

*"We believe that stocks with sustainable dividend growth consistently outperform the market with less risk."*

## The Lighthouse

*I can see clearly now, the rain is gone  
I can see all obstacles in my way  
Gone are the dark clouds that had me blind  
It's gonna be a bright (bright), bright (bright) Sun-shiny day*

- "I Can See Clearly Now" by Johnny Nash 1972



When fog descends and visibility narrows, the most dangerous thing a captain can do is abandon the instruments and chase after shadows. The disciplined skipper holds course and uses charts, but also heeds guiding lights for safe navigation. The first quarter of 2026 brought dense fog on multiple fronts, including a new geopolitical shock with consequences for global markets and the economy.

In this *Review*, we highlight the following:

1. AI disruption fears, the US-Iran conflict, surging oil prices, and renewed inflation concerns created a spike in market volatility and a correction in equity markets.
2. Market leadership shifted away from large technology stocks towards smaller capitalization stocks and "hard asset" equities such as those in the Energy and Materials sectors, as well as companies generating strong profits today.
3. Dividend growth stocks – the lighthouse – outperformed across every major US equity capitalization range during the quarter, a rebound following a period of extreme style headwinds.

### The Fog Rolls In

With the exception of smaller cap companies, US equities fell broadly during the first quarter. The S&P 500 Index declined 4.4% and the Nasdaq Composite dropped 7.1%, which was the worst start to a year for both indices since 2022.<sup>1</sup> The Bloomberg Magnificent Seven Index slumped 13%<sup>2</sup>, as the mega-cap technology stocks – which accounted for the majority of market gains over the prior two years – faced valuation pressure and more questions about the returns on massive artificial intelligence (AI) capital expenditures.

Meanwhile, though momentum for perceived AI capex beneficiaries continued, shares of software-as-a-service (SaaS) companies came under intense pressure in what was widely dubbed the "SaaSocalypse."<sup>3</sup> AI disruption anxiety also impacted shares of publicly traded investment firms with "private credit" exposure to non-traded software companies. Next, the fears spread across numerous sectors under the presumption that AI efficiency gains might significantly reduce white collar employment. Coincidentally, notwithstanding some gains

in healthcare employment, job growth has been relatively anemic across the economy in recent months.<sup>4</sup>

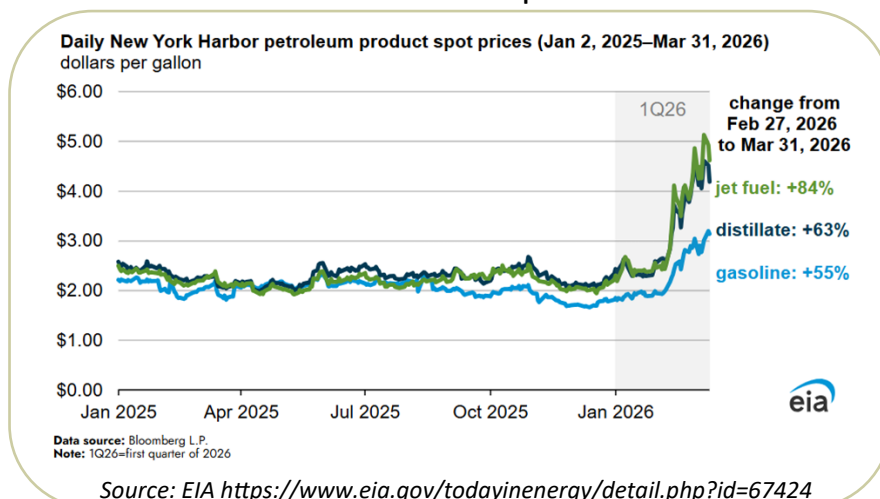
Besides fretting over technological change, a major negative catalyst was the escalation of the US-Iran conflict on February 28th. Iran's subsequent near-total blockade of the Strait of Hormuz – through which approximately one-fifth of global oil transits daily – sent Brent crude surging from roughly \$60 to approximately \$118 per barrel, the sharpest quarterly percentage increase in data going back to 1988.<sup>5</sup>

Average US gasoline prices pushed above \$4 per gallon for the first time since 2022<sup>6</sup> and prices for other petroleum products increased markedly (Chart 1). The supply of and pricing for metals and materials are also now key concerns. Among S&P 500 Index constituents, energy stocks surged 38% during the quarter while materials stocks bounced 11%, even as major benchmarks overall declined.<sup>7</sup>

