S&P Dow Jones Indices

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TalkingPoints

Why Dividend and Capital Return Strategies Have Stood Out in 2026

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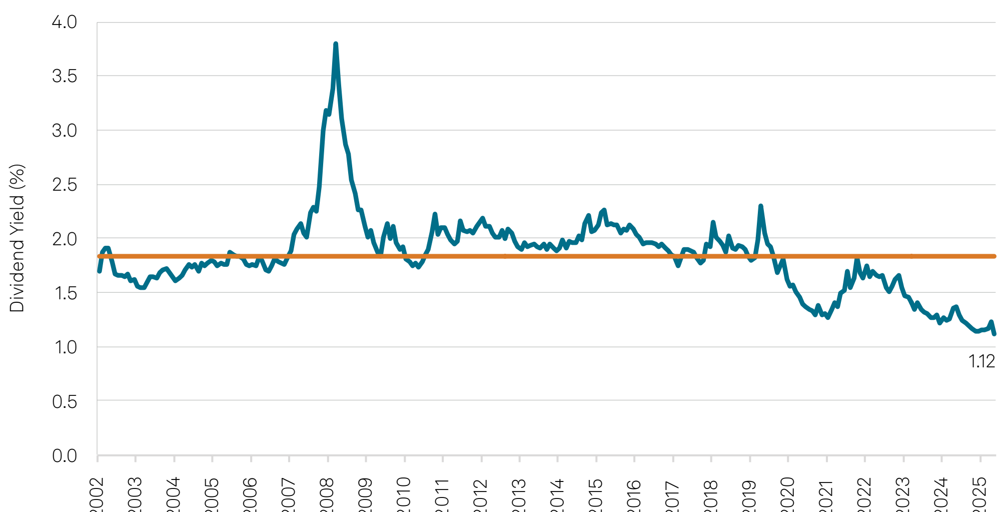
1. What's driving demand for dividend strategies in an environment of high valuations and geopolitical uncertainty?

In 2026, heightened valuations and ongoing geopolitical uncertainty are pushing investors toward dividend strategies because of their income, diversification and defensive qualities.

With valuation ratios remaining stretched—particularly in technology and growth sectors—dividend strategies offer diversification by focusing more on mature, cash-generative businesses in sectors such as Consumer Staples, Financials and Utilities. Dividend income also serves as an additional source of return beyond capital appreciation. Moreover, these strategies typically target companies with lower valuation multiples, offering an additional layer of comfort for valuation-sensitive investors.

Elevated valuations in the S&P 500® are also exerting downward pressure on its dividend yield. As of April 30, 2026, the S&P 500's trailing 12-month dividend yield stood at just 1.12%—the lowest level on record since 2002 and significantly below its historical average of 1.83%. With broad equity markets providing minimal yield, dividend-focused strategies are increasingly in demand among investors seeking current income.

Exhibit 1: S&P 500 Trailing 12-Month Dividend Yield



Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 2002, to April 30, 2026. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

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Geopolitical risks often lead to greater market volatility and diminished visibility on global growth prospects. In these conditions, companies with stable cash flows and disciplined capital allocation policies stand out. Dividend strategies may naturally tilt toward such firms, which tend to be more resilient during economic shocks and may be better positioned to maintain payouts throughout the cycle.

However, not all dividend strategies are created equal. Methodologies and constituent selection can vary widely, making it crucial to evaluate the approach and its suitability. For example, a high yield strategy that simply selects the highest-yielding companies without applying quality screens may expose investors to greater risks and "yield traps." Conversely, dividend growth strategies focus on companies with a track record of consistently increasing dividends, rather than just high yields. The S&P 500 Dividend Aristocrats®, for instance, tracks S&P 500 companies that have raised their dollar dividends for at least 25 consecutive years, resulting in a higher quality tilt. Notably, during the Q1 2026 drawdown for the S&P 500, the S&P 500 Dividend Aristocrats outperformed by almost 7%.

2. What has the recent volatility revealed about the defensive characteristics of dividend indices?

Recent market volatility has further underscored the defensive qualities of several dividend indices—especially those with a focus on quality. The dividend income component has provided a stabilizing effect on total returns, acting as a cushion during periods of price decline. Strategies that combine competitive yields with strong balance sheets and consistent earnings have demonstrated greater resilience in market downturns.

