



# The Next Generation of Dividend Aristocrats

## Key Takeaways

- ▶ The next generation of dividend aristocrats may be identified by the longevity of dividend growth, attractive upfront yield and stability as traditional dividend payers. Even if they have not reached the popular 25-year history of annual dividend increases — many are well on their way there.
- ▶ Traditional dividend stocks, both their classic and emerging iterations, can be sound investments, but there are also ample attractive dividend opportunities in other sectors with different growth and return characteristics that can support both dividend growth and portfolio diversification.
- ▶ Stocks in midstream energy and next-generation REITs offer attractive dividends with growth opportunities tied to different trends, while high-tech companies are increasing their focus on dividends, making them an intriguing hunting ground.

## Classic Dividend Aristocrats Meet Income Needs

The basic case for income-producing stocks remains very persuasive. Among other things, income stocks serve an aging population, which needs an investment trifecta: income to supplement lack of savings, income growth to provide a measure of inflation protection and capital preservation as tolerance for risk is reduced in retirement years. Driving this need is an increase of almost 30 million people in the U.S. — the Baby Boomer generation — reaching the age of 65 between 2011 and 2029.

One traditional way to support this need for income and growth is through so-called dividend aristocrats: stocks in the S&P 500 Index that have increased their dividends at least annually for 25 years or more. These traditional dividend payers are generally leading companies with high market share and profit margins operating in stable and mature industries. Many are household names, like Coca-Cola, Proctor & Gamble and Johnson & Johnson (Exhibit 1).

Classic dividend aristocrats, like those above, are often found in the more defensive consumer staples and health care sectors, have a rich history of dividend increases and offer the stability of an attractive upfront yield along with growth of that dividend income over time.

**Exhibit 1: Sample Defensive Dividend Aristocrats with Long Histories of Dividend Increases**

| Company           | Ticker | Sector           | Years of Consecutive Dividend Increases |
|-------------------|--------|------------------|-----------------------------------------|
| Coca-Cola         | KO     | Consumer Staples | 62                                      |
| Colgate-Palmolive | CL     | Consumer Staples | 62                                      |
| McCormick         | MKC    | Consumer Staples | 39                                      |
| Procter & Gamble  | PG     | Consumer Staples | 67                                      |
| AbbVie            | ABBV   | Health Care      | 51                                      |
| Johnson & Johnson | JNJ    | Health Care      | 62                                      |

Note: As of Dec. 31, 2024. Source: Company filings, ClearBridge analysis. Illustrative sample of holdings from each of the two largest defensive sectors represented (consumer staples and health care) among the Dividend Aristocrats, companies in the S&P 500 that have raised their dividends annually for at least 25 consecutive years.

### The Next Generation: A New Cohort of Dividend Aristocrats

While 25 years is surely a marker of longevity and stability, we believe it is important to always be on the lookout for, and if warranted invested in, the next generation of dividend aristocrats: companies that have not yet achieved 25 years of sequential dividend raises but that are well on their way there. This emerging generation of dividend aristocrats may not yet have reached the 25-year mark, but dividend investors should not let that capricious cutoff dictate their approach. For companies that exhibit similar characteristics as those which have reached that milestone, which are trending that way, and in which we have high conviction, we have always asked ourselves: why wait to own them?

There is an ample selection of these high-quality dividend payers available across the market. For these stocks dividend growth is a manifestation of the strength of the franchise and we believe the market will recognize this, as evidenced by the total return. The next generation of dividend aristocrats exhibits considerable compounding strength (Exhibit 2). Many of these next-generation dividend aristocrats are currently providing a substantial dividend based on an initial investment of \$10,000 at the beginning of the dividend streak, with some well on their way to matching the initial \$10,000 outlay in annual dividends alone. Further, they are achieving this feat before ascending to official dividend aristocrat status further underscoring that they deserve consideration here and now in a well-constructed dividend- and income-oriented portfolio.

