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INVESTMENT INSIGHTS
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Dividend growth: Focus on fundamentals in 2023

As the macroeconomic forces of inflationary pressures, tighter monetary policy and slowing global economic growth squeeze corporate earnings, investors need to sharpen their focus on company fundamentals. We expect global equity markets to be choppy but range-bound during the first half of 2023, but within this environment we see opportunities for good stock pickers to identify value in global large cap equities. In particular, dividend growth-oriented companies may represent a timely equity allocation in 2023 and beyond. Companies with a rising dividend policy not only provide protection against ongoing inflation and market volatility, but also offer the potential for attractive long-term total returns.

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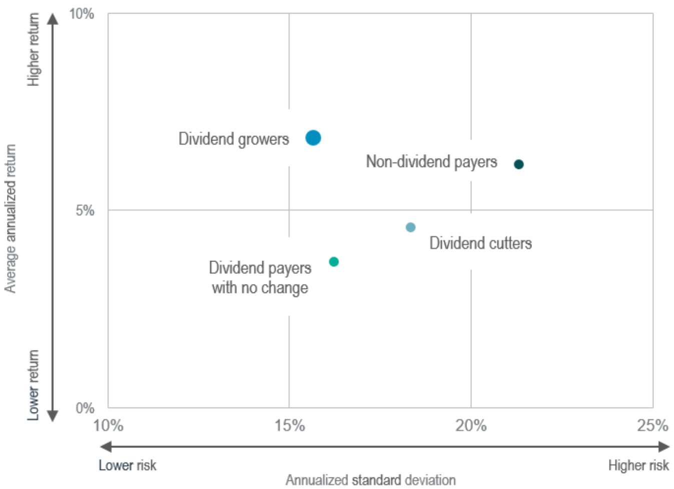
GLOBAL DIVIDEND GROWTH COMPANIES HAVE PROVIDED DESIRABLE OUTCOMES

Dividends have always been an important part of the global equity market. In fact, dividends and their reinvestment have accounted for roughly 34% of the annualized return of the MSCI World Index since February 1, 1970.[1] Long-term ownership in dividend growth oriented companies has historically provided other key advantages, including:

- Strong absolute and risk-adjusted returns over full market cycles
- Lower volatility than the broad MSCI World Index
- Capital preservation during challenging market environments
- A diversified income stream with the potential for growth of income and capital appreciation

By casting a wider investment net to include non-U.S. companies in a portfolio, investors may also benefit from added diversification, higher dividend yield opportunities and, perhaps most importantly, an improved risk/return profile. As illustrated in Figure 1, over full market cycles, the "dividend growers" segment of the MSCI World Index has delivered higher returns with lower standard deviation — a measure of risk — than both non-dividend-paying companies and companies that either reduced or never changed their dividend policy.

Figure 1. MSCI World Index dividend growth companies: higher returns with less risk



Data Source: Ned Davis Research, Inc. for period covering 31 May 2005-31 December 2022. **Performance data shown represents past performance and does not predict or guarantee future results.** Dividends are not guaranteed and will fluctuate. Dividend yield is one component of performance and should not be the only consideration for investment. The performance shown is for illustrative purposes only and does not predict the future performance of these groups or replicate any of Nuveen's investment strategies. It is not possible to invest directly in an index. Index performance is not illustrative of any specific investment. Different benchmarks and economic periods will produce different results. Other methods and market conditions may result in significantly different outcomes.

Figure 2. Dividend growth outperformed during periods of heightened market volatility

MSCI World Index dividend growers vs. non-dividend payers

VIX monthly increase	Dividend growers avg. excess return (%)
> 20%	0.7
10%-20%	0.5
<10%	0.2
Average (across all months)	0.5

Source: Ned Davis Research, Inc. for period covering 31 December 2002-31 December 2022. **Performance data shown represents past performance and does not predict or guarantee future results.** Dividends are not guaranteed and will fluctuate. Dividend yield is one component of performance and should not be the only consideration for investment. The performance shown is for illustrative purposes only and does not predict the future performance of these groups or replicate any of Nuveen's investment strategies. It is not possible to invest directly in an index. Index performance is not illustrative of any specific investment. Different benchmarks and economic periods will produce different results. Other methods and market conditions may result in significantly different outcomes.

PROVIDING BALLAST DURING TURBULENT TIMES

While a focus on dividend growth companies can serve as a suitable long-term strategic allocation in an equity portfolio, we view this approach as particularly timely given today's challenging investment environment. Investor concerns about inflation, interest-rate volatility and other associated headwinds may be mitigated by an investment philosophy and process that emphasizes dividend-paying companies supported by positive fundamentals, earnings growth potential, healthy balance sheets, sustainable profit margins and ample free cash flow. Historically, these attributes have helped preserve capital during periods of heightened volatility and market drawdowns.

As shown in Figure 2, global dividend growth companies outperformed their non-dividend-paying counterparts during monthly periods of rising volatility, as measured by the CBOE Volatility Index (VIX). With higher interest rates and inflationary pressures — along with heightened volatility — likely to persist in the near-to-medium term, firms with strong capital flexibility and the financial strength to support dividend growth can provide an attractive source of income and the potential to protect against such turbulence.

FUNDAMENTALS HELP IDENTIFY SUSTAINABLE DIVIDEND GROWTH POTENTIAL

Not all dividend paying companies are the same. We favor those supported by attractive fundamentals with earnings and cash flow growth potential, solid balance sheets, sustainable payout ratios, and a good track record of capital allocation that includes returning capital to shareholders in the form of a rising dividend. And we believe active security selection can identify them.

