

## Dividend Growth

Marketing communication | As of 31 Mar 2026

### Key takeaways

- U.S. equity markets declined in the first quarter, as investor concerns over AI-driven uncertainty, geopolitical tensions, and persistent inflationary pressures weighed on sentiment. This environment prompted a notable rotation out of growth-oriented equities and into defensive and select cyclical sectors.
- The Dividend Growth strategy outperformed its benchmark, the S&P 500 Index, on a gross and net-of-fee basis, as stock selection and sector allocation both contributed to performance.
- Given the potential for elevated market volatility in the months ahead, we believe fundamentally attractive companies with healthy balance sheets, stable earnings growth, ample free cash flow, and sustainable profit margins, etc. are well positioned.

### Market review

Geopolitical conflict in the Middle East dominated the first quarter of 2026, lifting oil prices and driving broad market volatility. With the Strait of Hormuz effectively closed, Brent crude prices swung sharply above and modestly below the \$100-per-barrel level. Asia was most exposed, as more than 80% of oil and gas transiting the narrow waterway is destined for the region. The turmoil drove the average price of U.S. gasoline above \$4 per gallon for the first time since 2022. The U.S. dollar strengthened for a third consecutive quarter on safe-haven demand and higher inflation expectations tied to the energy shock.

Economic growth remained solid, although the outlook was clouded by geopolitical uncertainty. Early estimates indicate U.S. gross domestic product (GDP) grew roughly 2.5% year over year in the first quarter, a slight acceleration from 2025's pace. Following earlier signs of softening, the U.S. labor market surprised to the upside in March's report, with unemployment edging down to 4.3%. Inflation data — still affected by reporting delays following last quarter's government shutdown — showed the core Personal Consumption Expenditures (PCE) Price Index, the preferred measure used by the Federal Reserve (Fed), slightly above 3.0% year over year through January.



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The Fed held rates steady at its January and March meetings due to elevated uncertainty and renewed inflation concerns. Three other major developed-market central banks — the European Central Bank (ECB), Bank of Japan (BoJ) and Bank of England (BoE) — also left policy unchanged during the quarter. The Reserve Bank of Australia began to tighten amid healthy economic activity, raising rates twice by 25 basis points. Messaging broadly shifted more cautious overall, with the Fed adopting a wait-and-see approach to additional cuts this year. The ECB and BoE highlighted upside inflation risks and signaled that rate hikes remain possible this year, while the BoJ maintained a hawkish stance, emphasizing inflation control over growth risks.

Equity markets were choppy as investors rotated toward more defensive exposures. Many major U.S. indexes ended lower despite a last-minute rally, pressured by renewed inflation concerns, higher energy costs and a pullback in mega-cap technology amid broader artificial intelligence (AI) uncertainty. As investors moved away from the "Magnificent Seven" and other high-growth, tech-focused stocks, market leadership broadened toward areas that have lagged in recent years, including value, dividend payers and small caps. Value stocks outpaced growth for a second consecutive quarter, and small caps outperformed large caps, supported by improving earnings momentum, more attractive valuations and sensitivity to earlier rate cuts. The small-cap focused Russell 2000® Index returned 0.89% for the quarter.

The bellwether S&P 500 returned -4.33%, its weakest first quarter since 2022 and approximately 7% below its January peak. Leadership shifted with the energy sector surging 38%, supported by supply concerns and geopolitical risk. Other more defensive sectors, including utilities and consumer staples, also held up well. Meanwhile, persistent inflation reignited a higher-for-longer interest rate narrative, challenging rate-sensitive sectors such as financials, information technology and consumer discretionary, which each fell more than 9%.

## Portfolio review

During the first quarter of 2026, the Dividend Growth portfolio outperformed its benchmark, the S&P 500 Index, on a gross and net-of-fee basis. Security selection and sector allocation effects each contributed positively to relative performance, with 9 of the 11 GICS sectors having a favorable impact. The consumer discretionary sector

contributed most positively to relative performance, supported by strong security selection and a favorable underweight position. Conversely, the financials sector was the primary detractor, driven by the underperformance of software-linked financial companies and the portfolio's sole holding in the alternative asset management industry.

## Contributors

**Taiwan Semiconductor Manufacturing Co. (TSMC)** was the top contributor to relative performance during the quarter. The company reported strong fourth quarter results and 2026 revenue guidance that surpassed consensus expectations. The company's strong momentum continues to be driven by robust artificial intelligence (AI) demand, durable pricing power and improving margins. Its pricing power across advanced manufacturing nodes and packaging technologies is supported by capacity constraints that enable TSMC to benefit from its unique position as "the AI bottleneck." Furthermore, the company increased its quarterly dividend by 33% compared to the same quarter's payment during the prior year.