Notably, these up-and-coming dividend leaders offer ample attractive dividend opportunities in a greater variety of sectors with different growth and return characteristics that can support both dividend growth and portfolio diversification. For example, stocks in midstream energy and next-generation REITs offer attractive dividends with growth opportunities tied to different trends, while high-tech companies are increasing their focus on dividends, making them an intriguing hunting ground.

As such, one can construct a well-diversified portfolio of companies with sound track records of raising dividends and exhibiting strong dividend growth characteristics. In addition, these companies typically are leaders in their respective sectors, exhibit strong balance sheets and generate ample free cash flows, which are desirable investment characteristics that can provide downside protection due to their high-quality nature.

### Midstream Energy Tied to U.S. Energy Growth

Midstream differs from upstream (oil and gas exploration and production) and downstream energy (wholesale distributors) in that revenue for its main businesses — oil and gas storage, processing and transportation — is relatively stable, i.e., it is less susceptible to the impact of energy price and demand. The main variable factor for midstream's revenue is transport volume for energy, and energy consumption, vital for our lives, is less susceptible to the impacts of economic fluctuations.

Supporting their strong dividend profile (Exhibit 3), midstream master limited partnerships (MLPs) typically exhibit stable and growing cash flows. Midstream MLPs can also enjoy partnership taxation in the U.S., which is exempt from corporate U.S. taxes and providing them with a cost of capital advantage. On a fundamental level, over the course of the past few years, their balance sheets have strengthened and their increased capital discipline has strengthened both their free cash flow and their dividends/distribution profile.

With high relative yields, expected growth in income, limited interest rate risk and limited commodity exposure, midstream MLP stocks remain well-positioned to take advantage of the U.S.'s growing presence as an energy superpower (Exhibit 4).

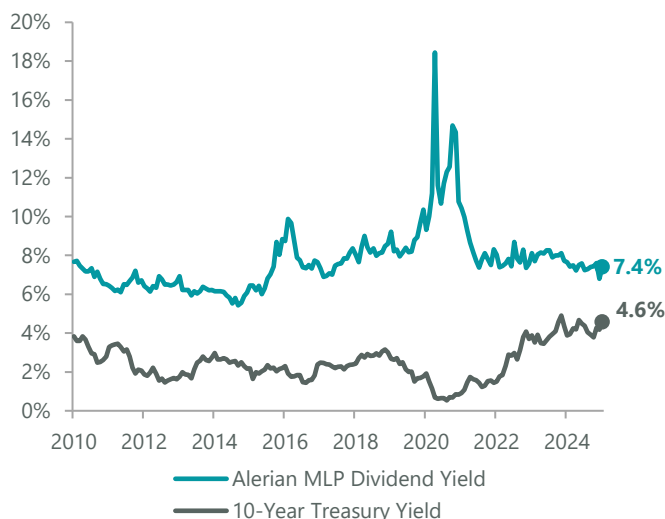
Demand for U.S. oil and gas is increasing amid concerns about geopolitical risks in the Middle East and Europe and U.S. production volumes continue to grow steadily (Exhibit 5), boding well for continued volume growth and, by extension, cash flow generation of many U.S. midstream companies.

