

## Dividend Growth

Marketing communication | As of 30 Sep 2025

- **The U.S. stock market continued its strong advance higher during the third quarter driven by artificial intelligence (AI) enthusiasm, better than expected earnings growth, and expectations for easier monetary policy in the coming quarters.**
- **The Dividend Growth strategy underperformed its benchmark, the S&P 500 on a gross and net of fees basis, due to stock selection and allocation effects.**
- **Looking forward, we believe an investment approach that emphasizes the fundamental strengths of dividend growth equities, offers advantages to investors seeking to maintain diversified equity exposure that balances quality, stable growth, and defensive characteristics.**

### Market review

While uncertainty continued to overhang the markets during the third quarter, worst-case scenario fears regarding the impact of tariffs on economic growth and inflation were avoided. The U.S. economy continued to steadily slow, and the labor market softened, but overall growth continued to hold up well. Real consumption continued to expand at around a 2% pace, despite a sharp slowdown in job creation. The U.S. unemployment rate ticked up to a new cyclical high of 4.3% in August, while other measures of labor market slack pointed to more stability. However, the partial government shutdown prevented the Bureau of Labor Statistics from releasing September's jobs report on the first Friday of October. Inflation increased as the impact from tariffs steadily fed through to consumer prices, with the core personal consumption expenditures (PCE) index reaching 2.9% year-on-year, up from its recent low of 2.6% in April.

Monetary policy worldwide continued to diverge, with central banks balancing still-sticky inflation with resilient global growth despite ongoing tariff uncertainty. After holding rates steady at its July meeting, the Federal Reserve (Fed) cut rates for the first time this year in September, bringing the target federal funds rate to a range of 4.00%-4.25%. Chair Powell noted the Fed's challenging backdrop of rising inflation due to the impact of tariffs combined with a cooling U.S. job market. While the Fed's updated economic projections in September showed few changes, the heavily scrutinized dot plot indicated two more rate cuts this year and one in 2026. The Bank of England (BOE) also cut rates once by 25 basis points in August, while the European Central Bank (ECB) and Bank of Japan (BoJ) held policy steady throughout the quarter. Gold prices soared more than 17% during the period to a new record high of \$3,800 per ounce as investors continued to flock to this safe-haven asset, while oil prices fell around 4% due to increased production.

The U.S. stock market overcame the prevailing economic, trade and fiscal policy uncertainties and the so-called "September effect" to hit new record highs near quarter end. Technology stocks and the artificial intelligence (AI) theme continued to propel



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the advance, joined by the more economically and interest-rate sensitive small-cap segment, which was boosted by September's rate cut. All major U.S. stock market indexes posted gains for the quarter, led by the small-cap focused Russell 2000 Index, which surged 12.39%. The tech-heavy Nasdaq Composite was not far behind with an 11.41% advance, bolstered again by the strong performance of several "Magnificent Seven" stocks such as Apple, Alphabet and Nvidia.

The S&P 500 Index notched its fifth straight monthly advance and ended the quarter just shy of its September 22 all-time high. Strong corporate earnings helped drive the quarter's advance, with nine of 11 S&P 500 sectors beating consensus expectations for second-quarter earnings per share (EPS). The index returned 8.12% for the quarter fueled by double-digit gains in the information technology and communication services sectors, followed by solid advances in consumer discretionary and utilities. Consumer staples stocks lagged, producing the only negative return at the sector level during the quarter. Within the index, companies with a beta greater than 1.0 strongly outperformed companies with a beta less than 1.0 during the quarter.

## Portfolio review

During the third quarter of 2025, the Dividend Growth portfolio underperformed its benchmark, the S&P 500 Index on a gross and net of fee basis. Both security selection and sector allocation effects had a negative impact on relative performance during the quarter. The utilities sector had the largest contribution to relative performance driven by positive stock selection effects. The communication services sector was the largest detractor to relative performance due to an unfavorable underweight and underperformance by the strategy's two sector holdings. The strategy's defensive and broadly diversified composition had an adverse effect on relative performance given the risk-on environment and strong performance of higher beta companies and industries.

