

## CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

# An equity allocation that literally pays dividends

## Bottom line up top

**“Recession? What recession?”** That’s what U.S. equity markets seemed to be asking for much of July. Despite still being in the midst of a historic monetary tightening cycle that may send the economy into a recession, the Dow Jones Industrial Average logged a 13-day winning streak (its longest since 1987) and the S&P 500 Index came close to its all-time high before falling in the middle of last week. To some extent, the market’s recent buoyancy isn’t surprising: Recent data have painted a portrait of a thriving U.S. economy, showing resilient labor markets, improving consumer sentiment, moderating inflation (Figure 1) and strong annualized GDP growth (+2.4%) in the second quarter of 2023.

**A Catch-22 could deep-six further exuberance in the near-to-medium term.** Last week’s market reversal happened the day after the Fed’s widely anticipated 25 basis points (bps) rate hike, which pushed the fed funds rate to its highest level in more than two decades. Fed Chair Jerome Powell left the door open to another possible rate increase later this year, as inflation remains elevated. But even if the Fed were to pause (again), an upbeat market response is by no means assured. Having long hoped the Fed would stop raising rates because continued tightening might slow the economy to the point of recession, some investors now fear that failing to raise rates would signal the Fed’s belief that the economy is slowing, potentially to the point of recession. The tug of war between those contradictory ideas highlights the uncertainty markets are now experiencing.



**Saira Malik, CFA**  
*Chief Investment Officer*

*On behalf of Nuveen’s Global Investment Committee*

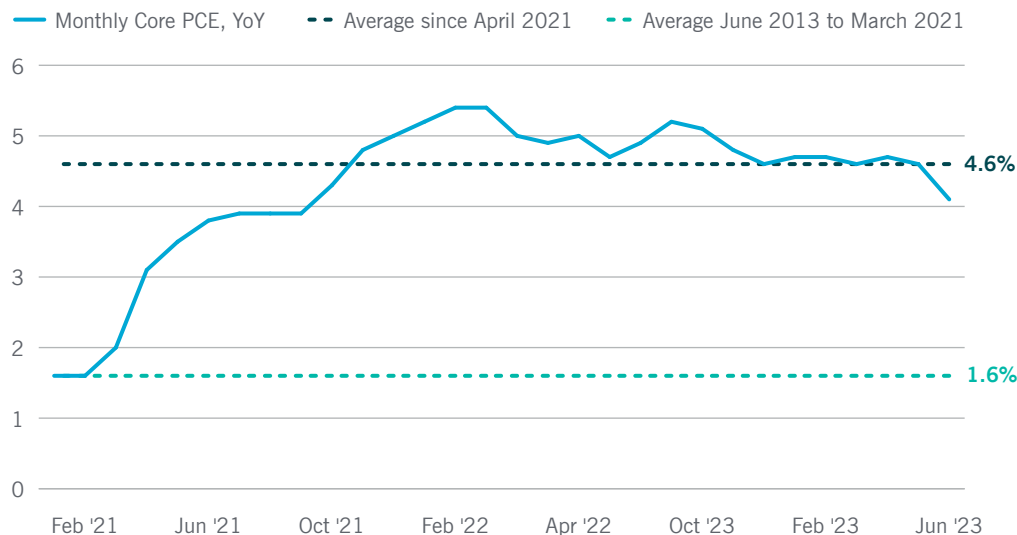
As Nuveen’s CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm’s most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she chairs Nuveen’s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

**It pays to be prudent.** As investors grapple with how best to allocate portfolio assets in this unique economic, market and policy environment, we continue to believe that staying invested is the soundest approach — and that some ways are better than others to increase equity exposure while mitigating risks.

***Uncertain Fed policy could continue to weigh on market sentiment.***

**FIGURE 1: IS INFLATION SLOWING ENOUGH FOR THE FED?**

*Year-over-year change in the Core PCE index (%)*



Data source: FactSet and the U.S. Bureau of Economic Analysis. Data depicted is from Jan 2021 to July 2023. Longer-term average from June 2013.

## Portfolio considerations

**Market breadth has been improving.** Following the dominance of mega-cap growth stocks this year, the U.S. equity market rally has broadened, with more sector, style and capitalization segments participating. We expect this trend to continue, enhancing opportunities for investors to benefit from a flexible investment approach supported by rigorous, bottom-up research and careful stock selection.

