S&P Dow Jones Indices

A Division of S&P Global

TalkingPoints

Why What's Under the Dividend and Factor Hood Matters

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1. What types of dividend indices exist in the market, and how have market participants historically utilized them?

Dividend indices can generally be categorized into two main types: dividend growth and high yield. Dividend growth indices require that constituents have consistently increased their dividends per share for a minimum number of years. Notable examples include the S&P 500® Dividend Aristocrats® and the S&P U.S. Dividend Growers Index. Market participants often utilize these indices for their historically competitive dividend yields and tendency to track higher-quality companies with robust balance sheets and stable earnings. Conversely, high yield dividend indices prioritize companies that offer the highest dividend yields, often incorporating quality screens. While these indices have tended to reflect higher yields than dividend growth indices, they have also tended to be riskier and may exhibit a stronger value tilt.

Historically, dividend indices have attracted market participants as both long-term strategic building blocks and for short-term tactical uses. Their long-term appeal stems from the combination of income and equity participation, along with liquidity and transparency. Tactically, dividend strategies have often been employed during periods of market uncertainty or rising interest rates, as they have historically tended to outperform in defensive environments.

2. How have dividend indices performed during the tariff-related drawdowns, and how have market participants historically utilized them during periods of market volatility?

During the drawdowns earlier this year, our flagship dividend strategies demonstrated meaningful outperformance compared to their broad market benchmarks. For example, the S&P 500 Dividend Aristocrats outperformed the S&P 500 by 8.16% from the peak on Feb. 19, 2025, to the trough on April 8 (see Exhibit 1).

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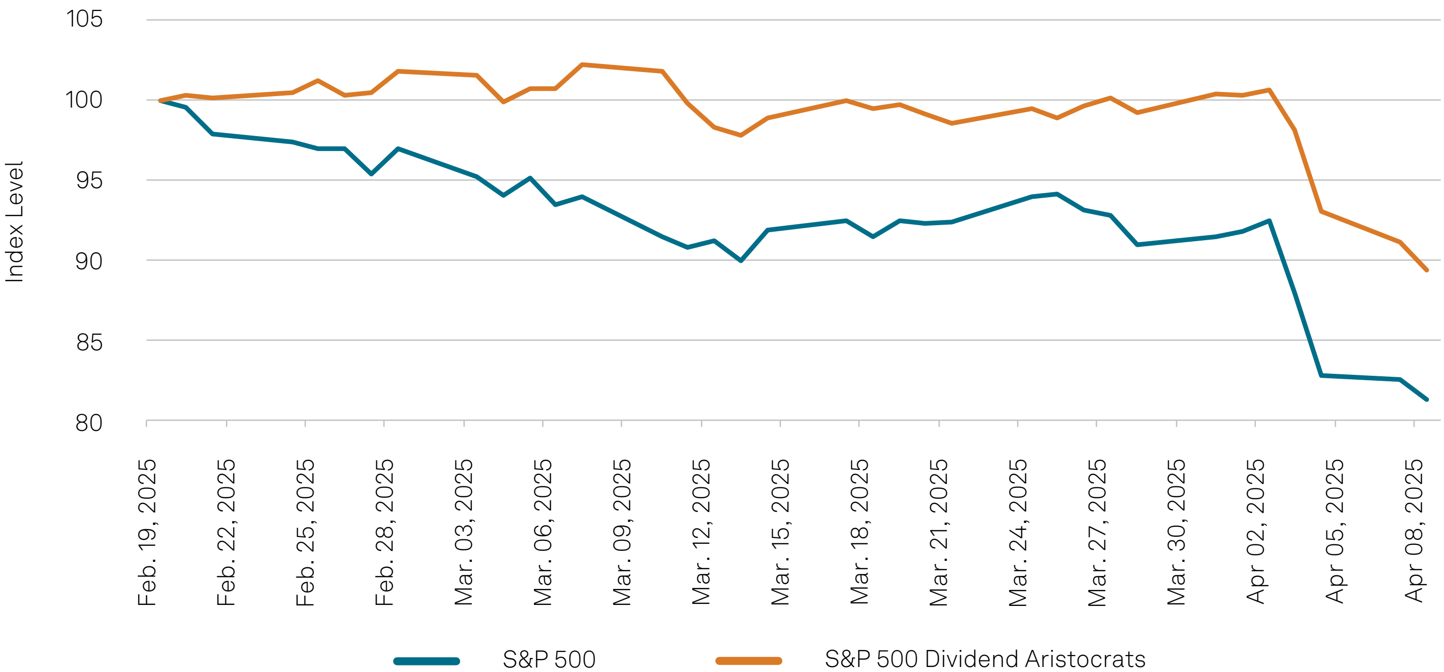
Exhibit 1: Peak to Trough Performance



