A Broader Market, a Stronger Case for Dividend Growth

September 10, 2026

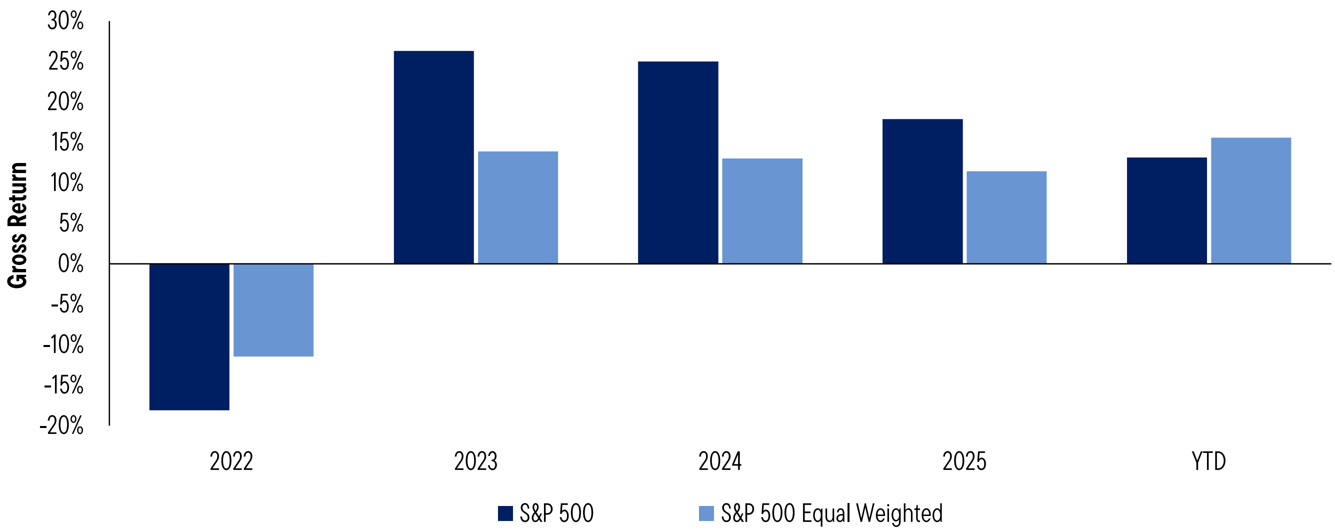
Key Takeaways

- Market leadership is broadening beyond AI-driven mega-cap technology stocks, strengthening the case for more diversified equity exposure.
- The AI buildout is proving inflationary in the near term, pressuring input costs, bond markets and interest rate expectations.
- High-quality dividend growers outside technology offer attractive income, inflation offsets and a measure of downside protection as AI-related momentum stocks show signs of fatigue.

Since ChatGPT was first released in 2022, the AI trade has dominated U.S. equity markets. Gains have been driven by three interrelated forces: enthusiasm for artificial intelligence, growing concentration in the largest technology companies and strong price momentum.

While AI growth continues at a torrid pace, cracks are beginning to appear. The S&P 500 Momentum Index fell 9% in July and August while the broader S&P 500 Index advanced; equal-weighted versions of the S&P 500, the Nasdaq and the Russell 1000 indexes have also outperformed their market-cap-weighted counterparts this year through August. In 2026, the equal-weighted S&P 500 is ahead of the cap-weighted for the first time since 2022 (Exhibit 1). Against this evolving market backdrop, thoughtful investors would be wise to diversify their exposure.

