

The Dividend Aristocrats Are on Sale: Potential Buy Signal?

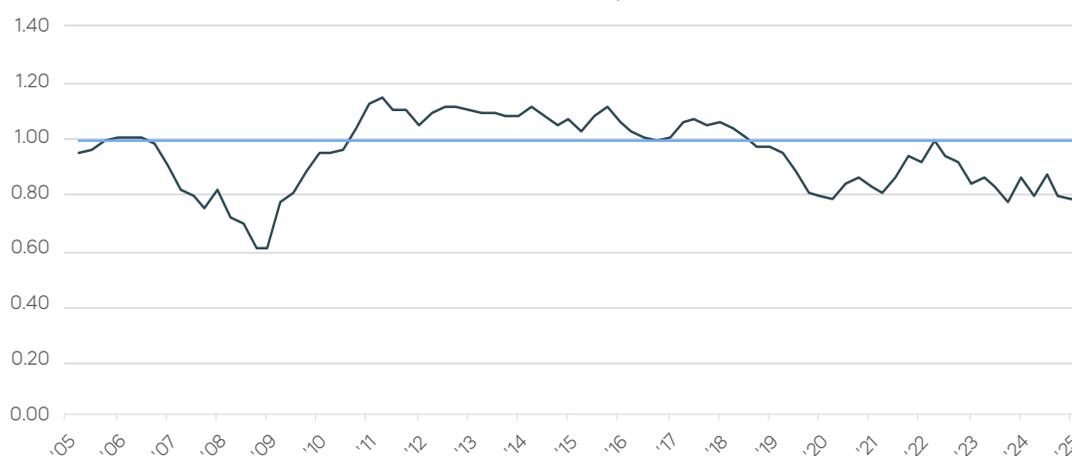
Metrics like a company's price-to-earnings (P/E) ratio¹, which may indicate whether a stock is over- or undervalued, can help investors determine the potential for future total returns, but with one big caveat: They must be patient. In the short term, stock prices tend to be driven by supply and demand, and sentiment. Fundamentals like earnings, cash flows and valuations tend to matter more in the longer term. What can today's valuations tell us? That there is a potential opportunity to buy high-quality stocks at low prices.

The S&P 500 advanced over 17% in 2025. Meanwhile, returns for the S&P 500 Dividend Aristocrats were more modest, despite delivering more stable earnings². The result? The Aristocrats were trading at roughly 80% of the broader S&P 500's P/E multiple as of 12/31/25.

That level of discount is not common and, prior to a few occurrences in 2020–2021, had not been seen in well over a decade. Higher-quality stocks like the S&P 500 Dividend Aristocrats have tended to trade at premium valuations to the market. When they have traded at discounted valuations to the S&P 500, it's typically been a good time to invest.

The following chart shows the price-to-earnings ratio of the S&P 500 Dividend Aristocrats Index relative to the S&P 500. Anytime the blue line is below 1, the Aristocrats are relatively cheaper than the broad market.

Dividend Aristocrats Are on Sale Price-to-Earnings Ratio of Aristocrats vs. S&P 500



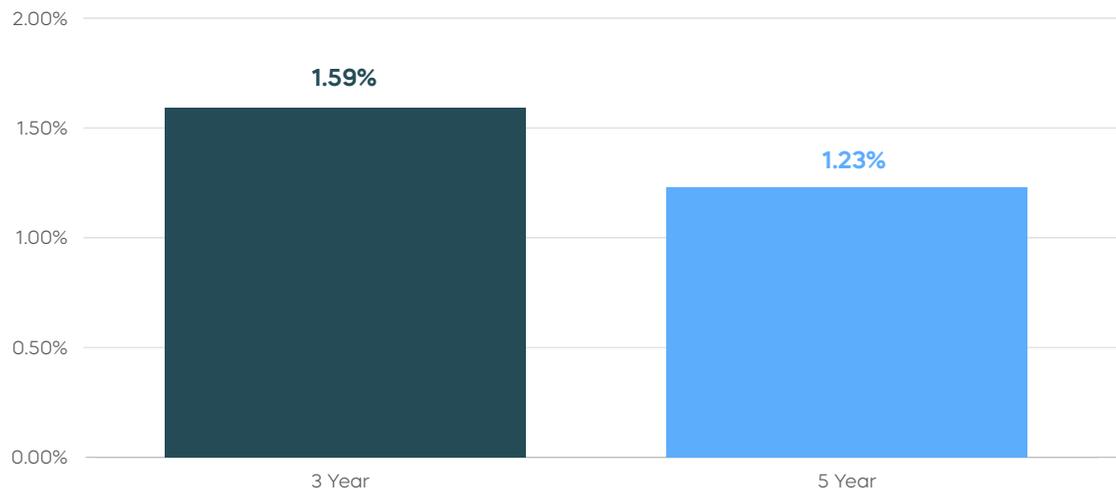
Source: Bloomberg. Data from 12/31/05 to 12/31/25.

Prior periods when the Aristocrats have traded at similar relative valuations to today have often preceded strong periods of future outperformance, which could make today's valuation levels a potential buy signal.

1 Price/earnings (P/E) ratio is calculated by dividing the current share price of a company by its earnings per share (EPS). It shows how much investors are paying for a dollar of a company's earnings.
 2 Sources: Morningstar and FactSet.

Anytime the Dividend Aristocrats have traded at less than 90% of S&P 500 valuations, average forward three- and five-year returns for the Aristocrats have outperformed and always been positive, as shown in the next chart.

When the Dividend Aristocrats Are on Sale, Subsequent Outperformance vs. S&P 500 Has Been Strong



Source: Bloomberg. Data from 12/31/05 to 12/31/25. Chart represents average of subsequent 3- and 5-year outperformance of S&P 500 Dividend Aristocrats vs. S&P 500 when the Aristocrats have been valued at less than 90% of the valuation of the S&P 500.

The S&P 500 Dividend Aristocrats often trade at premium valuations relative to the S&P 500. The Aristocrats are on sale, and they were trading at only 80% relative to the broad market as of 12/31/25. While there's not generally a bad time to invest in quality stocks, now could be a great time to invest in the Dividend Aristocrats.

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