

## Market Musings 06/26

For Professional Investors only

# Dividends have kept up with global equities

But that is not the full story

Global equities have risen this year, driven by a small group of companies, while dividend strategies have kept pace without the same concentration. Those results look similar on the surface. However, the move higher has been far narrower than it appears, and the picture looks very different once you step away from those few names.

Mispricing has only added to the complexity. Narratives can be powerful, but they are not always grounded in reality. Some companies have been priced as structural losers despite limited evidence, while others are increasingly treated as long-term AI winners rather than beneficiaries of a cycle that may yet normalise.

## One narrative rules them all

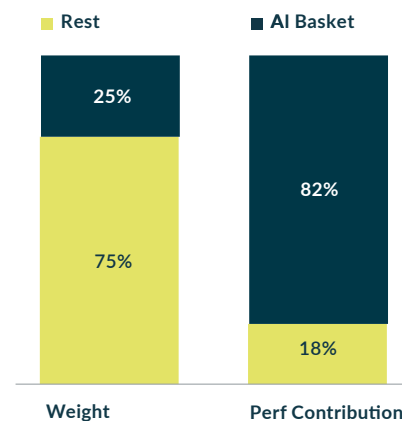
A relatively small group of AI-related companies, representing roughly a quarter of the market cap-weighted index, has driven more than four-fifths of total returns year-to-date.

What is striking is that S&P 500 equal-weighted index has shown similar performance to the S&P 500 market capitalisation-weighted index, again reflecting the same narrow group of AI capex winners driving returns. Of the top-20 performers in the equal-weighted index, all of them are beneficiaries of the AI-buildout.

The implication is clear: headline index performance no longer reflects the reality experienced across most stocks. This concentration also helps explain why strategies with more limited exposure to this narrow group, such as dividend strategies, have delivered more balanced return profiles. It is a market that looks broad from the top, and is anything but underneath, driven by the spending boom of a small number of companies building out the AI infrastructure.

**Chart 1: AI- related companies contributed to a disproportionate share of returns**

MSCI World Index performance contribution (Jan-May 2026)



MSCI World 'AI basket' was 25% of the index  
While contributing 82% to the total return

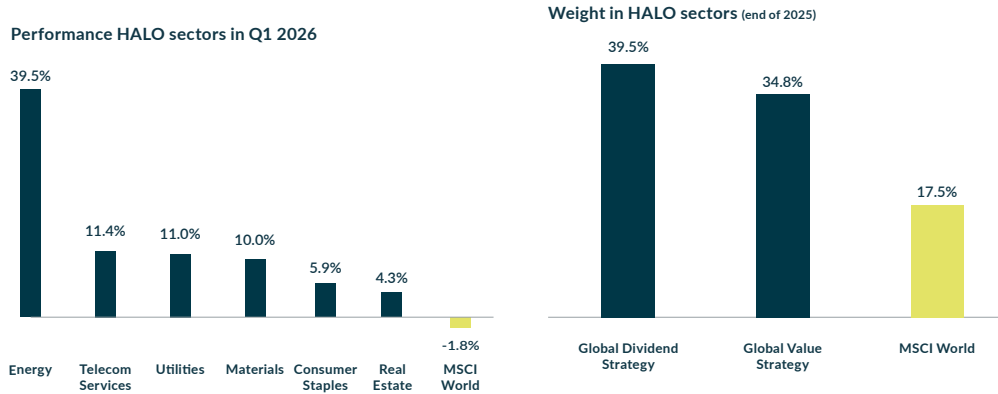
Source: FactSet / MSCI, December 2025 to May 2026

## From rotation to renewed concentration

Early in 2026, markets rotated away from the dominant AI narrative, with capital shifting towards more tangible sectors such as energy, utilities, materials and telecoms. This 'HALO' trade, a shift from investing in technology to companies with hard to replace assets, drove strong performance, with energy alone delivering close to 40% in the first quarter.

Our strategies benefited from this shift, given their higher exposure to these sectors relative to the broader market. However, as the year progressed, this rotation faded and markets reverted to the familiar AI-driven narrative. This short-lived rotation highlights how limited broader market participation has been, reinforcing that markets remain dependent on a single dominant theme.

**Chart 2: HALO sectors drove Q1 performance and are more heavily represented in portfolios**



Source: Bloomberg, Dividend & Value team. MSCI World sectors and industries in EUR, December 2025 to March 2026, and HALO sector weights in Global Dividend, Global Value strategy and the MSCI World indices.

