

Dividend Growth

Marketing communication | As of 31 Dec 2025

- **The U.S. stock market extended its rally during the fourth quarter, driven by expectations for further monetary policy easing and robust corporate earnings.**
- **The Dividend Growth strategy underperformed its benchmark, the S&P 500, on a gross and net-of-fees basis, as stock selection and sector allocation both detracted from performance.**
- **Looking toward 2026, 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

Continued easing by the U.S. Federal Reserve (Fed) helped equity markets overcome various headwinds during the quarter, including the extended U.S. government shutdown, weakening job market, concerns about elevated valuations and geopolitical issues. U.S. markets were flying blind for much of the quarter because of delayed economic data releases due to the closure, with the most recent figures likely still reflecting the effects of incomplete data collection. At the headline level, inflation improved, with the core Consumer Price Index (CPI) rising 2.6% year-over-year in November, while U.S. unemployment also ticked up slightly, to 4.6%. The U.S. consumer remained resilient and continued to spend during the quarter, leading to a modest improvement in the Fed's gross domestic product (GDP) growth projection of 1.7% for full-year 2025 and a stronger outlook for 2.3% growth in 2026.

Monetary policy worldwide continued to diverge, with the Fed cutting rates by 25 basis points in both October and December, bringing the target federal funds rate to a range of 3.50%-3.75%. The dovish pivot was driven by mounting evidence of labor market softening and inflation data that remained surprisingly benign; however, the Fed's accompanying statement in December telegraphed a more patient approach going forward with potentially only one rate cut in the coming year. The Bank of England (BOE) also cut rates in December by 25 basis points, while the European Central Bank (ECB) held policy steady. Meanwhile, the Bank of Japan (BoJ) bucked the global trend by hiking rates by 25 basis points in December.

The U.S. stock market ended 2025 on a high note, overcoming bouts of volatility during the quarter and year. Despite rich valuations and concerns about narrow market leadership by a small group of mega cap technology names tied to artificial intelligence (AI), the S&P 500 Index posted its eighth consecutive positive month in December based on hopes for continued Fed easing and strong corporate earnings. Before year-end, the bellwether index hit both its 38th record high of the year on Christmas Eve but also suffered a downturn before New Year's Eve, missing out on the hoped for year-end rally. The index returned 2.66% for the quarter and 17.88%



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for the year. During the quarter, nine of 11 S&P 500 sectors advanced, led by health care and communication services. Returns among other sectors were more modest, with the interest-rate sensitive real estate and utilities sectors falling into negative territory. The market broadened out beyond the "Magnificent Seven" technology-focused stocks, as value stocks outpaced growth stocks across the various market capitalization ranges for the quarter.

Portfolio review

During the fourth quarter of 2025, the Dividend Growth portfolio underperformed its benchmark, the S&P 500 Index, on a gross and net-of-fee basis. Security selection and sector allocation effects both detracted from relative performance during the quarter. The financials sector contributed most positively to relative performance, driven by strong stock selection. Conversely, the health care sector was the primary detractor due to underperformance by the portfolio's holdings within the pharmaceutical and medical device industries. The strategy's defensive and broadly diversified composition adversely affected relative performance given the strong performance of higher-beta companies and industries.

Contributors

Payments company **American Express** was the top contributor to relative performance during the quarter. The company reported strong quarterly financial results driven by accelerating billed business, higher card acquisitions, and healthy credit quality. Strong billed business reflected accelerating growth across three key segments: U.S. travel & entertainment, U.S. goods & services, and U.S. Small and Medium-sized Enterprises (SME). The company raised its revenue guidance following the early success with its American Express Platinum card refresh, which management indicated was significantly exceeding expectations. American Express continues to benefit from strong spending among its affluent customer base. Additionally, increased fees for Platinum cards should support robust fee growth over the next 24 months.