Source: S&P Dow Jones Indices LLC. Data from Feb. 19, 2025, to April 8, 2025. Indices were rebased to 100 on Feb. 19, 2025. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

In times of market volatility, market participants often turn to dividend strategies to reduce risk. Dividend growth indices in particular are recognized for their defensive characteristics, as companies that have consistently grown their dividends over extended periods tend to be financially resilient and demonstrate a strong track record across various macroeconomic regimes. Additionally, dividend-paying stocks provide regular income through dividends, which can help cushion losses when price appreciation is uncertain.

Overall, while no strategy is risk free, dividend strategies — especially those focused on dividend growth or incorporating quality screens — have historically provided a degree of stability and predictability. In the past, dividend strategies have shown their ability to preserve capital and maintain income during economic uncertainty or market downturns.

3. Why does index methodology matter when evaluating whether a strategy could be a fit for a specific use case?

The index methodology is crucial since it determines how the index selects, weights and rebalances its components. This is significant because even small differences in approach can lead to variations in weight and performance. For instance, some dividend strategies within the high yield category focus solely on yield screening, which may overweight struggling companies with unsustainable payouts, thereby increasing risk. In contrast, those that focus on yield but also prioritize dividend sustainability or incorporate criteria assessing profitability or payout ratios are more likely to favor higher-quality, more stable firms.

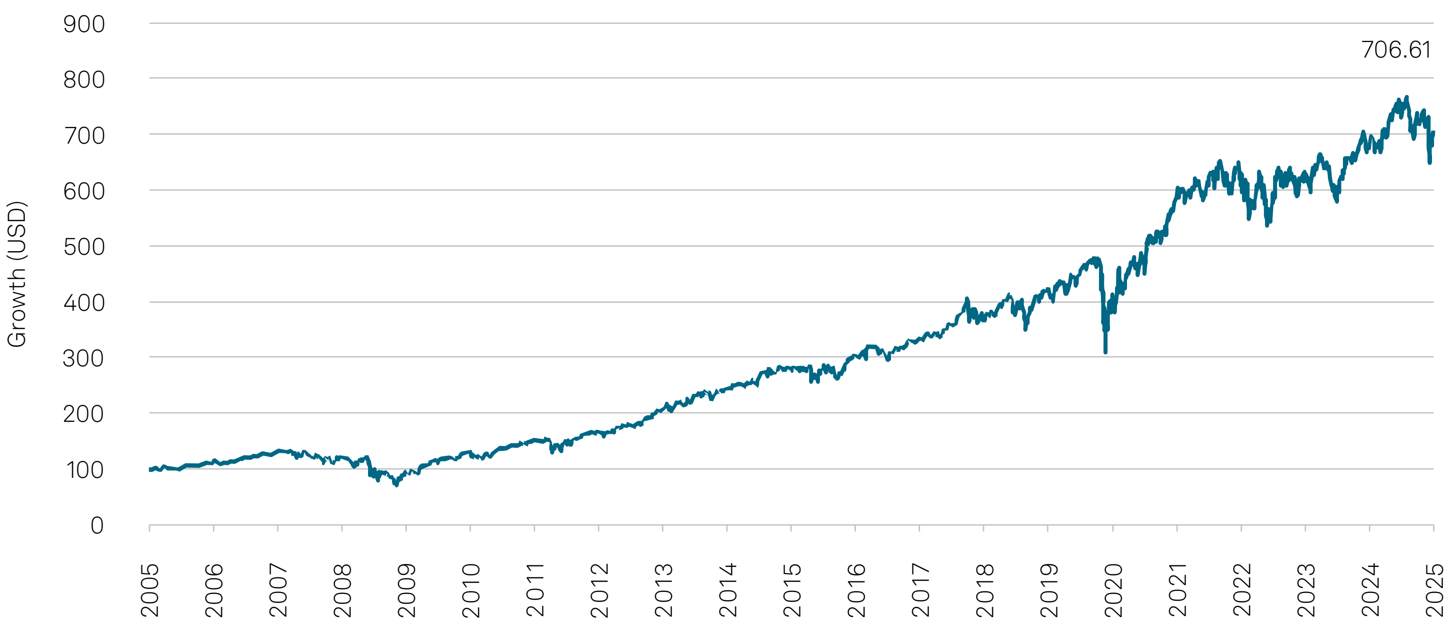
Understanding the index methodology allows market participants to see how indices align with their objectives. A key advantage of passive investing is its transparency, as products track indices that are fully systematic and openly defined. At S&P Dow Jones Indices, we publish all our methodologies on our website, enabling market participants to easily access the rules and facilitate comparisons across indices.