### **Companies that pay (and grow) dividends stand to benefit.**

Dividend growth-oriented equities deserve particular consideration both in the current environment of continuing, albeit slowing, economic growth, and as a long-term portfolio allocation. We believe these companies — supported by positive fundamentals, sustainable growth potential, healthy balance sheets, ample free cash flow, stable profit margins and management teams committed to returning capital to shareholders — offer several compelling potential advantages:

- **A hedge against persistent inflation:** The combination of capital flexibility, balance sheet strength and growing dividend payments may help mitigate inflationary pressures and the impact of higher interest rates.

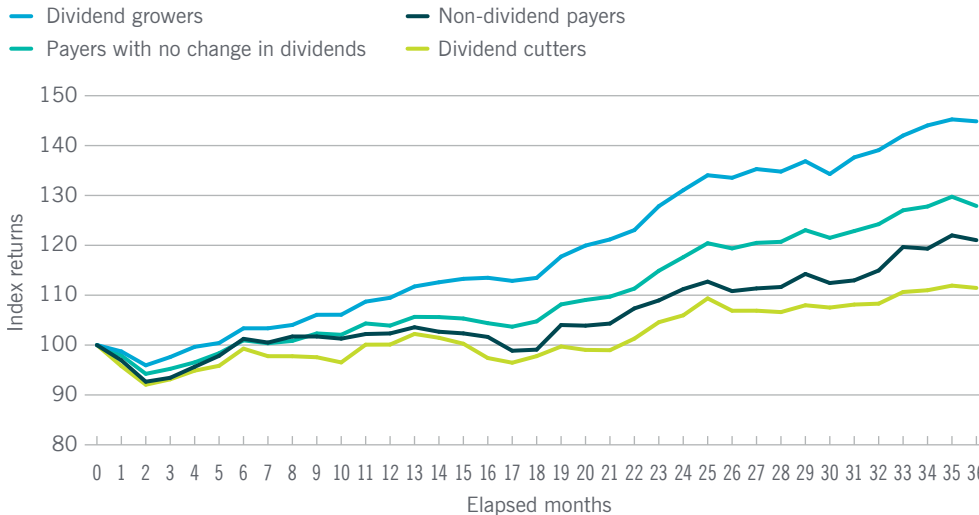
OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

***Dividend-growing companies may represent a sweet spot amid the broader equity market.***

- **Downside management:** Our research shows that dividend growth companies have historically performed relatively well during periods of heightened volatility and market drawdowns, and also during periods following interest rate hikes (Figure 2). We expect this area of the market may be able to maintain and expand margins amid inflation and higher interest rates while also providing a cushion against market volatility.
- **The potential for income growth:** While dividend growth has decelerated from 2022 levels, more than 200 S&P 500 companies have declared a dividend increase in 2023 so far, according to S&P Dow Jones. This continued strong dividend activity signals that company management teams are confident in their business prospects despite cost pressures.

**Not all dividend-paying companies offer the same advantages.** We see key differences between dividend growth companies and high dividend-yielding companies. In our view, dividend growers offer stronger earnings growth potential, better dividend payout ratios, higher profitability metrics and less reliance on the debt market.

**FIGURE 2: DIVIDEND GROWERS HAVE PROVIDED COMPELLING PERFORMANCE AFTER RATE INCREASES**



Data source: Ned Davis Research Inc. and Refinitiv. Further distribution prohibited without prior permission. Copyright 2023 © 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.

## About Nuveen's Global Investment Committee

*Nuveen's Global Investment Committee (GIC) brings together the most senior investors from across our platform of core and specialist capabilities, including all public and private markets.*

*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](https://nuveen.com).**

### Endnotes

#### Sources

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

**Dividend Policy Description (Figure 2):** 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. Copyright 2023 © Ned Davis Research, Inc. All rights reserved.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professionals.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain “forward-looking” information that is not purely historical in nature.

Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. **Past performance does not predict or guarantee future results.** Investing involves risk; principal loss is possible.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on [nuveen.com](https://nuveen.com). **Please note, it is not possible to invest directly in an index.**

#### Important information on risk

All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Equity investments are subject to market risk or the risk that stocks will decline in response to such factors as adverse company news or industry developments or a general economic decline. Dividend yield is one component of performance and should not be the only consideration for investment. Dividends are not guaranteed and will fluctuate.

Nuveen, LLC provides investment services through its investment specialists.

This information does not constitute investment research as defined under MiFID.

**OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.**

**NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE**

309575

GWP-3039644CG-E0723P