**Exhibit 2: Candidates for a Next Generation of Dividend Aristocrats**

| Company Name                    | Ticker | Sector                 | Consecutive Annual Dividend Increases | Annual Total Return Since Dividend Streak Incepted (%) | Growth of \$10K Since Dividend Streak Incepted - Total Return | Dividend Yield (%) (12/31/24) | TTM Dividend (12/31/24) |
|---------------------------------|--------|------------------------|---------------------------------------|--------------------------------------------------------|---------------------------------------------------------------|-------------------------------|-------------------------|
| Intercontinental Exchange       | ICE    | Financials             | 12                                    | 12.94                                                  | \$43,092                                                      | 1.2                           | \$521                   |
| Amgen                           | AMGN   | Health Care            | 14                                    | 14.34                                                  | \$65,242                                                      | 3.5                           | \$2,253                 |
| Eli Lilly                       | LLY    | Health Care            | 10                                    | 29.76                                                  | \$135,313                                                     | 0.7                           | \$911                   |
| Merck                           | MRK    | Health Care            | 14                                    | 11.63                                                  | \$46,640                                                      | 3.1                           | \$1,463                 |
| UnitedHealth Group              | UNH    | Health Care            | 15                                    | 22.40                                                  | \$207,398                                                     | 1.6                           | \$3,354                 |
| Honeywell International         | HON    | Industrials            | 14                                    | 13.68                                                  | \$60,180                                                      | 1.9                           | \$1,164                 |
| Lockheed Martin                 | LMT    | Industrials            | 22                                    | 13.73                                                  | \$169,548                                                     | 2.6                           | \$4,449                 |
| Northrop Grumman                | NOC    | Industrials            | 21                                    | 14.40                                                  | \$168,622                                                     | 1.7                           | \$2,892                 |
| Union Pacific                   | UNP    | Industrials            | 18                                    | 15.93                                                  | \$143,106                                                     | 2.3                           | \$3,313                 |
| Apple                           | AAPL   | Information Technology | 13                                    | 22.81                                                  | \$144,537                                                     | 0.4                           | \$578                   |
| Broadcom                        | AVGO   | Information Technology | 13                                    | 41.22                                                  | \$888,439                                                     | 0.9                           | \$8,351                 |
| Microsoft                       | MSFT   | Information Technology | 14                                    | 25.21                                                  | \$232,836                                                     | 0.7                           | \$1,700                 |
| Oracle                          | ORCL   | Information Technology | 16                                    | 16.26                                                  | \$111,383                                                     | 1.0                           | \$1,069                 |
| Qualcomm                        | QCOM   | Information Technology | 22                                    | 12.21                                                  | \$126,114                                                     | 2.2                           | \$2,749                 |
| American Tower                  | AMT    | Real Estate            | 13                                    | 9.82                                                   | \$33,800                                                      | 3.5                           | \$1,194                 |
| Equinix                         | EQIX   | Real Estate            | 10                                    | 15.64                                                  | \$42,749                                                      | 1.8                           | \$774                   |
| Prologis                        | PLD    | Real Estate            | 11                                    | 9.73                                                   | \$27,777                                                      | 3.6                           | \$1,009                 |
| Public Service Enterprise Group | PEG    | Utilities              | 13                                    | 11.55                                                  | \$41,411                                                      | 2.8                           | \$1,176                 |

As of Dec. 31, 2024. Illustrative sample based on ClearBridge analysis of the company, its balance sheet, free cash flow, a minimum 10-year history of consecutive dividend increases, and the ability to continue to raise its dividend for the foreseeable future.

**Exhibit 3: MLP Dividend Yield and U.S. 10-Year Treasury Yield**



As of Dec. 31, 2024. MLP is Alerian MLP Index. Source: FactSet, ClearBridge Investments analysis.

**Exhibit 4: Crude Oil Production of U.S., Russia and Saudi Arabia**



As of Feb. 2025. Source: U.S. Department of Energy.

## The REIT Market Continues to Evolve

Real estate investment trusts (REITs) offer an efficient way to invest in the \$11 trillion commercial real estate industry, one of the largest asset classes in the U.S. There is a significant opportunity in REITs ahead as the commercial real estate market recovery has been slow due to high interest rates and borrowing costs, which have put pressure on real estate asset values and REIT share prices. Nonetheless, over the long term REITs have generated strong returns and provided attractive and growing dividends. In addition, they offer potential inflation

**Exhibit 5: LNG Exports by Major Countries**



As of Dec. 31, 2024. Sources: FactSet.

protection for investors via rising rents and higher replacement values, translating into rising dividends over time, and add diversification benefits to a portfolio.

