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CIO Weekly Commentary
25 March 2024

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Dividend growth: timely and strategic

Bottom line up top

U.S. equities may have entered March more like a lamb than a lion, with two consecutive weeks of mild losses, but last week the S&P 500 Index found its roar and leapt to all-time highs. The market's sunnier disposition was precipitated by last Wednesday's meeting of the Federal Open Market Committee (FOMC) — the monetary policymaking arm of the U.S. Federal Reserve — even though the Fed's forecast was little changed.

As widely expected, the central bank kept its fed funds rate in a target range of 5.25%-5.50% for the fifth meeting in a row. The language in its policy statement was identical to January's, except for one tweak that eliminated a slightly dovish reference to job gains having "moderated" (instead, they simply "remained strong"). Additionally, the Fed's new dot plot continued to project three rate cuts in 2024, just as it did in December (Figure 1).

Overall, last week's messaging confirmed higher-for-longer rates. Inflation has remained well above the Fed's 2% target in an economy that's proven surprisingly resilient despite the highest interest rates in more than 15 years. The FOMC therefore sees little urgency to begin cutting rates. In our view, the three 25-basis-point reductions anticipated by year-end are unlikely to begin before June.

What accounts for last week's celebratory response from a market that's been clamoring for "lower and sooner" rates? In part, we believe it's driven by the fear of missing out on an expected rally once the Fed finally pulls the trigger. But in a U.S. presidential election year replete with softening economic growth and geopolitical uncertainty, FOMO-minded investors would be well-advised to focus on their long-term goals while considering incremental portfolio allocations to investments with (1) the potential to benefit from economic resilience, (2) the ability to out-earn cash and (3) attractive relative valuations.

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.

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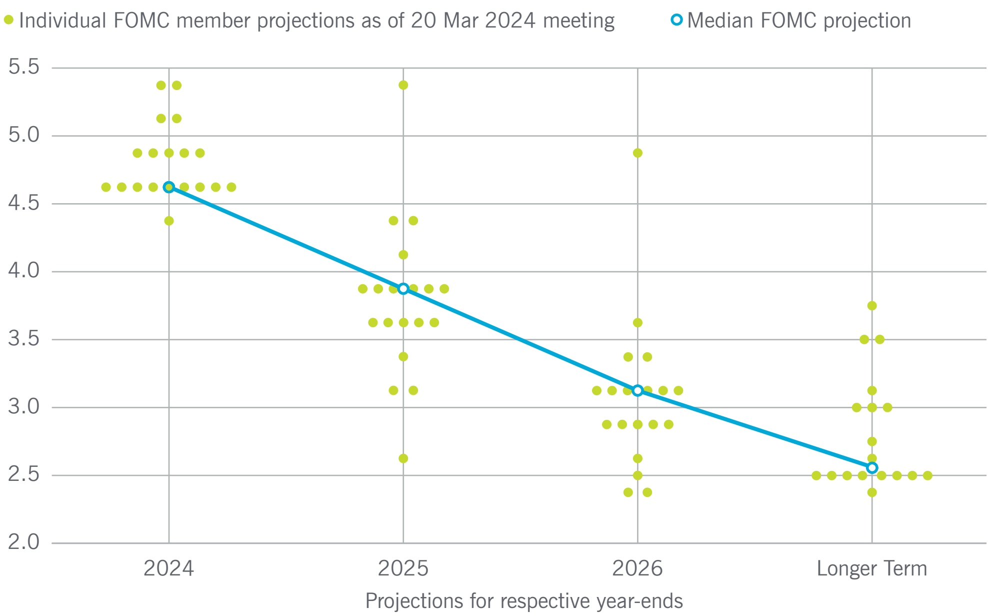
FIGURE 1: DOT PLOT REMAINED CONSISTENT AT LATEST FED MEETING

Implied fed funds target rate (%)



Data sources: Bloomberg L.P., 21 Mar 2024.

Portfolio considerations

We remain constructive on higher-quality, **dividend growth-oriented stocks.** In our view, dividend growth companies tend to be 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. These favorable characteristics may contribute to key advantages, including:

- **The potential for income growth:** Supported by an improving earnings growth environment, S&P 500 dividends per share are expected to grow by 6% this year, according to FactSet. Many companies have already announced meaningful dividend increases during the first months of 2024, and a few noteworthy mega cap technology companies have started paying dividends for the first time. While dividends have been a smaller component of capital return than share buybacks over the past 10 years or so (Figure 2), they have also been less volatile, providing investors with relatively stable income.

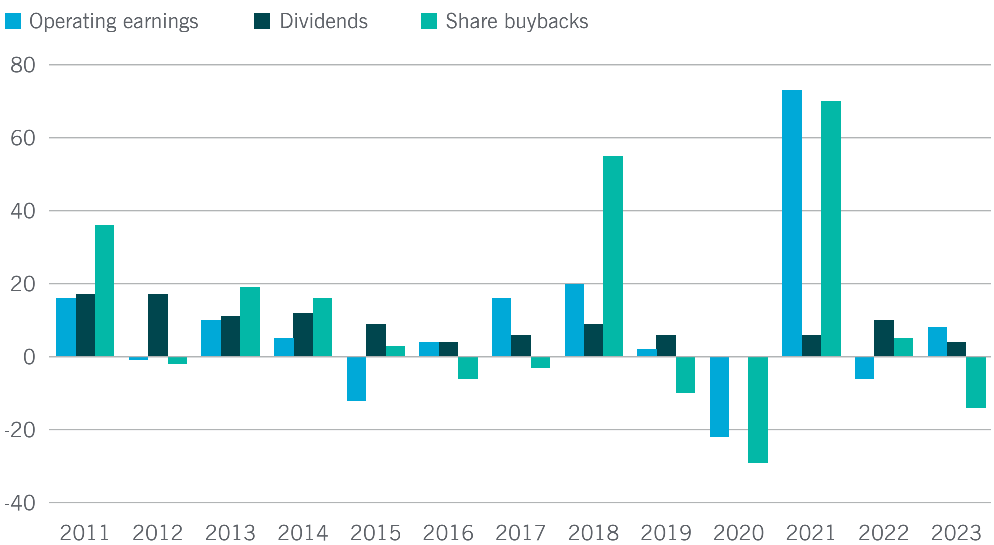
- **A hedge against still-elevated inflation:** The combination of capital flexibility, balance sheet strength and growing dividend payments could help these companies mitigate inflationary input cost pressures, potentially allowing them to maintain or even expand profit margins — ultimately a plus for shareholders.

At Nuveen, we believe dividend growth-oriented companies are not only well-positioned for compelling relative performance, but also offer desirable long-term attributes. Over time, companies that initiated or continued to grow dividends have historically generated higher annualized returns with lower annualized standard deviation than all other segments of the equity market, according to Ned Davis Research. While dividend growth companies haven't outperformed in all market environments, their attractive risk-adjusted returns over the long run make them worthy of consideration as a building block of any strategic equity allocation.

While dividend growth companies haven't out-performed in all market environments, their attractive risk-adjusted returns over the long run may make them a solid building block of any strategic equity allocation.

FIGURE 2: DESPITE MUTED EARNINGS GROWTH, DIVIDENDS ARE ON PACE TO EXPAND

S&P 500 operating earnings, dividends and share buybacks, annual growth rate (%)



Data sources: S&P Global, 01 Jan 2011 – 31 Dec 2023. Most recent data available. **Performance data shown represents past performance and does not predict or guarantee future results.**

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.

Endnotes

Sources

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

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Nuveen, LLC provides investment solutions through its investment specialists.

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