Rising energy and materials costs sparked inflation concerns globally, with eurozone inflation jumping to 2.5%<sup>8</sup> and Japan's Nikkei recording its worst monthly decline since 2008.<sup>9</sup> Contrary to many previous bouts of market volatility, during which investors sought refuge in US bonds, the US 10-year Treasury yield spiked from a low of 3.94% in late February to end March at 4.32%.<sup>10</sup> Hopes for a potential cut to the Fed Funds rate evaporated alongside rising inflation worries and mounting budget deficits.<sup>11</sup>

Amidst this volatility, many were surprised to see smaller capitalization stocks outperform in the quarter, with the Russell 2500 finishing in green territory and quality dividend growth stocks also delivering positive returns. The divergence – smaller caps outperforming larger caps during a period of stress – is consistent with the broadening of market leadership we anticipated in recent commentaries.

Chart 1. Dramatic Increases in Petroleum Product Spot Prices



However, the factors leading the way to positive small- to mid-capitalization stock performance were varied during the quarter, reflecting the many cross-currents that enabled a modestly more favorable environment for quality investors such as Copeland Capital. Headwinds included the outperformance of biotech, momentum, and no-sales companies. Tailwinds included the underperformance of high volatility, unprofitable, and non-dividend paying stocks, which generally declined (Chart 2).

### Rocks Below the Surface

For investors who loaded up on the most speculative segments of the market during 2024 and 2025, the fog was especially disorienting. As we warned in successive *Reviews* – from “[Red Light, Green Light](#)” (4Q24) through “[Welcome to the Upside Down](#)” (4Q25) – valuations for pre-revenue companies, quantum computing stocks, and other “lottery tickets” are frequently built upon hope or “FOMO” –

fear of missing out – rather than fundamentals. When market uncertainty arrived late last year and broadened in 2026, the rubber finally met the road. Inflated valuations cracked and enthusiasm waned.

Recall that in “[Pied Piper](#)” (3Q25), we documented that unprofitable stocks had outperformed profitable stocks by 29 percentage points over the prior six months in the Russell 2500. We illustrated how – following the speculative peaks of late 1999 and early 2021 – profitable stocks subsequently outperformed unprofitable stocks by 100% and 71%, respectively, over multi-year periods. Such reversals tend to follow periods of speculative excess.

Meanwhile, the concentration risk we previously highlighted is beginning to unwind. The weight of the Magnificent Seven within the S&P 500 index – which peaked at nearly 35%, up from 20% at year-end 2022 – slipped back to approximately 33% by the end of the first quarter.<sup>12</sup>

### Follow the Light: Dividend Growth Outperforms

A lighthouse earns its value not on bright, calm days, but in dark storms. During the first quarter, US dividend growth stocks broadly outperformed their respective benchmarks, while non-dividend paying stocks were punished (Chart 3).

We hypothesize that a revaluation of fundamental quality may be emerging and that the market may be entering a period of wider market participation beyond just technology companies. If so, this dynamic could prove beneficial for diversified, sector neutral portfolio construction methodologies – such as Copeland’s approach – relative to investment strategies that have significant sector bets and those that have leaned into the momentum wave.

### Navigating the Storm and Long-Term Perspective

The first quarter demonstrated exactly why downside protection matters. Copeland’s dividend growth investment philosophy is designed to participate in most of the upside while providing a meaningful cushion during drawdowns. This was evident during this latest quarter featuring geopolitical shock, surging commodity prices, and broad market declines. Protecting capital – avoiding the deep losses that require outsized recoveries – has been historically a meaningful contributor to long-term compounding.

Since 1982, dividend growers have exhibited meaningfully lower downside capture ratios relative to other types of stocks, especially non-dividend payers. The downside protection is a function of higher profitability and lower business volatility, and the combination results in historically better risk-adjusted average annual returns. The return per unit of risk, known as the Sharpe ratio, also leads among the different classes of stocks (Chart 4).