Taiwan Semiconductor Manufacturing Co. (TSMC) contributed significantly to relative performance during the quarter. The chipmaker reported strong quarterly earnings per share and raised revenue guidance for the upcoming quarter. TSMC projects that artificial intelligence (AI)-related chip revenue will grow at a mid-40% annual rate over the next five years. The company continues to demonstrate strong momentum driven by robust AI demand, durable pricing power, and improving margins. TSMC continues to benefit from its unique position as "the

AI bottleneck," with capacity constraints supporting pricing power across advanced manufacturing nodes and packaging technologies. Furthermore, the company increased its dividend per share by 28% in 2025 compared to 2024.

Global connector systems and sensor producer **Amphenol Corporation** was among the quarter's top contributors. The company exceeded consensus estimates for both earnings per share and revenue, driven by strong organic growth in nearly all of the company's end-markets and record operating margins. The company's IT Datacom business, which includes data centers, delivered 128% year-over-year revenue growth from strength in both AI infrastructure and traditional IT applications. Furthermore, the company announced a 52% dividend increase in October.

Detractors

Despite posting quarterly earnings above expectations, global provider of mission-critical communication infrastructure, devices, and services **Motorola Solutions, Inc.** was the largest detractor from relative performance during the quarter. The primary point of scrutiny for the company has been the decline in its backlog after peaking in 2023. Management attributed the decline to normalization following unusually high backlog levels during Covid-19 supply constraints, along with an increase in quick-turn business and a more robust funding environment. Sentiment has weakened recently amid concerns about tariffs, uncertainty surrounding the Department of Government Efficiency's impact, and the impact of recent U.S. government shutdown. Although the company exceeded expectations when reporting October results, investors were disappointed by management's conservative guidance for fiscal year 2026. While the stock's price-to-earnings multiple has contracted, earnings growth and the company's business fundamentals remain strong.

Power management company **Eaton Corp. plc** was another detractor during the quarter, driven largely by heightened volatility surrounding artificial intelligence spending. Although Eaton reported better-than-expected quarterly earnings per share, organic revenue growth fell slightly short of expectations. Performance in the company's more cyclical end-markets, including the vehicle and eMobility businesses, was weaker than expected. Given Eaton's data center exposure, the stock declined as investors grew increasingly concerned about the outlook for data center equipment and infrastructure spending. Despite these challenges, management remains confident in the company's prospects, citing backlog growth, synergies from

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the recent Boyd Thermal acquisition, and anticipated improvements in the Electrical Americas Business in 2026.

Animal health services company **Zoetis, Inc.** further detracted from performance during the quarter. The company's growth has slowed in 2025 due to disappointing sales of its pain drugs, which were one of the core drivers of our original investment thesis. Despite other products offsetting most of the revenue shortfall, the stock's price-to-earnings multiple has compressed to all-time-low levels on an absolute and relative basis. Investors are concerned that decelerating growth in the company's companion animal products is likely to continue for the next three quarters due to a combination of the weaker macroeconomic environment, competitive pressures, and weaker than expected performance in their pain products. Despite recent poor stock performance, Zoetis continues to deliver solid earnings growth, excellent returns on invested capital, has a rising dividend policy, and is set to be first-to-market in attractive new areas (oncology, nephrology, and pain) in the near future. The company conducted a large share repurchase in December 2025, reflecting management's conviction that the shares are substantially undervalued.

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 new year.

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 year-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.

Nasdaq Inc. was added to the portfolio during the quarter based on the company's compelling growth potential, strong management team, and secular tailwinds which we believe will support attractive dividend growth. Nasdaq has transformed from a transaction-driven exchange into a financial technology company with 75% recurring revenues, yet trades at a discount to Information Services peers despite comparable margins above 50% and stronger growth. The controversial 2023 Adenza acquisition is validating management's strategy through robust revenue performance and cross-selling momentum. Market concerns about artificial intelligence disruption meaningfully compressed the stock's valuation multiple since August 2025, creating an entry point. We believe the company is well positioned to benefit from secular growth in anti-financial crime compliance, regulatory technology adoption, market infrastructure modernization, and rising market data intensity. These tailwinds, combined with the potential for management to increase the dividend payout ratio to a targeted 35-38% range, should enable double-digit dividend growth in the coming years.

