

## Dividend Growth

Marketing communication | As of 31 Mar 2025

- **The U.S. equity markets declined during the first quarter due to concerns regarding slowing economic growth, uncertainty around the Trump administration's trade policies, and declining consumer and corporate sentiment.**
- **The Dividend Growth strategy outperformed its benchmark, the S&P 500 on a gross and net of fees basis, due to stock selection and allocation effects.**
- **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

U.S. economic activity remained strong in the first quarter but showed additional signs of a slowdown ahead. Across the globe, inflation remained above central bank targets, but monetary policy diverged among key central banks. Following three straight cuts toward the end of 2024, the U.S. Federal Reserve (Fed) remained on hold throughout the quarter as policymakers paused to assess the impact of the Trump administration's aggressive economic agenda. Following March's meeting, however, Fed policymakers lowered their growth outlook and increased inflation forecasts, while reiterating the likelihood of two 25-basis-point rate cuts in 2025. In contrast, other global central banks, including the European Central Bank (ECB), Bank of England (BOE), and Bank of Canada, cut rates during the first quarter, while the Bank of Japan hiked rates for the second time this cycle to their highest level since 2008. Meanwhile, Chinese officials pledged looser monetary policy in 2025, which is likely given the risks associated with U.S. tariffs.

As the quarter progressed, uncertainty surrounding the erratic global trade policies of the new U.S. administration rattled global markets, driving U.S. rates and the dollar lower. The greenback, as measured by the U.S. Dollar Index, fell 4% against a basket of currencies as U.S. growth concerns increased. Despite the lack of Fed rate cuts during the quarter, Treasury yields retraced about half of fourth quarter's increase as investors rushed to safe haven assets, while gold and other precious metals also notched new highs due to tariff-related fears. Growing uncertainty also affected U.S. surveys of consumer and business sentiment, which softened in March, while consumer inflation expectations moved higher. Nevertheless, actual data regarding U.S. job creation, personal income, retail sales, and industrial production remained healthy during the quarter.



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Despite high hopes for the U.S. stock market heading into 2025, the elevated policy uncertainty and rising geopolitical tensions led to the worst quarterly start since 2022. The market rapidly shifted from record high levels in mid-February to correction territory, typically defined as a 10% or greater decline, by mid-March. Almost all major U.S. stock market indexes ended the quarter in the red as investors worried about the economic fallout from tariffs and the possibility of stagflation gripping the U.S. economy.

Some of the hottest stocks of 2024, especially technology-related companies at the center of the artificial intelligence (AI) boom, were some of the hardest hit by the selloff, including the so-called Magnificent Seven. As a result, the tech-heavy Nasdaq Composite was one of the worst-performing indexes for the quarter with a -10.26% return. The S&P 500 Index was also dragged down by the technology sector, as well as consumer discretionary and communication services, ending the quarter with a -4.27% return. Despite the negative overall result, seven S&P 500 sectors advanced for the quarter led by energy stocks, which investors favored in the face of persistent inflationary pressures and constrained oil supply. Investors also rapidly rotated into more defensive and value-oriented sectors, including health care, consumer staples, utilities, real estate and financials, which also posted gains for the quarter.

## Portfolio review

During the first quarter of 2025, the Dividend Growth portfolio outperformed its benchmark, the S&P 500 Index on a gross and net of fee basis. Both security selection and sector allocation effects had a positive impact on relative performance during the quarter. The consumer discretionary sector had the largest contribution to relative performance driven by positive stock selection effects and a favorable underweight position relative to the benchmark. The industrials sector was the largest detractor to relative performance primarily driven by underperformance of a holding with data center exposure. Overall, 8 of the 11 sectors had a positive impact on relative performance during the quarter. Given the heightened volatility and wide sector performance dispersion, the portfolio's broadly diversified approach and focus on higher quality companies supported outperformance.

## Contributors

Tobacco company **Philip Morris International Inc.** was the top contributor to performance. The company reported solid quarterly financial results and provided guidance for 2025 that exceeded expectations. Management expects higher iQOS (an electronic tobacco-based aerosol alternative

to traditional cigarettes) and Zyn (smoke-free nicotine pouches for oral use) volume growth and cost reductions will drive solid operating profit and earnings per share growth. Philip Morris continues to gain global market share, resulting in greater pricing power, stronger operating profits, and geographic expansion of its iQOS and Zyn products. The company also benefited during the quarter as investors favored defensive sectors and companies given the uncertainty surrounding slower growth and tariffs.

Another top contributor was cell tower real estate investment trust **American Tower Inc.** The company reported quarterly EBITDA (earnings before interest, taxes, depreciation, and amortization) above consensus expectations due to strong demand from the company's international business and solid data center revenue growth. Similar to the broader real estate sector, American Tower benefited from declining interest rates during the quarter. Additionally, management increased the company's dividend by 5% in March.

Medical devices and health care company **Abbott Laboratories** further contributed to relative performance during the quarter as the company continues to execute well. While the company's quarterly results were uneventful, the business accelerated sequentially, and management provided guidance that was in-line with expectations. Furthermore, investors favored defensive sectors such as health care during the quarter given concerns with slowing growth.

## Detractors

Global semiconductor and software infrastructure solutions company **Broadcom Inc.** was the largest detractor from performance during the quarter. Mega-cap technology companies, particularly those with artificial intelligence exposure, underperformed during the quarter due to increased competition, AI spending doubts, and uncertainty surrounding semiconductor tariffs. After outlining highly positive growth prospects over the next several years and spotlighting the growth of its custom AI chips business, Broadcom saw its stock decline sharply in late January when news of DeepSeek's AI model rattled the information technology sector. The company was also pressured by uncertainty regarding the AI spending cycle and the potential implementation of tariffs on semiconductors. Despite these headwinds, the company reported quarterly earnings in March that exceeded expectations and management raised guidance driven by their AI/Custom ASIC's (Application-Specific Integrated Circuits) leadership and strength in the VMware business.