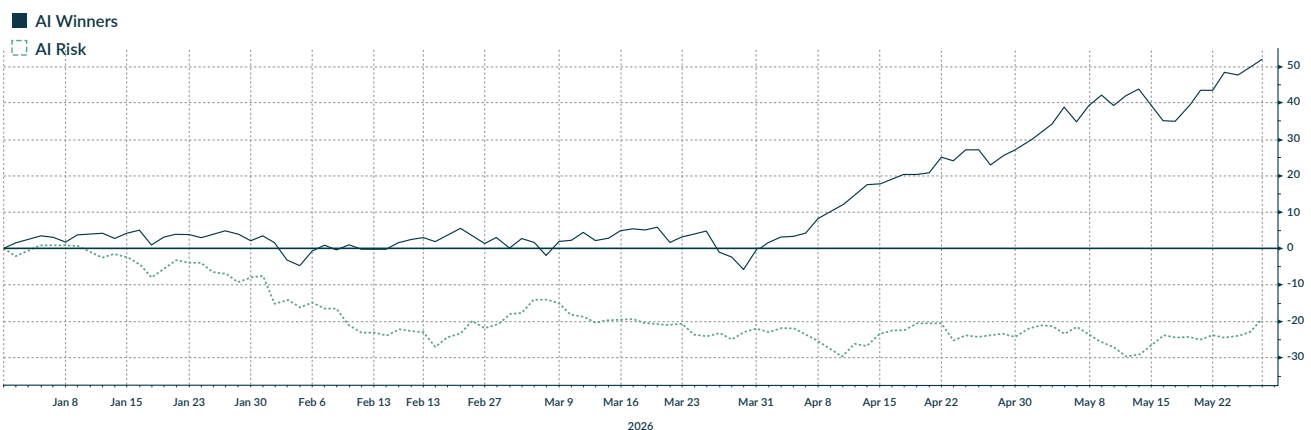
The value of your investment may fluctuate. Past performance does not predict future returns.

## A widening gap between winners and losers

This renewed focus has not only narrowed market leadership, but also widened the gap between companies. Performance dispersion has increased significantly, driven largely by how businesses are perceived in the context of AI.

Companies seen as beneficiaries have continued to perform strongly, while those viewed as being at risk of disruption have often de-rated, in most cases with little evidence of actual impact on current earnings. At the same time, even within the group of perceived winners, leadership is becoming more concentrated. The clearest beneficiaries today are the companies supplying the hardware required for AI data centres, while expectations elsewhere are increasingly being tested.

**Chart 3: Performance of AI winners (black) versus AI risk (blue)**



Source: Bloomberg, AI winners versus AI at risk companies from January to May 2026. Date 1 June 2026

## Opportunities created by perceived mispricing

This environment creates a more complex landscape for investors. Narratives are powerful, but not always accurate. Some companies have already been priced as structural losers, despite limited operational evidence, while others are increasingly valued as structural AI beneficiaries rather than companies benefiting from a cycle that may normalise over time.

Such conditions tend to create opportunity. They require a more selective approach, distinguishing between structural change and temporary sentiment, and between genuine competitive advantages and perceived positioning.

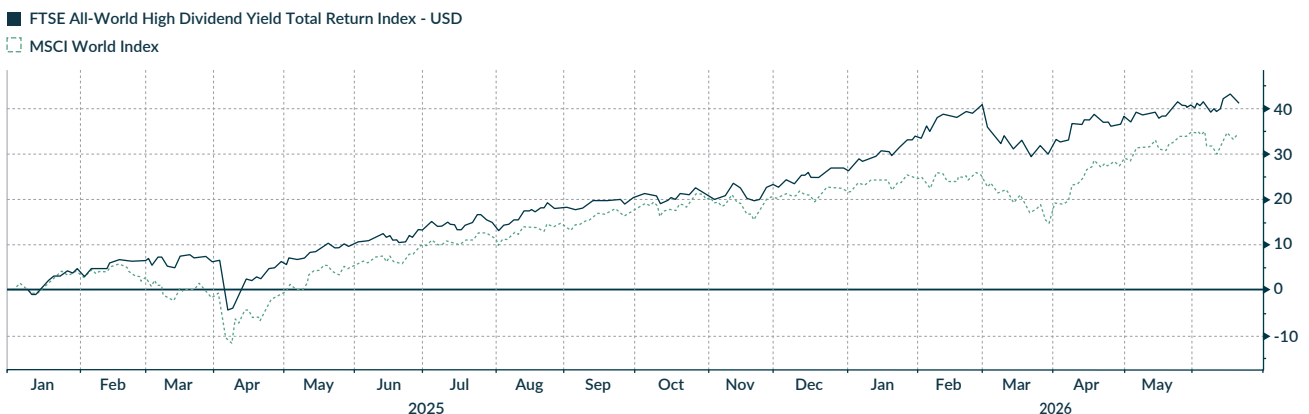
## Dividend strategies in the current market

Against this backdrop, dividend investing has delivered a distinct outcome relative to broader markets. Year-to-date, global dividend strategies have matched or modestly outperformed global equities, while doing so with less reliance on the dominant AI theme.

This difference becomes visible when comparing dividend indices with broader market indices.