## Contributors

Global connector systems and sensor producer **Amphenol Corporation** was the top contributor to relative performance during the month. The company reported quarterly earnings per share and revenue well above consensus estimates driven by organic growth in the IT datacom, as well as contributions from the company's acquisition program. The company reported record operating margins and free cash flow during the quarter. The company continues to benefit from sustained

investment in artificial intelligence (AI) infrastructure and the recovery in their non-AI end-markets.

**Taiwan Semiconductor Manufacturing Co. (TSMC)** was another top contributor to relative performance during the quarter. TSMC's quarterly earnings surpassed expectations while revenue was in-line. The results have been driven by strong demand for the company's artificial intelligence chips. Management indicated they continue to monitor the tariff situation closely to assess any potential impact on end-market demand and they have yet to see any significant change in customer behavior. We remain attracted to the company's compelling fundamentals, strong AI potential, and rising dividend.

Global semiconductor and software infrastructure solutions company **Broadcom Inc.** also contributed meaningfully during the quarter. Broadcom strongly outpaced quarterly estimates driven by strength in their custom AI accelerators, networking, and VMware businesses. The company increased guidance for the upcoming quarter and 2026 given their record backlog and tailwinds as one of the top beneficiaries of the strong AI-driven spending by hyperscalers given Broadcom's strong partnerships and leadership position in developing custom AI chips. Chief Executive Office Hock Tan indicated one more of the company's custom ASIC "prospects" had converted to a customer which now brings their total to 4 customers and 3 prospects. Furthermore, Hock also revealed that he signed a deal to stay on as the company's CEO through at least 2030, a significant positive given his strong leadership.

## Detractors

Despite posting quarterly earnings above expectations, software and technology services firm **Accenture Plc** detracted the most from relative performance during the quarter. The stock lagged during the quarter due to concerns of a slowdown in corporate spending on non-AI related projects. Additionally, the company has faced headwinds given uncertainty regarding the economic environment and the impact of tariffs on earnings. While the company is seeing improved demand for their AI capabilities, investors remain concerned that AI could disrupt their consultant business over the long-term. On a positive note, the company increased its dividend by 10% in September.

Tobacco producer **Philip Morris International Inc.** was another detractor despite reporting quarterly earnings above consensus estimates. After performing strongly during the first half of the year, investors were disappointed as the company missed volume growth expectations for their U.S.

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Zyn product due to restocking being slight less than expected. The company slightly reduced their 2025 volume growth expectations due to cigarette weakness in Turkey and a growing illicit market negatively impacting their Indonesia business. On a positive note, the company increased its dividend by 9% in September. While the company has increased its dividend each year since becoming a public company in 2008, this was the largest annual dividend increase since 2013.

Managed care organization **Elevance Health Inc.** further detracted from performance during the quarter. The company reported quarterly earnings that slightly missed consensus estimates as cost trends worsened in Medicaid and Affordable Care Act (ACA) membership. Utilization continues to be higher than benefit adjustments and rates captured in 2025. Management reduced their full year earnings guidance as they expect Medicaid and ACA exchanges to continue to face cost pressures in 2026. Elevance's Caredon services businesses continue to grow at strong double-digit rates, which partially offsets margin pressure in the Health Benefits business. We believe Elevance's earnings will substantially recover over time as the spread between premium growth and cost trend compresses to more normal levels.

## 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 months. 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.

We continue 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 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.

During the third quarter, Danaher Corporation was added to the Dividend Growth portfolio. The company's bioprocessing segment is showing accelerating growth momentum, while we believe their diagnostics business presents significant underappreciated upside potential driven by improved utilization of previously installed testing equipment and new product innovations. Danaher's high-quality business model features over 80% recurring consumable revenues, strong cash flow conversion, and maintains leadership positions in attractive end markets with significant barriers to entry. The stock trades at a reasonable valuation relative to its historical premium while offering both defensive characteristics and growth acceleration opportunities.