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Semiconductor manufacturer **Taiwan Semiconductor Manufacturing Co., Ltd.** was another detractor from performance. Like Broadcom, investors continued to digest the January headlines regarding DeepSeek's artificial intelligence (AI) model, which broadly affected companies exposed to the AI spending cycle. As the quarter progressed, semiconductor stocks were further challenged by the prospect of tariffs. Despite these near-term headwinds, we remain confident in TSMC's industry-leading position and diversified customer base. The company manufactures chips for other companies such as Apple, Alphabet, Meta Platforms, etc. as well as many other non-AI chips for consumer electronics, auto, and industrial uses.

Power management company **Eaton Corp. Plc** further detracted from performance during the quarter due to concerns regarding its data center exposure. Investors fear the company's strong data center growth during the past few years is now in question if new AI solutions require significantly less energy which would reduce energy consumption and electrical equipment demand for the data center end-market. From a financial results standpoint, the company reported quarterly earnings per share and margins above consensus estimates. During an investor day event in mid-March, management provided new 5-year targets that were well received by investors. The company continues to expect robust end-market growth which is being supported by positive order and backlog growth while expanding operating margins through higher sales growth and productivity efforts.

## 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.

During the first quarter, we added alternative asset management firm Ares Management Corporation to the portfolio. We view Ares as a leading private credit manager, and we believe the company has attractive above-market growth potential while having the highest mix of private credit and less-volatile management fees out of the four largest alternative asset managers. Within the financials sector, ARES operates in one of the only secularly growing sub-sectors, led by a strong management team that has routinely put out 4-year targets (notably one-year longer than financials darlings Visa and Mastercard). Relative to other alternative asset management peers, ARES has the most Dividend Growth strategy friendly profile given its higher mix of less-volatile management fees, focus on private credit (less reliant on realizations), and reduced balance sheet risk given its capital-light approach. In addition to providing exposure to growth/trends within financials, ARES has an attractive dividend yield of 2% which is growing ~20% per annum.

## Outlook

Heightened uncertainty is increasing the risks to global growth and inflation outlooks, presenting a quandary for global central banks. In the U.S., we expect a shift to below-trend economic growth later this year with risks heavily skewed to the downside. The Fed now must incorporate potentially inflationary trade policy and signs of a slowing economy into its calculations. We expect the Fed to continue to reduce rates this year, however, the exact timing of these cuts will depend on incoming data and developments surrounding the tariffs. Although the European growth outlook may be supported by increasing

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monetary and fiscal policy, the potential impact of a global trade war looms large. The trade war also weighs on our China forecast with expected 2025 growth now in the 3.75%-4.25% range, below the government's target. However, both the ECB and People's Bank of China may have more latitude to loosen policy than the Fed.

Given increased market concerns over inflation and tariffs following quarter-end, analysts have lowered their first-quarter earnings per share (EPS) estimate for the S&P 500 to +7.0% year-over-year. Although this number is lower than estimates at the beginning of the year, it remains solid and is still forecast to rise over the remaining quarters in 2025. If the current estimate is realized, it would mark the seventh straight quarter of year-over-year earnings growth for the index. Meanwhile, the S&P 500's net profit margins are forecast at +12.1% for the first quarter, below the previous quarter's +12.6% but above the five-year average of +11.7% according to FactSet data.

That said, investors should brace for further volatility this year given the various headwinds facing the equity market. We will continue to monitor the impact of U.S. tariffs on economic data to determine if weaker consumer and business activity is a temporary setback, the beginning of a recession, or the start of stagflation. As of this writing, it's too soon to tell, although so-called soft data, such as confidence and sentiment surveys, have plummeted. As long as investors remain concerned about U.S. growth, the equity

market will likely remain volatile. However, history has shown us that it's important for investors to resist knee-jerk reactions in response to dramatic market events. While volatility and uncertainty may prove challenging for investors in the short term, we continue to believe equity investors are best served by staying in the market.

Given expectations for persistent market volatility ahead, 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 2025. According to S&P Dow Jones, over 125 companies in the S&P 500 increased or initiated a dividend during the first quarter. 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.

**For more information contact: 800.752.8700 or visit [nuveen.com](https://nuveen.com)**

Minimum investment is \$100,000.

## Important information on risk

All investments carry a certain degree of risk, including possible loss of principal, 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. A focus on dividend-paying securities presents the risks of greater exposure to certain economic sectors rather than the broad equity market (sector or concentration risk). Foreign investments involve additional risks. The strategy's potential investment in non-U.S. stocks presents risks such as political risk, exchange rate risk, lack of liquidity and inflationary risk, economic change, social unrest, changes in government relations, and different accounting standards. This strategy may invest in American Depositary Receipts (ADRs). ADRs do not eliminate the currency and economic risks for the underlying shares in another country. Dividends are not guaranteed and will fluctuate. A portfolio's investment in dividend-paying stocks could cause the portfolio to underperform similar portfolios that invest without consideration of a company's track record of paying dividends. Stocks of companies with a history of paying dividends may not participate in a broad market advance to the same degree as most other stocks, and a sharp rise in interest rates or economic downturn could cause a company to unexpectedly reduce or eliminate its dividend. Dividend yield is one component of performance and should not be the only consideration for investment.

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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 fluctuations 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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