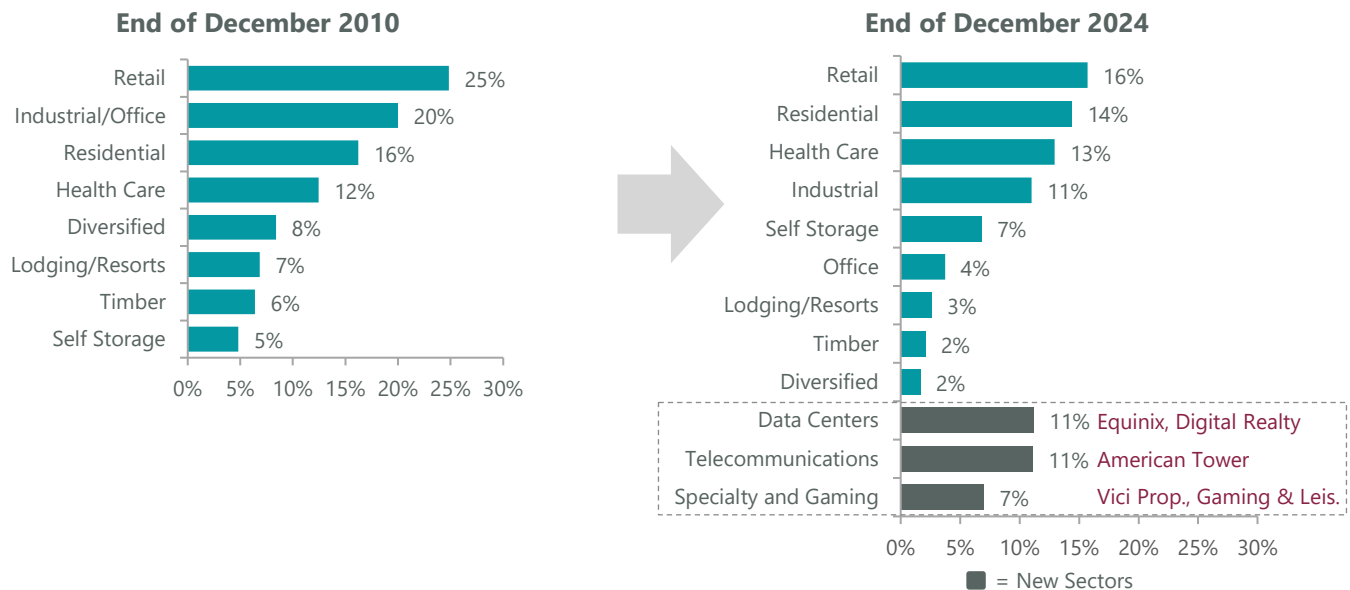
The investable universe in REITs has been expanding as well, providing additional opportunities. In recent years, new REIT sectors such as data centers, telecommunications, specialty and gaming have emerged, each with unique attractive investment characteristics, further increasing the investable universe (Exhibit 6). These next-generation REITs are well-positioned for future growth with sound balance sheets, attractive dividends and cash flow profiles.

## Growing Emphasis on Dividends Among High-Tech Companies

The tailwinds for cutting edge technology companies likely do not need any elucidation; the growth of AI innovation supporting tech sector earnings, for example, is well known. Yet as these businesses mature, they are increasing their focus on paying dividends, expanding their investable universe (Exhibit 7). In 2024, Alphabet, Meta Platforms and Salesforce all initiated dividends. In our assessment these three companies, while they have finished their high-growth stage, are just entering a stage of still-sizeable but more stable growth, offering an attractive balance of growth and shareholder returns.

AI innovation could continue to expand the investment opportunities for high-dividend stocks. Alphabet, Meta Platforms and Salesforce all offer cloud services, whether on- or off-premises, making them front-line innovators in and beneficiaries of AI. We believe there

**Exhibit 6: Expanding Opportunities in REITs - Breakdown of U.S. REIT Market by Sectors**



As of Dec. 31, 2024. Source: FactSet.