Knowing where to look for these companies is crucial, in our view. For example, while dividend yields are higher outside the U.S., investors who focus *too much* on current dividend yield may overlook a wide universe of well-run firms with a history of growing dividends, which, as we've seen, have outperformed over time. Compared to high dividend-yielding companies (those with yields above 3%) and non-dividend paying companies, global dividend payers with a more modest yield (0-3%) generally have better earnings growth potential, stronger profitability metrics and higher profit margins — all of which tend to help mitigate risk when volatility prevails. This certainly was the case as of year-end (see Figure 3).

> *Firms with strong capital flexibility and the financial strength to support dividend growth can provide an attractive source of income despite market turbulence.*

Figure 3. MSCI World Index by dividend

	Dividend payers (yield 0%-3%)	Dividend payers (yield >3%)	Non-dividend payers	MSCI World Index
5-yr. dividend growth %	10.1	8.1	n/a	6.7
Est. 3-5 yr. EPS growth %	11.8	6.2	17.4	11.0
Return on assets %	12.1	7.2	11.2	10.5
Return on equity %	26.8	20.4	19.1	23.5
Operating margin %	24.0	22.4	16.0	22.3
Net margin %	18.7	16.9	14.5	17.5

Data Source: FactSet as of 31 December 2022. **Performance data shown represents past performance and does not predict or guarantee future results.** Dividends are not guaranteed and will fluctuate. Dividend yield is one component of performance and should not be the only consideration for investment. The performance shown is for illustrative purposes only and does not predict the future performance of these groups or replicate any of Nuveen's investment strategies. It is not possible to invest directly in an index. Index performance is not illustrative of any specific investment. Different benchmarks and economic periods will produce different results. Other methods and market conditions may result in significantly different outcomes.

Despite last year's uncertain market environment and economic headwinds, many corporations were firmly committed to rewarding shareholders with strong capital returns in the form of higher dividends, as management teams remained confident in their business prospects. Indeed, according to FactSet, the MSCI World Index generated 5.5% dividend growth in 2022. This income stream helped soften the blow of last year's falling stock prices.

Increased payouts are anticipated across broad global markets in 2023, with the MSCI World Index forecast to deliver 3.8% dividend growth despite a potentially troubling trifecta of reduced economic activity, ongoing inflationary pressures and further central bank tightening — all of which could hinder corporate earnings expansion. Also worth noting: most European countries, which tend to have strict dividend policies tied to a specific percentage of earnings, may be more susceptible to dividend instability amid a weak economic and corporate earnings landscape. Not surprisingly perhaps, dividend growth expectations across MSCI World countries and sectors vary considerably, as shown in Figures 4 and 5.

Given the possibility of a recession in Europe, we believe investors would be best served through an active approach that seeks industry-leading, dividend-growing companies supported by positive fundamentals and sustainable growth prospects.

Figure 4. Estimated 2023 dividend growth for largest MSCI World Index countries

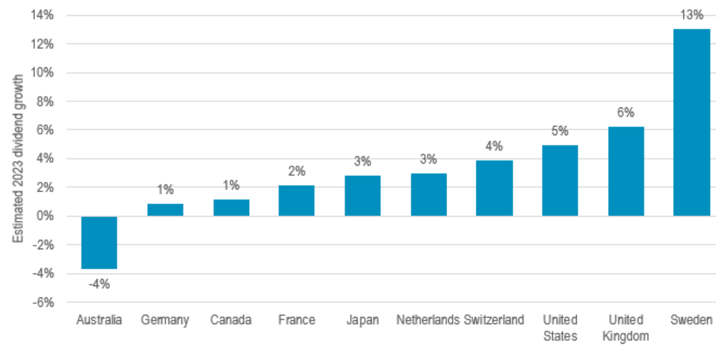
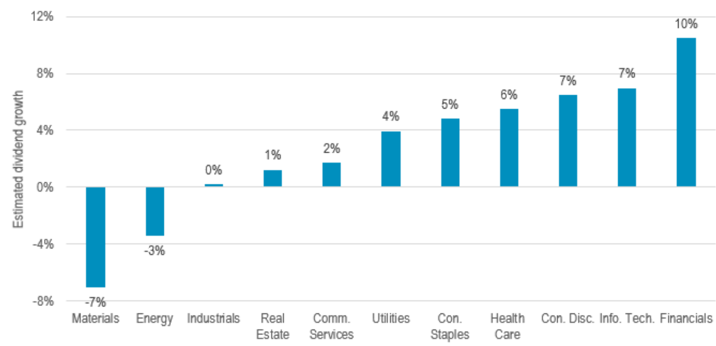


Figure 5. Estimated 2023 dividend growth by MSCI World Index sectors



Source for Figures 4 and 5: FactSet as of 25 January 2023. Figure 4 includes the estimated dividend growth rate for the 10 largest countries by market capitalization within the MSCI World Index, sorted from lowest to highest. **Performance data shown represents past performance and does not predict or guarantee future results.** Dividends are not guaranteed and will fluctuate. Dividend yield is one component of performance and should not be the only consideration for investment. The performance shown is for illustrative purposes only and does not predict the future performance of these groups or replicate any of Nuveen's investment strategies. It is not possible to invest directly in an index. Index performance is not illustrative of any specific investment. Different benchmarks and economic periods will produce different results. Other methods and market conditions may result in significantly different outcomes.

> *Despite last year's uncertain market environment and economic headwinds, many corporations were firmly committed to rewarding shareholders with strong capital returns in the form of higher dividends.*

CONCLUSION

We believe an allocation to higher-quality, dividend growth-oriented companies offers compelling advantages to investors seeking to weather the challenges of the prevailing market environment and beyond. In particular, an actively managed strategy focused on selecting global dividend-paying equities 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 should be well-positioned to benefit from continued, albeit decelerating, economic growth. From our perspective, 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 months ahead.

For more information, please visit us at nuveen.com.

Endnotes

1. Ned Davis
2. FactSet