Integrated oil and gas company **Exxon Mobil Corporation** contributed significantly to relative performance during the quarter. Along with the broader energy sector, Exxon's stock rose sharply, driven by a surge in crude oil prices stemming from escalating geopolitical conflicts in the Middle East and the shutdown of the Strait of Hormuz. The company's upstream production continues to perform well, with record volumes from its Permian and Guyana projects. During the Morgan Stanley Energy & Power Conference in early March, management provided a new target of 13% annual earnings per share growth through 2030, while reiterating its focus on dividend growth and maintaining a strong balance sheet.

For similar reasons, Integrated oil and gas company **Chevron Corporation** was among the quarter's top contributors. Outperformance was largely driven by the significant surge in crude oil prices. Chevron reported record 2025 production and continues to benefit from the ramp-up of projects outside the United States. The company continues to focus on higher-margin assets and plans to achieve \$3 billion to \$4 billion in structural cost reductions by the end of 2026. Chevron also increased its dividend by 4% during the quarter, marking 39 consecutive years of dividend increases.

## Detractors

Alternative asset management firm **Ares Management Corporation** was the largest detractor from relative performance during the quarter. Increased redemptions in private credit, combined with concerns about AI-driven disruption weighed on sentiment across the alternative asset management industry as many of the companies have software exposure within portfolios. Furthermore, a bankruptcy in the United Kingdom in February reignited concerns regarding credit deterioration. While management expressed confidence in its 2026 fundraising outlook, a small number of investors seeking to redeem beyond available tender capacity created negative headlines and raised questions about the durability of wealth management flows. On a positive note, the company increased its dividend by 21% and continued to report strong assets under management.

Software and technology services firm **Accenture Plc** was another detractor from portfolio performance during the quarter. Despite reporting quarterly earnings per share and free cash flow above expectations, the stock lagged primarily due to heightened concerns about artificial intelligence disruption among software companies. Total new bookings have continued to slow, and reduced government spending remains a headwind for the company's U.S. Federal business. That said, management recently indicated they expect AI-related bookings to more than double in fiscal year 2026 and raised their free cash flow guidance. We believe Accenture is well-positioned to navigate and capitalize on AI disruption, given its history of successfully adapting to and benefiting from prior technological shifts including digitalization, cloud migration, cybersecurity, and outsourcing.

Global integrated payments company **American Express Company** further detracted during the quarter. Revenue was in-line with estimates, but quarterly earnings slightly missed due to higher expenses than expected, specifically in card-member services and salaries. New accounts added also fell below prior quarter levels, but management noted that they funneled marketing spend away from the lower fee (but more numerous) cashback cards and towards the premium Platinum refresh campaign. While fundamentals have remained solid for the company, the stock was under further pressure amid concerns that AI might lead to substantial white-collar job losses, which could potentially weigh heavily on discretionary spending. On a positive note,

credit remains benign with delinquencies remarkably stable during the past 5 quarters and management announced a 16% dividend increase.

## Portfolio positioning

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 any equity allocation.

We believe an allocation to dividend growth-oriented companies offer advantages to investors seeking to maintain equity exposure that balances quality, stable growth, and defensive characteristics. In our view, dividend-paying equities supported by attractive fundamentals, sustainable growth potential, healthy balance sheets, ample free cash flow, stable profit margins, and management teams committed to returning capital to shareholders should be well-positioned to benefit from continued economic growth. The ability of these companies to maintain and expand margins amid input cost inflation and higher interest rates — while also providing investors with a cushion against market volatility — is likely to be rewarded in the coming quarters. We believe an actively managed approach focused on companies with the financial ability to maintain and increase their dividends regardless of the economic environment is appropriate today given the various crosscurrents impacting capital markets.

The Nuveen Dividend Growth Investment Team continues to focus on companies supported by attractive fundamentals and sustainable dividend growth potential while maintaining adequate diversification. As of quarter-end, the Dividend Growth portfolio's largest absolute sector allocations were in the information technology, financials, health care, and industrials sectors. We believe our fundamentally driven research process, focus on dividend growth potential, and broad portfolio diversification results in a portfolio with exposures to companies supported by stable earnings growth, strong free cash flow generation, healthy balance sheets, defensible competitive advantages,

and defensive characteristics.

Global pharmaceutical company Merck & Co., Inc. was added to the Dividend Growth portfolio in January, as we believed the shares represented a compelling risk/reward profile. Market concerns about the pending loss of exclusivity of Keytruda in 2029, the most commercially successful and widely used oncology drug in history, meaningfully compressed the stock's valuation multiple over the past year, creating an attractive entry point. We believe the company is well positioned to navigate the Keytruda revenue cliff successfully through a combination of pipeline execution, strategic M&A, and new product launches. To that end, Merck has made substantial investments in its pipeline to establish a credible path to growth beyond the loss of Keytruda exclusivity, underpinning our confidence in continued earnings and dividend growth.