**Exhibit 7: Dividend Profile of Largest Tech Companies Dividends**

| Company          | Sector              | First Dividend Payment | Dividend Yield |
|------------------|---------------------|------------------------|----------------|
| 1 Microsoft      | Info. Tech.         | 2003                   | 0.73%          |
| 2 Apple          | Info. Tech.         | 1987                   | 0.40%          |
| 3 NVIDIA         | Info. Tech.         | 2012                   | 0.03%          |
| 4 Amazon.com     | Cons. Discretionary | -                      | No dividends   |
| 5 Alphabet       | Comm. Services      | 2024                   | 0.32%          |
| 6 Meta Platforms | Comm. Services      | 2024                   | 0.34%          |
| 7 Broadcom       | Info. Tech.         | 2010                   | 0.94%          |
| 8 Tesla          | Cons. Discretionary | -                      | No dividends   |
| 9 Salesforce     | Info. Tech.         | 2024                   | 0.48%          |
| 10 AMD           | Info. Tech.         | -                      | No dividends   |
| 11 Netflix       | Comm. Services      | -                      | No dividends   |
| 12 Cisco Systems | Info. Tech.         | 2011                   | 2.69%          |
| 13 Qualcomm      | Info. Tech.         | 1998                   | 2.18%          |
| 14 Oracle        | Info. Tech.         | 2009                   | 0.96%          |
| 15 Verizon       | Comm. Services      | 1984                   | 6.68%          |

Note: Dividend yield is as of Dec. 31, 2024. The above examples of individual stocks are intended to deepen understanding of the market and are not recommendations to buy or sell a particular stock. Source: FactSet, ClearBridge Investments analysis.

are strong dividend opportunities across the AI and cloud computing value chain ecosystem. Highlights we have identified include REITs that operate data centers running the infrastructure not only for cloud-related workloads but also for training of artificial intelligence large language models; makers of CPUs and GPUs and networking and storage equipment those data centers require; semiconductor chip designers, chip makers and manufacturers providing the brains for this equipment; and utilities and energy MLPs providing the electricity and underlying energy source to power it all.

### Tomorrow's Dividend Aristocrats Today

We believe that, together, these dividend sectors offer additional angles on the next generation of dividend aristocrats. Importantly, from a portfolio perspective, many of these sectors offer exposure to asset classes that exhibit low correlation to each other (Exhibit 8; for illustrative purposes, high-tech stocks and alternative asset managers would be included in the S&P 500).

This suggests to us that income investors would be well served by expanding their investment opportunities beyond traditional equity income strategies to embrace the next generation of dividend aristocrats as well as flexible and diversified exposure to other attractive income-oriented sectors.

**Exhibit 8: Income Asset Classes**

|                                                         | Alerian MLP Index | S&P 500 | FTSE NAREIT All Equity REITs | S&P GSCI Energy | Bloomberg Municipal Bond | Bloomberg U.S. Aggregate | Bloomberg U.S. Aggregate Government - Treasury (7-10 Y) |
|---------------------------------------------------------|-------------------|---------|------------------------------|-----------------|--------------------------|--------------------------|---------------------------------------------------------|
| Alerian MLP Index                                       | 1.00              | 0.66    | 0.55                         | 0.47            | 0.20                     | 0.14                     | -0.10                                                   |
| S&P 500                                                 | 0.66              | 1.00    | 0.88                         | 0.31            | 0.58                     | 0.56                     | 0.35                                                    |
| FTSE NAREIT All Equity REITs                            | 0.55              | 0.88    | 1.00                         | 0.28            | 0.63                     | 0.62                     | 0.42                                                    |
| S&P GSCI Energy                                         | 0.47              | 0.31    | 0.28                         | 1.00            | 0.10                     | -0.16                    | -0.32                                                   |
| Bloomberg Municipal Bond                                | 0.20              | 0.58    | 0.63                         | 0.10            | 1.00                     | 0.85                     | 0.74                                                    |
| Bloomberg U.S. Aggregate                                | 0.14              | 0.56    | 0.62                         | -0.16           | 0.85                     | 1.00                     | 0.94                                                    |
| Bloomberg U.S. Aggregate Government - Treasury (7-10 Y) | -0.10             | 0.35    | 0.42                         | -0.32           | 0.74                     | 0.94                     | 1.00                                                    |

As of Dec. 31, 2024. Shows five-year correlation with monthly frequency. Source: FactSet, ClearBridge analysis.

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