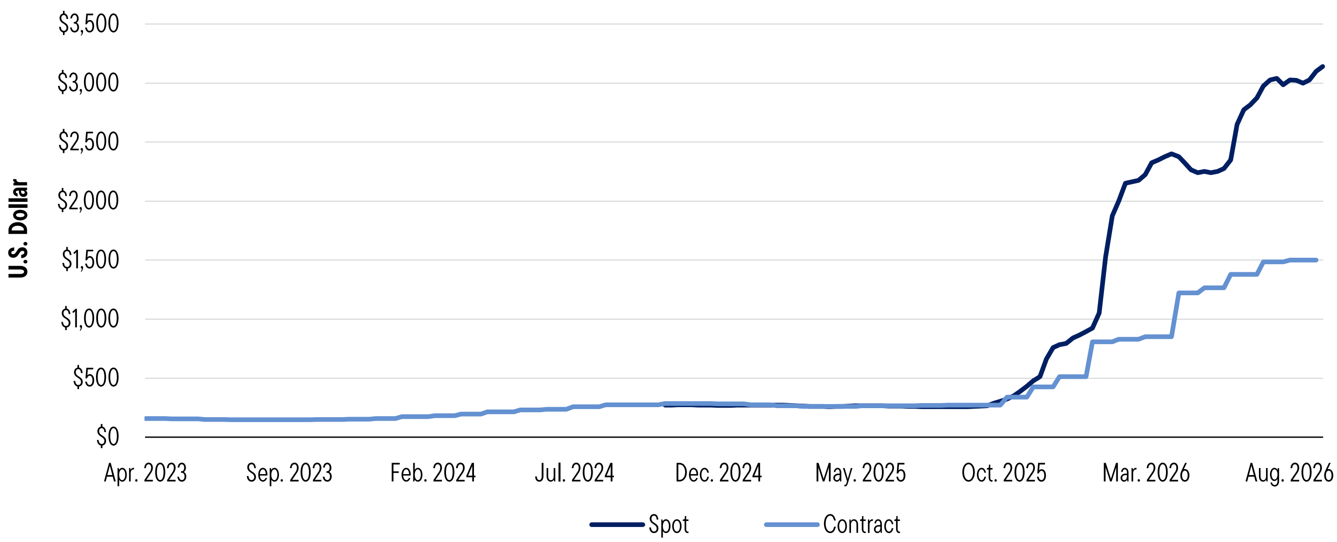
Exhibit 1: Market Leadership Is Broadening



As of August 31, 2026. Source: ClearBridge Investments, FactSet.

While futurists predict AI will ultimately be deflationary — as LLMs unleash human productivity and autonomous agents replace many laborious tasks at a fraction the cost — so far AI is stoking inflation. Data centers' insatiable demand for computer chips, particularly memory, has driven soaring input costs throughout the economy (Exhibit 2). Apple recently announced roughly 18% increases across its MacBook line to offset its rising input costs.

Exhibit 2: DRAM Spot and Contract Prices



As of Aug. 31, 2026. Source: Bernstein. For server DRAM modules (DDR5 64GB RDIMM).

The inflationary inputs from the AI buildout go beyond the prices of semiconductors: the staggering sums of capital required to fund the data center buildout are weighing on the bond markets. Investor fatigue for data center financing can be seen in the bond prices of hyperscalers. While these companies sport some of the highest credit ratings in corporate America, their bonds trade wider than those ratings would predict (Exhibit 3).

Exhibit 3: Hyperscaler Yield Spreads Trending Wider

As of August 31, 2026. Source: ClearBridge Investments. The chart shows the average spread of 7-10 Year bonds of Alphabet, Amazon, Meta Platforms and Microsoft to Treasurys from the ICE BofA 7-10 Years Index.

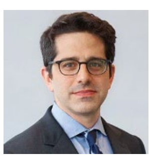
Not long ago, markets expected interest rates to ease. Now, however, persistent inflation combined with a hawkish repricing of Fed policy makes it more likely they will rise. With AI's boom now reverberating throughout large swaths of both equity and fixed income markets, we see many compelling opportunities in high-quality companies operating outside of technology. These stocks offer income, downside protection and growth, and they act as an inflation hedge — making them the perfect port for today's choppier seas.

Unilever is a global consumer staples company achieving robust volume growth despite a weaker industry backdrop. It's seeing success concentrating on its strongest brands in beauty and well-being like Dove and CLEAR, and in personal care like Axe and Rexona/Degree. Mundane advantages like strengthening retailer relationships and supply chain reliability translate into more units sold. Unilever stock trades at 17x earnings and offers a 3.3% dividend yield. Williams is a large natural gas pipeline company with recurring revenues, high returns on capital and utility-like characteristics shepherding half of its business. Williams's entrepreneurial management team has leveraged the company's robust infrastructure network to drive substantiable growth fueled by both LNG exports and data center expansion that supports its 2.7% dividend yield.

In some cases, AI enthusiasm (hysteria?) has created opportunities by sparking selloffs in stocks perceived to face existential risk from AI. Automatic Data Processing (ADP), the leading payroll company, uses software to process payrolls, and fell sharply with software stocks earlier in 2026. But ADP has been around since 1949, long before software was a thing. Given the low cost of ADP's services, its importance to companies and employees, and the fact that it moves huge sums of money directly from corporate treasury departments every two weeks, we think it is low on the list of businesses CIOs would like to replace with AI.

With AI momentum waning, interest rates rising and most investors over-exposed to technology stocks, we believe now is the perfect time to increase exposure to a diversified portfolio of high-quality dividend growers. These stocks deliver attractive current income, provide an offset to inflation, and offer continued upside participation while reducing risk and providing a measure of downside protection. Indeed, with so many investors and market watchers so focused on the shiny object that is AI, diversified dividend growers are the most attractive they have been since the Global Financial Crisis.

About the Author



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