Chart 2. Eclectic Performance for Varied Types of Smid-Cap Stocks during 1Q26

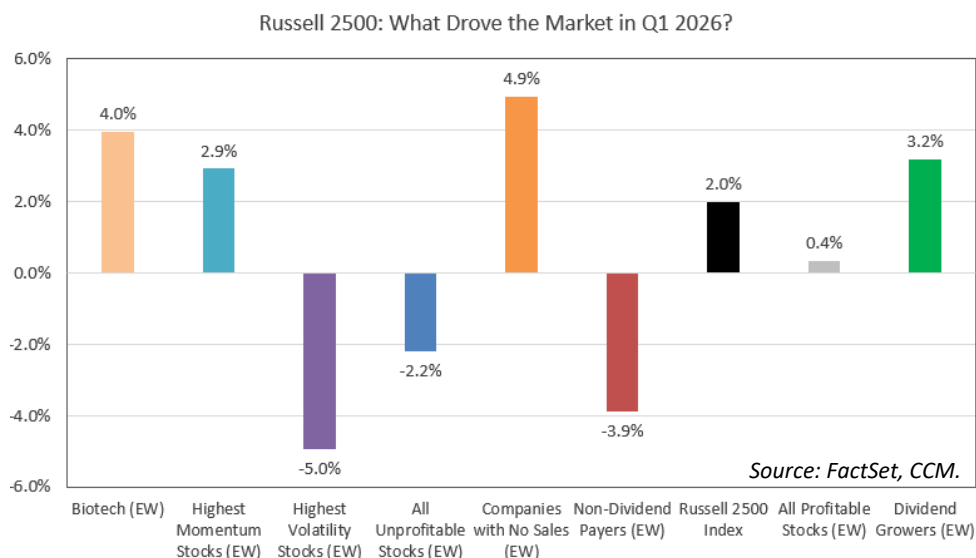


Chart 3. Q1 2026 Dividend Growers vs. Benchmark and Non-Payers, Absolute and Relative Performance

Benchmark	Returns of Dividend Growers	Returns of Dividend Non-Payer	Relative Performance of DG vs DNP	Returns of Benchmark	Relative Performance of DG vs Benchmark
R2000	4.2%	(4.0%)	8.2%	0.9%	3.3%
MID	2.4%	(6.4%)	8.8%	1.3%	1.1%
R2500	3.2%	(3.9%)	7.1%	2.0%	1.1%
R3000	3.1%	(4.7%)	7.8%	(4.0%)	7.1%
R1000	2.2%	(7.3%)	9.5%	(4.2%)	6.4%
R200	1.6%	(13.5%)	15.1%	(4.2%)	5.8%
Micro	3.9%	(4.6%)	8.5%	1.7%	2.1%

Source: Ned Davis Research, FactSet, CCM. This is not the performance of any strategy overseen by Copeland. You cannot invest directly in an Index.

What underpins these results? We believe the track record demonstrates that companies which consistently raise their dividends tend to be those with durable competitive advantages, disciplined capital allocation, and management teams confident in their forward outlook. A dividend increase is a tangible signal – an action – backed by a board’s fiduciary duty to act in the best interests of the company and its shareholders. By increasing the dividend, they demonstrate conviction that earnings and cash flow will continue to rise

**Chart 4. Long-Term Performance of Stocks by Dividend Policy**

R3000 Since 1982	Annual Return	Sharpe Ratio	Downside Capture
Dividend Growers	13.9%	0.67	0.79
Dividend Payers	13.3%	0.58	0.94
Non-Payers	8.2%	0.34	1.43
Dividend Cutters	10.9%	0.30	1.25

Source: Ned Davis Research, CCM. Oct 1982 – Mar 2026. This is not the performance of any strategy overseen by Copeland.

in the future.

Meanwhile, despite the favorable long-term track record of dividend growth stocks, valuations today remain near multi-decade lows. Following the speculative market frenzy, dividend growth stocks entered 2026 trading at a historically steep valuation discount relative to the Russell 3000 benchmark. The discount today on a forward P/E basis remains close to the deepest level in two decades (Chart 5).

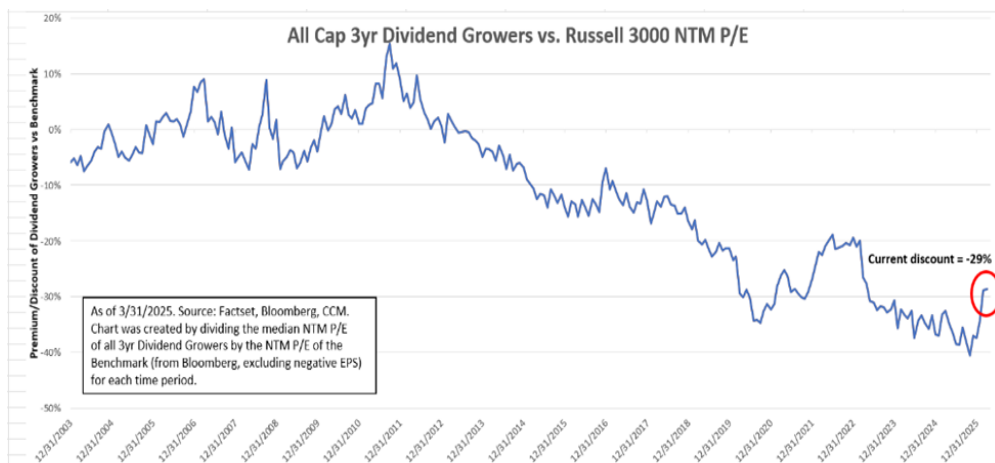
**Steady Light**

Lighthouses do not change their position based on which way the wind blows. They do not dim when the seas are calm or brighten when storms arrive. They simply stand, faithfully, and the ships that use them can avoid harm and reach safe harbor.