FTSE All-World High Dividend Yield Index versus MSCI World shows that dividend equities have outperformed global equities over the past 18 months (c. +41% versus c. +34%), illustrating that returns have been achieved with a broader and more balanced underlying composition.

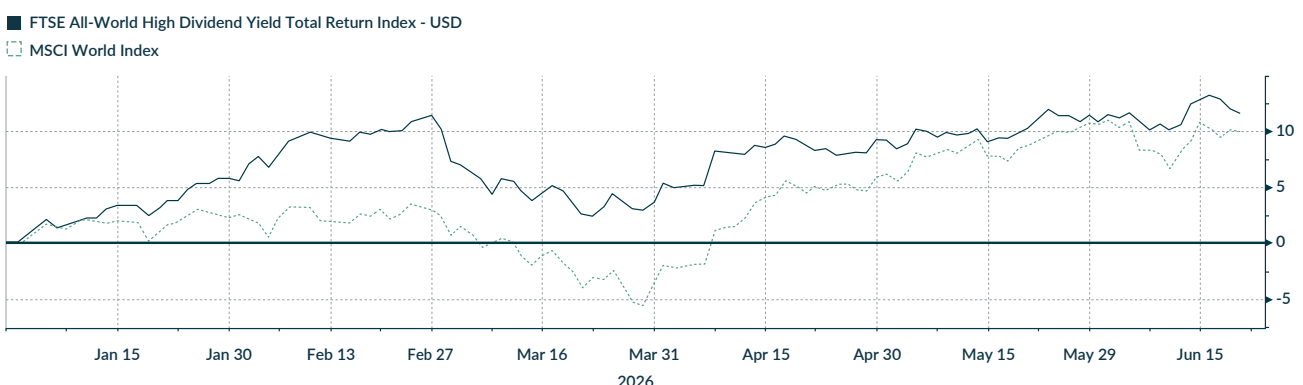
**Chart 4: Dividend equities have outperformed global equities over past 18 months**



Source: Bloomberg, FTSE All-World High Dividend Yield Index vs MSCI World, USD total return, January 2025 to 22 June 2026.

This pattern is also visible on a year-to-date basis, where dividend strategies have delivered slightly stronger returns than global equities (c. +11.5% versus c. +10%), despite lower exposure to AI-driven names.

**Chart 5: Dividend equities have kept pace with global equities so far this year**

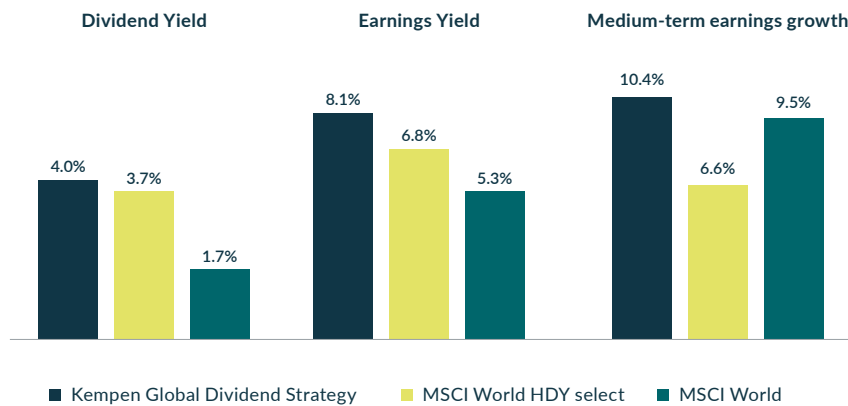


Source: Bloomberg, FTSE All-World High Dividend Yield Index vs MSCI World, USD total return, year to date. Date 22 June.

As the previous charts show, dividend equities have kept pace with global markets despite lower exposure to the dominant AI theme.

They reflect a different underlying return profile — with higher dividend and earnings yields, alongside a solid growth profile. This more balanced return profile becomes visible when looking at underlying the fundamentals.

**Chart 6: Higher earnings yield and strong growth profile**



Source: Factset, weighted average dividend yield, harmonic average earnings yield and est. 3-5yrs EPS growth. March 2026.

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## Discipline in a market showing early exuberance

A market driven by a narrow set of outcomes can mask underlying fragility. This raises the question of whether strategies that achieve return with broader diversification and less reliance on a single theme may offer a more resilient profile. The speed at which capital rotated back into AI, and the dominance of one theme driving returns, suggest that expectations are again being stretched. This is not a case for avoiding the theme, but it does place more weight on selectivity.

Dividend strategies show that strong returns do not have to rely on concentrated exposures. In this environment, discipline becomes the key differentiator. A focus on cash flow generation, capital allocation and valuation, combined with a willingness to look beyond the obvious winners, remains essential. In a market increasingly shaped by a single dominant theme, they offer a way of keeping up without relying on it.

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