



Dividend Growers the Right Playbook for Uncertain Markets

June 5, 2025

Key Takeaways

- ▶ While equities have seen elevated bouts of volatility in 2025, broadening market participation and the persistence of long-term U.S. economic strength suggest fertile ground for opportunity in U.S. markets.
- ▶ We believe the long-term economic outlook for the U.S. is positive given attractive demographics, a healthy labor market, leadership in innovation across many sectors, access to capital, and energy security — structural strengths likely to persist through economic and political cycles.
- ▶ Dividend growers possess three attributes for an environment marked by inflation and policy risk: downside protection, current income and, importantly, growth.

Broadening Market Welcomes Dividend Growers

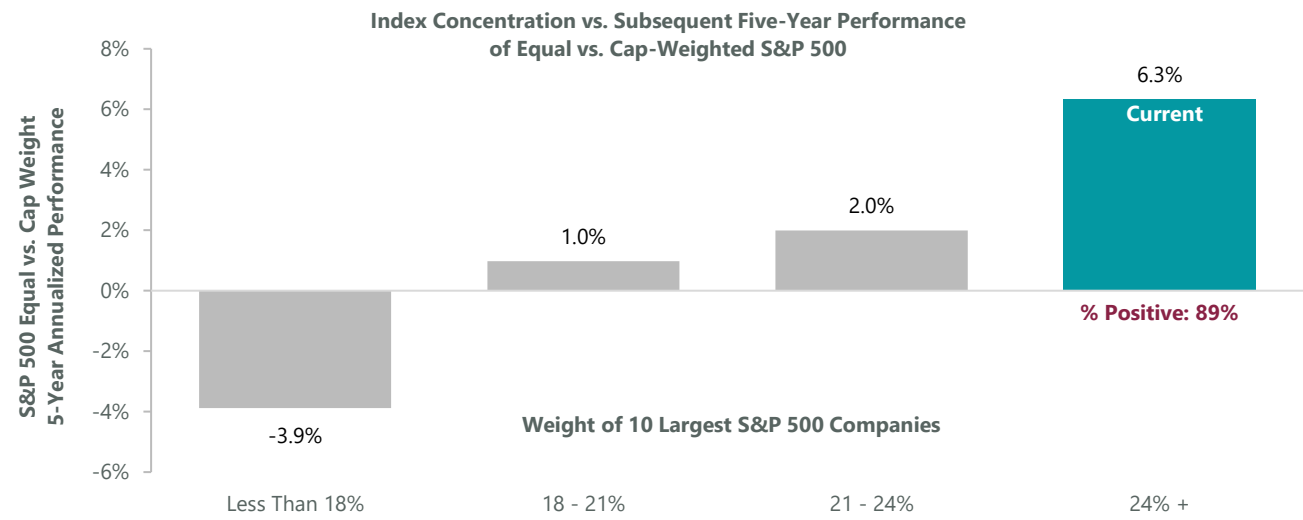
While equities have seen elevated bouts of volatility in 2025, broadening market participation and the persistence of long-term U.S. economic strength suggest fertile ground for opportunity in U.S. markets. In this environment, where inflation concerns and elevated policy uncertainty increase the attractiveness of income growth and more conservative risk allocations, we believe the timeless attributes of dividend growers make them excellent candidates for investors to consider.

Historically, when the top 10 weights in the S&P 500 Index have accounted for more than 24% of the benchmark, the equal-weight S&P 500 has outperformed its cap-weighted counterpart by an average of 6.4% annualized over the next five years. Top weights in the S&P 500 currently make up 35% of the index (Exhibit 1).

A broadening market would coincide with what looks like the end of a period of large underperformance for dividend growers relative to the S&P 500. Following similar periods such as the late 1990s and early 2000s, dividend growers went on to outperform the S&P 500 in subsequent years (Exhibit 2).