Novo Nordisk A/S was fully eliminated from the portfolio given our more negative outlook for the company's injectable GLP1 products. We believe the market's expectations for Ozempic and Wegovy are more optimistic than justified by current volume trends and that there is further downside risk from upcoming Medicare Part D price negotiations. Compounding pharmacies and competitive entry from Eli Lilly have driven Novo Nordisk's market share in new obesity patients to historic lows, a trend we believe will continue. We believe Novo Nordisk could trade at a discount to the pharma group average over time because semaglutide products account for nearly 75% of Novo Nordisk's sales (likely a greater share of earnings) with a worsening outlook.

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## Outlook

We expect U.S. economic growth to moderate further through year-end 2025 before rebounding next year as tariff headwinds diminish while easier fiscal and monetary policy provide support. We also believe U.S. unemployment should stabilize near 4.5% through this period. Inflation presents a mixed picture, with less upside pressure than feared but ongoing acceleration driven by tariff effects. We anticipate core PCE inflation will peak slightly above 3.0% year-over-year by year-end. We expect the Fed to continue lowering interest rates with one more 25 basis point cut this year and two more next year, with the potential for one of the 2026 cuts to get pulled forward into 2025.

The third quarter 2025 earnings season is arriving with a mix of optimism and caution. According to FactSet, S&P 500 companies are projected to report 8% year-over-year earnings growth, marking the ninth straight quarter of expansion. Deviating from the norm, analysts have increased earnings estimates during the quarter for the first time since late 2021, underscoring a shift toward greater confidence in underlying companies despite geopolitical and policy uncertainty. Importantly, corporate sentiment has also improved, with 56 companies issuing positive earnings guidance, marking the highest number in four years, but matching the number issuing negative guidance.

As earnings season gets into full swing, several macro factors are likely to shape this cycle. Deregulation efforts under the Trump administration may continue to reduce compliance costs, particularly in financials, and stimulate merger and acquisition activity. AI-driven capital expenditures, now comprising approximately one-third of total S&P 500 capex, continue to grow, but investors are looking for evidence of productivity benefits. Meanwhile, the consumer outlook remains critical because spending has softened recently alongside labor market weakness but could rebound with policy stimulus. Finally, increasing electricity costs linked to AI and data center expansion are influencing both corporate margins and household budgets, placing utilities at the center of this major structural shift.

While the S&P 500's forward P/E of 22.8x remains above historical norms, consistent earnings growth and an improving macro backdrop support a cautiously optimistic

view on equities for the fourth quarter. Catalysts that could provide further upside include continued earnings growth and upside surprises, expanded market breadth, diminished inflation risks, additional Fed rate cuts and further clarification regarding tariff policy and rates, to name a few.

That said, equity market volatility could also increase heading into year-end, driven by a slowing U.S. economy. Ongoing trade tensions and lack of clarity around tariffs also remain key risks. Recent moves by the Trump administration, including new taxes on metals and technology imports, have added stress to supply chains and weighed on business confidence. These developments could push prices higher on select goods, complicating the Fed's efforts to manage inflation. Other headwinds facing equity markets include concerns about rising federal deficits and the ability of the United States to pay its debt; a weak U.S. housing market as evidenced by declining home construction and slower mortgage activity; and potential disruptions from the partial U.S. government shutdown.

Given expectations for persistent market volatility in the coming months, we believe investors may benefit more by focusing on high-quality companies and prudent stock selection, rather than basing decisions on broad macro factors or quick changing policy. A flexible investment approach that emphasizes the fundamental strengths of dividend growth equities, offers advantages to investors seeking to maintain diversified equity exposure that balances quality, stable growth, and defensive characteristics. Overall, despite challenges, we are confident that attractive opportunities can be found in global equity markets, and that companies remain poised for continued dividend growth in the fourth quarter and 2026. According to S&P Dow Jones, 247 companies in the S&P 500 increased or initiated a dividend during the first nine months of the year. 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, higher interest rates, and tariff uncertainty. We anticipate dividend increases to be prevalent during the fourth quarter and 2026 given the solid earnings growth environment.

**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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