Semiconductor Texas Instruments was fully eliminated from the portfolio during the quarter. We have been disappointed as the company's historically impressive capital discipline and track record of outperforming guidance has deteriorated in recent periods. The signals for a cyclical recovery in their end markets suggest sales growth will not drive the earnings expansion typical of semiconductor recoveries. While the management team maintains a strong commitment to dividend growth, their recent capital expenditure

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investments have exceeded their stated policy of returning all free cash flow to shareholders. Given this pattern of capital spending outpacing free cash flow generation in recent years, we believe dividend growth will likely lag free cash flow growth once it returns over the next few years.

Outlook

Entering 2026, we expect U.S. real GDP growth to improve modestly. With stronger growth, we're looking for the labor market to stabilize and unemployment to remain near its current level. On the inflation front, we believe there is still some near-term upside from pending tariffs; however, we ultimately expect core inflation to moderate to around 2.5% by year-end. We anticipate the Fed will slow its pace of rate reductions in 2026 but deliver two additional 25-basis-point cuts over the course of the year versus one currently telegraphed by policymakers. That would take the policy rate to 3.00%-3.25%, near our estimate of neutral. Outside the United States, we expect the ECB will likely remain on hold in the near term while the BoJ will probably raise rates at least once more in 2026. China's policymakers are likely to continue with their fiscal policy support, although substantial monetary easing is unlikely.

We believe the S&P 500 can continue to move higher in 2026 fueled by resilient U.S. economic growth, controlled inflation and solid corporate earnings driven by AI, but this advance will likely be accompanied by volatile patches. Thanks to more optimistic earnings forecasts, along with a historically high percentage of companies issuing positive earnings per share (EPS) guidance, S&P 500 companies are projected to report +8.3% year-over-year earnings growth in the fourth quarter, up from +7.2% estimated at the end of September, according to FactSet. Looking ahead, analysts expect earnings growth rates of +12.6% in the first quarter of 2026 and +14.9% for 2026 as a whole.

Other catalysts that could help support our outlook for the S&P 500 include upside surprises to earnings growth, expanded market breadth, diminished inflation risks, more Fed rate cuts than anticipated and further clarification regarding tariff policy and rates, to name a few. We also anticipate that AI-related capital expenditure spending by hyperscalers Amazon, Meta, Microsoft and Alphabet, which was estimated to be \$347 billion in 2025, will continue to drive the market. AI has emerged as a transformative force across nearly every major industry. Given its potential for reshaping the economy, we currently don't believe the valuations of technology/AI companies constitute a bubble. Crucially, these firms have generated substantial profits and cash flows that we believe support their rich multiples.

Although our view remains constructive overall regarding the equity market in 2026, several material risks could challenge our baseline scenario for the S&P 500. The potential for higher consumer prices remains the biggest risk, as the Fed's preferred inflation barometer, the core Personal Consumption Expenditures (PCE) Price Index, registered 2.8% in September (the latest data available due to the U.S. government shutdown) — well above the 2% target. Hotter inflation would almost certainly force the Fed to remain on pause longer or even tighten policy sooner than markets currently anticipate, potentially triggering a selloff in risk assets.

Other risks to our outlook include a more significant deterioration in employment conditions, which could undermine consumer spending, the primary engine of U.S. growth. While employment data released after quarter-end showed slightly lower-than-expected job growth, the drop in the U.S. unemployment rate to 4.4% in December suggests a firmer job market than previously forecasted. We do not currently see an elevated probability of recession over the next 12 months, though this assessment could change if labor market conditions deteriorate further.

U.S. foreign policy also has surged to the forefront as the recent U.S. action in Venezuela represents a fundamental shift in geopolitical strategy. And finally, the Trump administration's criticism of the Fed's decisions, if it continues or intensifies, could fundamentally alter how markets price long-term interest rates and inflation expectations, potentially leading to sharp declines in bond and stock prices.

Given expectations for persistent market volatility in the coming months, 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. 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 2026. According to S&P Global, S&P 500 dividends per share increased by 5% in 2025. 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

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cost pressures and tariff uncertainty. We expect 2026 to be a strong year for S&P 500 dividend growth, supported by robust earnings growth expectations and improved cash

flows resulting from more favorable R&D and capital expenditure expensing rules.

For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is \$100,000.

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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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