At Copeland, like the classic Johnny Nash song, the aim is to “see clearly now,” to “see all obstacles in my way.” To that end, we use dividend actions as a reliable light and believe that stocks with sustainable dividend growth consistently outperform the market with less risk. This quarter, with fog enveloping the market, that conviction was supported by results.

Of course, one quarter’s outperformance does not by itself constitute an investment thesis. Yet, the case for dividend growth is supported by evidence spanning many decades. Further, the valuation opportunity for patient, disciplined investors is among the most attractive we have seen.

**Chart 5. All Cap Dividend Grower Valuation Discount vs. Benchmark NTM P/E**



Source: FactSet, Bloomberg, CCM. Valuation discounts do not guarantee future returns will be greater or lower than the benchmark.

As of this writing, some of the fog related to Iran may be lifting and stocks are rallying. The Nasdaq Composite Index is heading toward its longest winning streak since 1992.<sup>13</sup> Still, the geopolitical situation and downstream impacts from the recent conflict and commodity spike remain unknown.

However, we do know that the companies held in Copeland portfolios are those we believe to be competitively advantaged and generating strong cash flows while both reinvesting in their business and consistently increasing capital returns to shareholders. Their dividend increases provide a light that investors should heed for safe passage.

April 2026

- 5 [farm-payrolls/news/539119 EIA https://www.eia.gov/todayinenergy/detail.php?id=67424](https://www.eia.gov/todayinenergy/detail.php?id=67424)
- 6 [AAA https://gasprices.aaa.com/for-the-first-time-in-four-years-national-average-exceeds-4-gallon/](https://gasprices.aaa.com/for-the-first-time-in-four-years-national-average-exceeds-4-gallon/)
- 7 [Using the Energy Select Sector SPDR Fund \(XLE\) and Materials Select Sector SPDR Fund \(XLB\) as proxies for sector performance. These ETFs are not held in Copeland portfolios and are referenced for illustrative purposes only. ETF performance reflects net asset value including fund expenses and may differ from the performance of the underlying index."](https://www.fundstrategies.com/using-the-energy-select-sector-spdr-fund-xle-and-materials-select-sector-spdr-fund-xlb-as-proxies-for-sector-performance)
- 8 [Trading Economics https://tradingeconomics.com/euro-area/indicators](https://tradingeconomics.com/euro-area/indicators)
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- 10 [Bloomberg https://www.bloomberg.com/quote/USGG10YR:US](https://www.bloomberg.com/quote/USGG10YR:US)
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- 12 [Fool.com https://www.fool.com/research/magnificent-seven-sp-500/](https://www.fool.com/research/magnificent-seven-sp-500/)
- 13 [MarketWatch https://www.marketwatch.com/story/nasdaq-heads-toward-its-longest-winning-streak-since-1992-as-historic-stock-market-comeback-continues-e84c2c59](https://www.marketwatch.com/story/nasdaq-heads-toward-its-longest-winning-streak-since-1992-as-historic-stock-market-comeback-continues-e84c2c59)

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**Currency** - Unless otherwise specified or disclosed, the currency used for data in the report is US Dollar (USD).

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**Definitions**

**Dividend Growth Rate:** The annualized percentage rate of growth that a particular stock's dividend undergoes over a period of time.

**Downside Capture Ratio:** A measure of an investment's performance relative to a benchmark during periods when the benchmark has declined. A ratio below 100% indicates the investment lost less than the benchmark during down markets.

**Free Cash Flow:** Free cash flow is the cash a company generates after accounting for cash outflows to support operations and maintain its capital assets. It is an important measure of financial health.

**NTM:** Next twelve months.

**P/E Ratio:** The Price-to-Earnings Ratio of a stock is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share.

**Sharpe Ratio:** A measure of risk-adjusted return, calculated as the excess return of a portfolio over the risk-free rate divided by its standard deviation.

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