interest rate sensitivity.

> *Dividend growers and initiators have outperformed during the three years after an initial Fed interest rate increase.*

Figure 7: Dividend growers have provided compelling performance after rate increases



Data source: Ned Davis Research Inc. and Refinitiv. Further distribution prohibited without prior permission. Copyright 2025 © Ned Davis Research, Inc. All rights reserved. **Performance data shown represents past performance and does not predict or guarantee future results**. Data based on the average performance after all rate hikes since 1973, which occurred on 31 Aug 1977, 30 Sep 1980, 31 Mar 1984, 31 Aug 1987, 31 Jan 1994, 31 Mar 1997, 30 Jun 1999, 30 Jun 2004 and 31 Dec 2015. For a description of how each stock is grouped by dividend policy, see Endnotes for Figure 7 on the last page.

DIVIDEND GROWERS MAY BE AN IMPORTANT PART OF A DIVERSIFIED PORTFOLIO

At Nuveen, we believe dividend growth-oriented companies offer desirable long-term attributes and are well positioned for compelling relative performance in the coming year. Over the long-term, companies that continued to grow or initiate dividends have generated higher annualized returns, with a lower annualized standard deviation, than all other segments of the equity market. While dividend growth companies do not outperform in all market environments, their strong risk-adjusted returns over long periods of time make them an ideal core building block for an equity allocation.

We believe many companies are well positioned to continue increasing their dividends over the long term. Within the U.S., corporate balance sheets remain healthy, the consumer continues to be resilient and earnings growth is expected to accelerate further in 2025. According to FactSet, the S&P 500 dividends per share grew by 7.6% in 2024 and consensus estimates expect 4.2% growth in 2025.

The S&P 500's dividend payout ratio remains below its long-term average, and consensus estimates point to 15% earnings per share growth in 2025. Both factors should support attractive returns of capital to shareholders. We expect more companies to initiate dividends in the coming quarters, which could support better-than-expected dividend growth in 2025. Companies continue to maintain high levels of cash on their balance sheets, with balances of $1.8 trillion as of 30 Sep 2024 near their highest levels in two decades. Additionally, with equity market valuations above their long-term averages, we believe corporate management teams may be inclined to focus more on dividend growth as a means of rewarding shareholders in 2025, as opposed to stock buybacks, given the higher valuations.

Investing in companies with sustainable dividend growth can help augment total returns and reduce volatility while providing a growing income stream. Dividend growth-oriented companies have historically participated in up markets and helped to mitigate risk during periods of heightened volatility and market drawdowns. The combination of strong capital flexibility and growing dividend payments may help mitigate inflationary pressures and the impact of higher interest rates.

We find the strong dividend activity this past year to be an important positive signal from management teams regarding confidence in their business prospects despite persistent cost pressures and higher interest rates.

Ultimately, we believe these characteristics create a compelling reason to consider companies with strong balance sheets and the fundamental strength for future dividend growth as part of a diversified portfolio.

For more information, please visit nuveen.com.

Endnotes

Dividend Policy Description (Figures 1, 3 and 7) 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.

Figure 2 Periods greater than one year are annualized. The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure the performance of the broad domestic stock market. The S&P 500 in its present form began on 04 Mar 1957. Prior to the 500 Composite, from 1923 to 1926 S&P used as its first broad market indicator a composite index of 233 stocks. In 1926, to disseminate market indicator information more frequently, S&P created a more manageable subset of stocks that became known as the S&P 90 Stock Composite Index. Prices for the 500 Composite were linked to the 90 Stock Composite to provide daily records back to 1928 and monthly data back to 31 Dec 1925. Return performance is based on equal-weighted geometric average, computed monthly. Dividend income return is based on the return percentage of all dividend-paying companies in the S&P 500. The returns do not reflect the deduction of any fees, expenses or taxes, and assume reinvestment of all income. Investors cannot invest in an index. Further distribution of this information is prohibited without prior permission.

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