

MARKET MINUTE

With McGAREL



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Past performance is no guarantee of future results.

The **S&P 500 Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. The **S&P 500 Growth Index** contains those securities with growth characteristics from the S&P 500 Index. The **Dow Jones U.S. Select Dividend Index** consists of 100 widely-traded, dividend-paying stocks derived from the Dow Jones U.S. Total Market IndexSM. Index data is for illustrative purposes only and not indicative of any actual investment. Indices are unmanaged and investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. These returns were the result of certain market factors and events which may not be repeated in the future.

Forward Price to Earnings of a stock is the price divided by the estimated EPS for the next 4 quarters. Each factor is comprised of the top 30% of stocks from a universe of the largest 1,000 U.S. stocks with at least \$1 million dollars in average daily volume over the last 3 months and 12 months of trading history.

Earnings per share (EPS) is the monetary value of earnings per outstanding share of common stock for a company during a defined period of time, often a year. References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable.

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Dividend paying stocks with sustainable and increasing payouts represent an attractive opportunity in today's market, in our view. The S&P 500 Index has returned 59% from the beginning of 2023 through the end of May 2025. Growth stocks measured by the S&P 500 Growth Index have led the way with an 81% return over that period. Yet dividend stocks have lagged both indices significantly. The Dow Jones U.S. Select Dividend Index is up only 20% during that time. We believe there are several good reasons to increase exposure to dividend paying stocks today.

First, the valuation differences are significant. As of May 30, 2025, the S&P 500 Index trades at 21x forward price-to-earnings (P/E), the S&P 500 Growth Index at 26x, and the Dow Jones U.S. Select Dividend Index at 12x.

Secondly, the Federal Reserve is expected to lower the overnight rate at least once before year end. Dividend stocks have historically outperformed during declining rate environments. While the timing is uncertain, we believe it is wise to position prior to the commencement of the next reduction.

Another catalyst is tax policy. The continuation of the 2017 tax cuts would maintain the preferential tax treatment of qualified dividends over interest income and ordinary income.

The dividend factor was an underperformer in 2023 and 2024 compared to most other factors but has been a better performer in 2025. In an equity market where we expect more modest returns compared to the last several years, we believe dividends will provide a greater share of the total return. Despite this, the dividend factor is still at a larger discount to the S&P 500 Index than its average over the last 20 years [Chart 1].

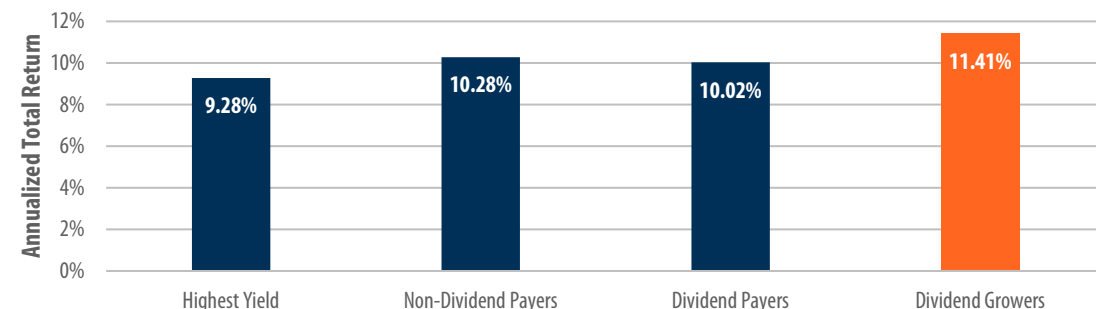
Given the more prominent role we expect dividends to play in total returns going forward, we prefer dividend growers as they have historically outperformed other dividend cohorts and are typically higher in quality [Chart 2].

Chart 1: Dividend Yield Factor Median P/E Premium/Discount to S&P 500 Index



Source: Bloomberg & Capital IQ. Monthly data is calculated from 1/31/00 to 5/30/25. The median monthly forward price-to-earnings (P/E) ratio is used for the dividend yield factor. Dividend Yield: Highest dividend yield.

Chart 2: Performance of Constituents by Dividend Policy
S&P 500 Index (1995 - 2024)



Source: First Trust, Capital IQ, Bloomberg.