For instance, the Dow Jones U.S. Dividend 100 Index adopts a disciplined selection process, targeting companies with above-median yields and then ranking them based on a composite score equally weighted across dividend yield, five-year dividend growth, return on equity (ROE) and free cash flow (FCF) to total debt. Unlike many high yield strategies that use quality screens as an initial filter, this methodology makes quality a primary selection criterion. As a result, the Dow Jones U.S. Dividend 100 Index has delivered strong long-term outperformance, especially during periods of elevated volatility, and has posted robust YTD results through the end of March.

Similarly, the S&P Global Dividend 100 Index applies this methodology globally, focusing on high-quality dividend payers around the world. This index has also demonstrated notable outperformance versus its benchmark during recent volatile market conditions.

Exhibit 2: Q1 2026 Performance for the Dow Jones U.S. Dividend 100 Index and S&P Global Dividend 100 Index

Quarter	Dow Jones U.S. Broad Stock Market Index	Dow Jones U.S. Dividend 100 Index	S&P Global LargeMidCap	S&P Global Dividend 100 Index
Q1 2026 Performance (%)	-3.99	12.78	-3.22	10.21

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 2025, to March 31, 2026. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

3. Beyond dividends, what are some additional index tools that can help investors assess how companies return capital to shareholders?

While dividends remain a common form of capital return, companies use other mechanisms to reward shareholders. One prominent example is share buybacks, which have become a central pillar of shareholder returns. In 2025, S&P 500 constituents spent a record USD 983.8 billion on buybacks, compared with USD 714.6 billion paid out in dividends.

In late 2025, we introduced the S&P 500 Buyback Aristocrats Index—a differentiated buyback strategy that tracks companies that have consistently reduced their common shares outstanding for at least 10 consecutive years. By emphasizing sustained buyback activity rather than the most recent one-year period, this approach sets itself apart from typical buyback strategies. Historically, this stringent criterion has contributed to both outperformance and enhanced defensive characteristics over the long term relative to the S&P 500, as demonstrated via back-tested results.

Another notable index tool is shareholder yield, which aggregates dividends, buybacks and net debt reduction into a single metric. This holistic approach identifies companies that return the most value to shareholders, reflecting the broader ways capital is distributed in today's markets.

In 2024, we introduced the S&P 500 Resilient Shareholder Yield Index, which targets companies with high shareholder yields and strong fundamentals. This index demonstrated impressive performance in Q1 2026, showcasing its defensive qualities by outperforming the S&P 500 by over 10%. Over the longer term, back-testing shows that the index has outperformed the S&P 500 by 2.7% annualized since June 2000, with lower volatility and reduced downside capture.

4. Which other factor indices are worth noting in the current market environment?

One index family seeing strong demand is the S&P Quality FCF Aristocrats Indices. These indices can serve as a quality-focused building block; they are designed to track companies that consistently and efficiently generate FCF. Eligible constituents must demonstrate a minimum number of consecutive years of positive FCF, alongside high FCF margins and FCF return on invested capital (ROIC). FCF has gained popularity as a key metric because it reflects true economic profitability, signals operational efficiency and provides companies with flexibility and resilience during economic downturns. As a result, back-testing indicates that indices such as the S&P 500 Quality FCF Aristocrats Index and the S&P Developed Quality FCF Aristocrats Index have historically maintained a strong quality tilt, demonstrating higher risk-adjusted performance and defensive characteristics compared to their benchmarks.

Momentum strategies have attracted significant global flows in 2024 and 2025, with this trend continuing YTD through mid-May 2026. The S&P Momentum Indices, which typically track companies with the highest 12-month risk-adjusted returns, saw a particularly strong rebound in April 2026—highlighted by the S&P 500 Momentum Index recording its second-largest monthly gain since its inception in 1972. For the one-year period ending May 12, 2026, the S&P 500 Momentum Index rose 43.3%, outperforming the S&P 500 by 16.0%. Similarly, the S&P Momentum Developed LargeMidCap gained 47.9%, surpassing the S&P Developed LargeMidCap by 15.3%.[1]

Learn more about S&P DJI’s factor and dividend indices.

[1] Source: S&P Dow Jones Indices LLC. Data as of May 12, 2026. Past performance is no guarantee of future results.