4. As the S&P 500 Dividend Aristocrats marks its 20th anniversary, what are some of the key takeaways or data points during this two-decade journey?

The 20th anniversary of the S&P 500 Dividend Aristocrats, celebrated on May 2, 2025, marked a significant milestone for this index. Launched in 2005, the index tracks companies that have increased their dividends for at least 25 consecutive years.

Few dividend strategies can boast such a long live track record. Over the past two decades, assuming dividends were reinvested, USD 100 tracking the index at its launch would have grown to USD 706.61 by May 2, 2025 (see Exhibit 2). Furthermore, by choosing to receive dividends rather than reinvest them, USD 106.70 in dividends would have been accumulated by 2024 — exceeding the original USD 100.

Exhibit 2: Growth since Launch



Source: S&P Dow Jones Indices LLC. Data from May 2, 2005, to May 2, 2025. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Another key takeaway from the index's live history has been its strong defensive characteristics, evidenced by its lower volatility and downside capture. While its annualized return has been comparable to that of the S&P 500, its volatility was lower, at 14.31%, compared to 15.06% for the S&P 500. Additionally, its downside capture ratio stood at 82.4%, indicating that it tended to experience smaller losses than the S&P 500 during months when the S&P 500's returns were negative.

One final compelling aspect of the index's history was its ability to preserve purchasing power through its payouts. Over that 20-year period, the S&P 500 Dividend Aristocrats achieved an annualized dividend growth rate of 8.1%, which is more than three times the approximate 2.6% inflation rate, as measured by the U.S. Consumer Price Index during the same period.

5. Aside from dividends, which factor indices are worth noting in the current market environment?

It has been interesting to observe the tariff-related drawdowns and subsequent rebounds through the lens of various factors. During these drawdowns, the S&P 500 Low Volatility Index, which tracks the 100 companies in the S&P 500 with the lowest volatility, particularly stood out as a strategy that exhibited strong outperformance. From the peak on Feb. 19, 2025, to the trough on April 8, the index outperformed the S&P 500 by 12.4% (see Exhibit 3). Additionally, the index offered risk mitigation and diversification, as it had considerably lower weight in the Information Technology and Communication Services sectors and lower weight in the mega-cap stocks.

Another notable factor index is the S&P 500 Quality Index, which emphasizes companies with strong historical profitability, financial stability and superior earnings quality. In recent years, products tracking quality indices have attracted substantial inflows, as market participants seek to harness the factor's defensive attributes, improved risk-adjusted returns and long-term compounding potential. The S&P 500 Quality Index has performed well this year, outperforming the S&P 500 both YTD through May 30, 2025, and during the recent drawdowns.