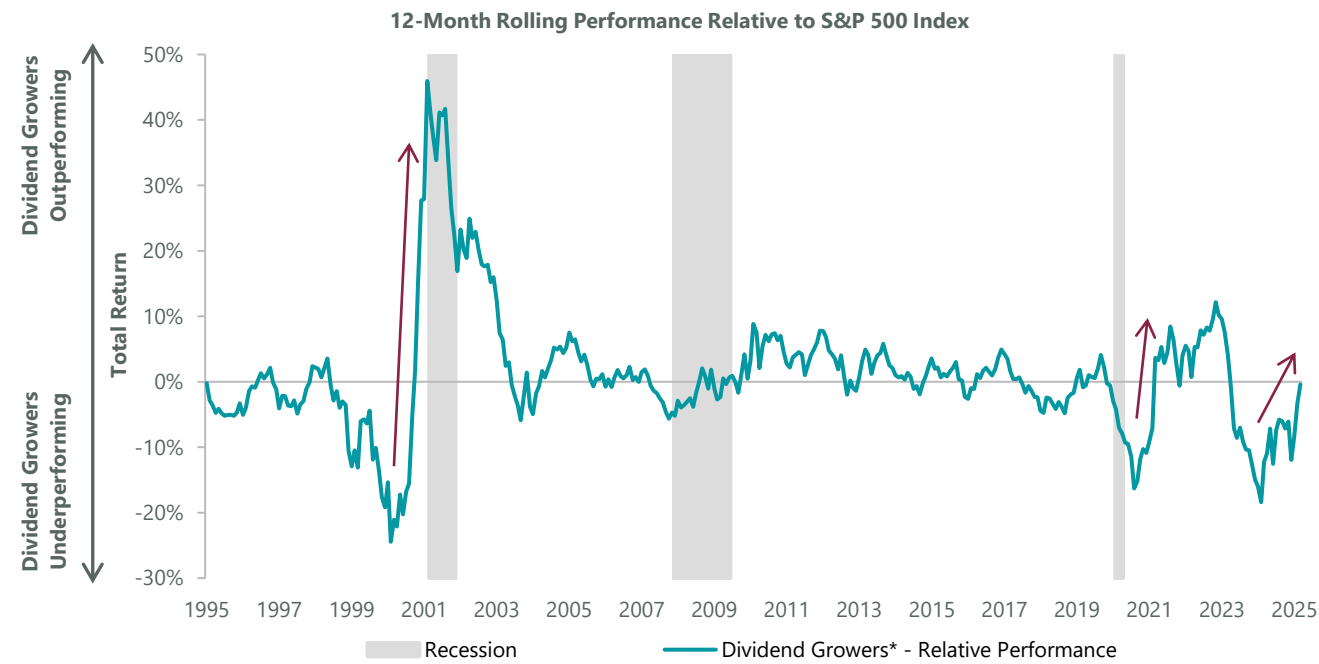
The backdrop in the U.S., meanwhile, is stronger than headlines might imply. America enjoys structural strengths that are not easy to undermine. While the market may continue to experience volatility, we believe the long-term outlook for the U.S. economy is positive given attractive demographics, a healthy labor market, leadership in innovation across many sectors, access to capital, and energy security. These structural strengths are likely to persist through economic and political cycles.

Exhibit 1: Concentration Leads to Broadening



As of March 31, 2025. Source: FactSet. Data shown is from Dec. 1989 – March 2025. Monthly constituent level market cap data.

Exhibit 2: Dividend Growers Gaining



As of March 31, 2025. Sources: S&P, NBER, Bloomberg. Dividend Growers are S&P 500 stocks with three consecutive trailing years of positive dividend growth (inclusive of special dividends) on a rolling basis (quarterly), evaluated monthly, equal weighted.

Looking a little deeper, while the long-term attractiveness of the U.S. market is intact, the current environment is marked by crosswinds that require a near-term playbook. Inflation from tariffs — although the most severe scenario seems to have been avoided for now, even a 10% increase is meaningful — remains a concern. While off recent peaks, long-term interest rates are elevated, in part reflecting the inflation picture. Related, policy uncertainty adds a level of volatility that argues for conservative positioning.

Dividend growers possess three attributes for environments like this: downside protection, current income and, importantly, growth.

- **Downside protection:** With the market more or less back to where it began the year (which finished a two-year period in which it soared nearly 60%) and again near all-time highs, there is some valuation risk. Dividend payers remain undervalued versus their higher-growth peers and thus carry a greater margin of safety as well as track record of outperformance during turbulent periods as investors gravitate toward the safety of their healthy payouts. This was evident during the first quarter of 2025 and early April as dividend growers protected strongly on the downside.
- **Current income:** In big bull markets investors tend to overlook dividends. When a handful of mega cap growth stocks drive the preponderance of equity market performance, people predictably focus on capital appreciation. But bear markets remind us that dividends — albeit prosaic — are responsible for 40% of total return over the long term. In flat-to-down markets, meanwhile, dividends provide a cash flow return to investors that offsets share price stagnation or depreciation.
- **Growth:** While strong upfront yield is attractive, the real power of equity is in its long-term compounding and growth. Unlike bonds, which typically offer fixed coupons, dividend-paying equities have the potential to offer rising cash flow streams over time.

Dividend growth is great in regular periods, but absolutely critical during inflationary periods. As inflation erodes the value of a dollar, growing dividends help to maintain purchasing power despite the increasing cost of living. With fears of tariff-induced inflation still a concern, inflation protection could become more important, supporting the case for dividend growers.

About the Author



Michael Clarfeld, CFA

Managing Director, Portfolio Manager

- 25 years of investment industry experience
- Joined ClearBridge Investments in 2006
- B.A. in history from Duke University

ClearBridge Investments

One Madison Avenue, New York, NY 10010 | 800 691 6960 | [ClearBridge.com](https://clearbridge.com)

Past performance is no guarantee of future results. Copyright © 2025 ClearBridge Investments. All opinions and data included in this document are as of the publication date and are subject to change. The opinions and views expressed herein are of the author(s) and may differ from other managers, or the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results or investment advice. This information should not be used as the sole basis to make any investment decision. The statistics have been obtained from sources believed to be reliable, but the accuracy and completeness of this information cannot be guaranteed. Neither ClearBridge Investments, LLC nor its information providers are responsible for any damages or losses arising from any use of this information.

Performance source: Internal. Benchmark source: Standard & Poor's.