## Outlook

The U.S. economy grew a healthy 2.1% in 2025, but we now expect a slightly lower pace of around 1.8% this year, primarily reflecting a likely drag on consumption from higher fuel prices. However, we expect the overall growth impact to be limited for two reasons: households spend less on energy than in prior decades, and the U.S. energy-producing sector should benefit from higher prices, offsetting part of the drag. The labor market has stabilized, and we anticipate unemployment will remain near current levels. Business investment — particularly in technology — remains a meaningful tailwind, and productivity growth is running at its strongest pace since the global financial crisis. The outlook is also improving abroad. Higher government spending supports our forecast for faster growth in Europe this year, with the United Kingdom, Japan and China also contributing. Overall, global recession risks have receded, and the growth outlook has improved.

Heading into the second quarter, the key risk is the ongoing conflict in the Middle East. While conditions remain fluid, we have begun to estimate the likely macroeconomic effects. Heightened uncertainty could weigh on business investment, though we expect any slowdown to be modest. The more significant risk is that oil prices remain elevated or rise further. Although core inflation data excludes energy directly, oil is a pervasive input across the economy. Therefore, we estimate U.S. core inflation could increase around 0.3% this year to 2.8%, reflecting the pass-through from higher oil prices along with some disinflationary

pressure as tariff effects fade

From a monetary policy perspective, the supply shock is unwelcome for central banks, but the underlying growth backdrop remains solid enough to keep the focus on domestic conditions. In the United States, we now expect the Fed to remain on pause longer than previously anticipated. Instead of a rate cut around mid-year, we now expect the first 25-basis-point cut in the second half of the year, with the second cut likely shifting into 2027. That would bring the policy rate to a target range of 3.00%–3.25%, near our estimate of neutral.

Overall, we remain constructive on U.S. large cap equities as solid growth, gradually declining rates and positive earnings momentum remain supportive. Valuations look increasingly full, but markets have continued to look through that concern. The AI boom remains a powerful long-term tailwind, and increased scrutiny of mega-cap technology companies may help broaden market leadership. In our view, the emphasis should remain on high-quality companies and security selection rather than the macroeconomic backdrop.

After lagging the broad market for the past three years amid a risk-on, artificial intelligence–driven environment, dividend-paying stocks and indices outpaced the S&P 500 and growth indices to start 2026. Given the potential for elevated market volatility in the months ahead—driven by softening employment conditions, concerns regarding overinvestment in AI, geopolitical conflicts, and elevated valuations—we believe investors should focus on high-quality companies and disciplined stock selection rather than reacting to broad macroeconomic factors or rapidly shifting policy announcements.

In an environment where forward returns may be driven more by fundamentals than by multiple expansion, an investment approach centered on the fundamental strengths of dividend growth equities offers clear advantages for investors seeking diversified equity exposure that balances quality, stable growth, and defensive characteristics.

We remain confident that U.S. companies are well positioned to grow their dividends at attractive rates in 2026. Corporate balance sheets remain healthy, with cash levels elevated and dividend payout ratios still below long-term averages. Additionally, consensus estimates point to strong double-digit earnings per share growth over the

2026-2028 period, according to FactSet. Although AI-related capital expenditures have grown considerably in recent years, we believe this trend remains manageable and is unlikely to meaningfully constrain dividend growth for S&P 500 companies in the coming years. Robust earnings growth expectations, combined with improved cash flows resulting from more favorable R&D and capital expenditure expensing rules, leave U.S. large cap companies well positioned for continued dividend growth. Adding to this constructive outlook, the strong dividend activity observed

during the first quarter serves as an important positive signal from management teams — reflecting confidence in their business prospects despite persistent cost pressures and tariff uncertainty. During the first quarter, 17 of the Dividend Growth portfolio's 43 holdings declared a dividend increase, with an average growth rate of 9% across those companies.

**For more information contact: 800.752.8700 or visit nuveen.com**

Minimum investment is \$100,000.

#### Important information on risk

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#### Glossary

**Beta** is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. **Earnings per share (EPS)** is the portion of a company's profit allocated to each share of common stock. Earnings per share serve as an indicator of a company's profitability. **Federal funds rate** is the interest rate which is charged by banks to lend to other banks needing overnight loans. The Federal Reserve Board sets the target for this rate, which is the most sensitive indicator of the direction of short-term interest rates. **Free cash flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. It represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base. **Inflation** is a rise in the prices of goods and services, often equated with loss of purchasing power. **Payout ratio** is a financial metric showing the proportion of earnings a company pays shareholders in the form of dividends, expressed as a percentage of the company's total earnings. **Valuation** is the process of determining the current worth of an asset or a company; there are many techniques used to determine value. An analyst placing a value on a company looks at the company's management, the composition of its capital structure, the prospect of future earnings and market value of assets. **Volatility** is the fluctuation in market value of a portfolio or other security. The greater a portfolio's volatility, the wider the fluctuations between its high and low prices. The **S&P 500®** measures the performance of large capitalization U.S. stocks. **It is not possible to invest directly in an index.** Clients should consult their financial professional regarding unknown financial terms and concepts.

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