Finally, I must highlight the S&P 500 Momentum Index, which has been our top-performing factor index YTD among our suite of factor indices. This index is designed to capture prevailing trends and has benefited from the optimism of market participants and continued gains in high-performing sectors like Information Technology. The performance and inflows into tracking products have been impressive.

Exhibit 3: Index Performance

Period	S&P 500	S&P 500 Low Volatility Index	S&P 500 Quality Index	S&P 500 Momentum Index
Annualized Return (%)				
Full Period (Dec. 30, 1994, to May 30, 2025)	10.81	10.71	13.68	13.04
YTD	1.06	5.95	5.31	11.26
1-Year	13.52	15.11	16.04	30.52
3-Year	14.41	6.80	16.21	24.70
5-Year	15.94	10.52	16.64	21.42
10-Year	12.86	9.58	12.81	16.78
15-Year	14.08	11.70	14.68	16.57
Annualized Volatility (%)				
Full Period (Dec. 30, 1994, to May 30, 2025)	15.19	11.79	14.17	17.01
Risk-Adjusted Return				
Full Period (Dec. 30, 1994, to May 30, 2025)	0.71	0.91	0.97	0.77
Drawdowns (%)				
Full Period (Dec. 30, 1994, to May 30, 2025)	-50.95	-35.36	-44.40	-59.94
Return (%)				
Tariff Downturn (Feb. 19, 2025, to April 8, 2025)	-18.75	-6.33	-16.53	-19.60

Source: S&P Dow Jones Indices LLC. Data from Dec. 30, 1994, to May 30, 2025. The S&P 500 Low Volatility Index was launched on April 4, 2011. The S&P 500 Quality Index was launched on July 8, 2014. The S&P 500 Momentum Index was launched on Nov. 18, 2014. All data prior to such date is back-tested hypothetical data. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Performance Disclosure/Back-Tested Data

The S&P 500 Low Volatility Index was launched April 4, 2011. The S&P 500 Quality Index was launched July 8, 2014. The S&P 500 Momentum Index was launched November 18, 2014. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance, and is based on the index methodology in effect on the index launch date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. In addition, forks have not been factored into the back-test data with respect to the S&P Cryptocurrency Indices. For the S&P Cryptocurrency Top 5 & 10 Equal Weight Indices, the custody element of the methodology was not considered; the back-test history is based on the index constituents that meet the custody element as of the Launch Date. Also, the treatment of corporate actions in back-tested performance may differ from treatment for live indices due to limitations in replicating index management decisions. Complete index methodology details are available at www.spglobal.com/spdji. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results.

Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations. Back-tested performance is for use with institutions only; not for use with retail investors.

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Typically, when S&P DJI creates back-tested index data, S&P DJI uses actual historical constituent-level data (e.g., historical price, market capitalization, and corporate action data) in its calculations. As ESG investing is still in early stages of development, certain datapoints used to calculate S&P DJI's ESG indices may not be available for the entire desired period of back-tested history. The same data availability issue could be true for other indices as well. In cases when actual data is not available for all relevant historical periods, S&P DJI may employ a process of using "Backward Data Assumption" (or pulling back) of ESG data for the calculation of back-tested historical performance. "Backward Data Assumption" is a process that applies the earliest actual live data point available for an index constituent company to all prior historical instances in the index performance. For example, Backward Data Assumption inherently assumes that companies currently not involved in a specific business activity (also known as "product involvement") were never involved historically and similarly also assumes that companies currently involved in a specific business activity were involved historically too. The Backward Data Assumption allows the hypothetical back-test to be extended over more historical years than would be feasible using only actual data. For more information on "Backward Data Assumption" please refer to the FAQ. The methodology and factsheets of any index that employs backward assumption in the back-tested history will explicitly state so. The methodology will include an Appendix with a table setting forth the specific data points and relevant time period for which backward projected data was used.

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