



GLOBAL EQUITY INCOME: BUILT FOR THIS MARKET

Global equity income may merit attention as inflation lingers, valuations stay stretched and investors seek more resilient, less correlated equity exposure.

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EXECUTIVE SUMMARY

- **Inflation is not transitory.** A persistently inflationary environment favours equity income strategies. Income stocks offer built-in inflation protection through the growing and compounding of dividends, and steady cash flows.
- **Markets are historically expensive.** Around 62% of the global equity market is trading above 20x earnings, versus a long-run average of 40%¹. In the US, the top 10 stocks trade at around 25x earnings². History cautions that high growth alone rarely offsets stretched valuations.
- **Concentration risk is at dangerous levels.** The top 10 stocks account for roughly 40% of US market cap and 27% of global market cap³. Many portfolios carry an outsized bet on a handful of mega-cap names.
- **AI is maturing.** As the cycle evolves, capital is rotating away from speculative positioning toward companies demonstrating financial discipline, sustainable margins and predictable cash flows.
- **High-income stocks are trading at a significant discount** on a price to earnings (P/E) and price-to-book (P/B) basis relative to lower-yielding peers.
- The long-term evidence shows in higher-rate, higher-volatility environments, **dividend compounding – not capital appreciation – drives total return.**
- **A disciplined, valuation-based strategy** focused on quality companies with sustainable and growing dividends can reduce concentration risk, protect against inflation, and deliver more predictable outcomes across market cycles.

¹ Source: SG Cross Asset Research/Quant Research, FactSet. 29 May 2026.

² Ibid.

³ Ibid.

RESILIENCE THROUGH INCOME

The global economy today is defined by persistent volatility. New economic regimes have increased spending and the spectre of inflation along with it. Combined with concentration risks in equity markets and investors are left vulnerable to income erosion.

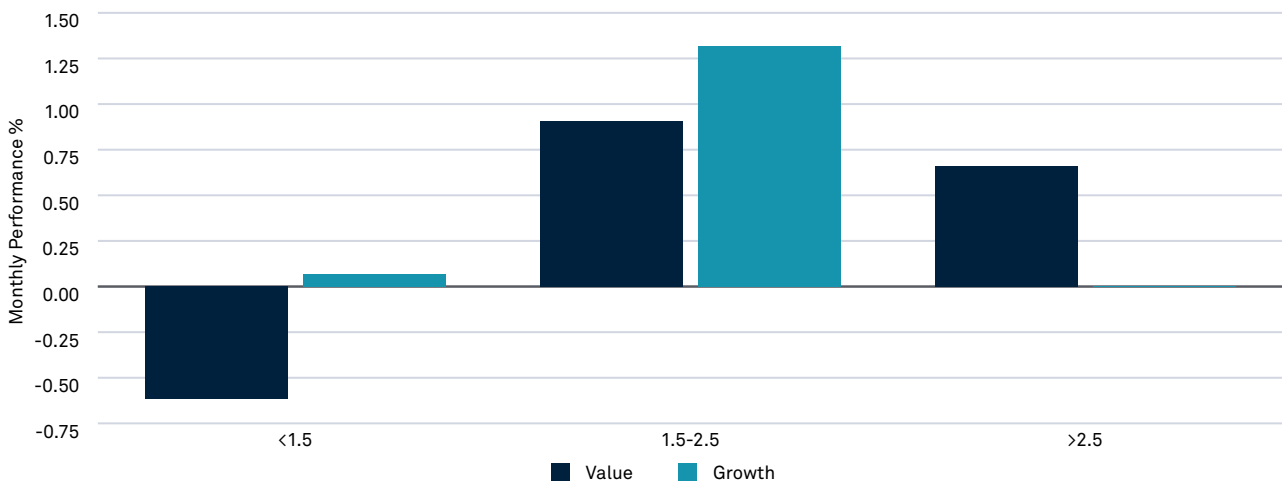
In this environment, reducing uncertainty where possible is crucial. We believe an allocation to global equity income can provide a critical buffer against equity concentration and market shocks. Income stocks' built-in inflation protection, steady cash flows, and record of dividend stability and growth offer a measure of predictability in an increasingly unpredictable market.

FOUR REASONS GLOBAL INCOME STOCKS CAN DIFFERENTIATE PORTFOLIOS

1. Inflation protection

Income strategies can protect against higher inflation by increasing dividends (Figure 1). This is different to fixed income where most cash flows are fixed and less able to protect against higher inflation.

Figure 1: Inflation and value: relative strength when inflation rises



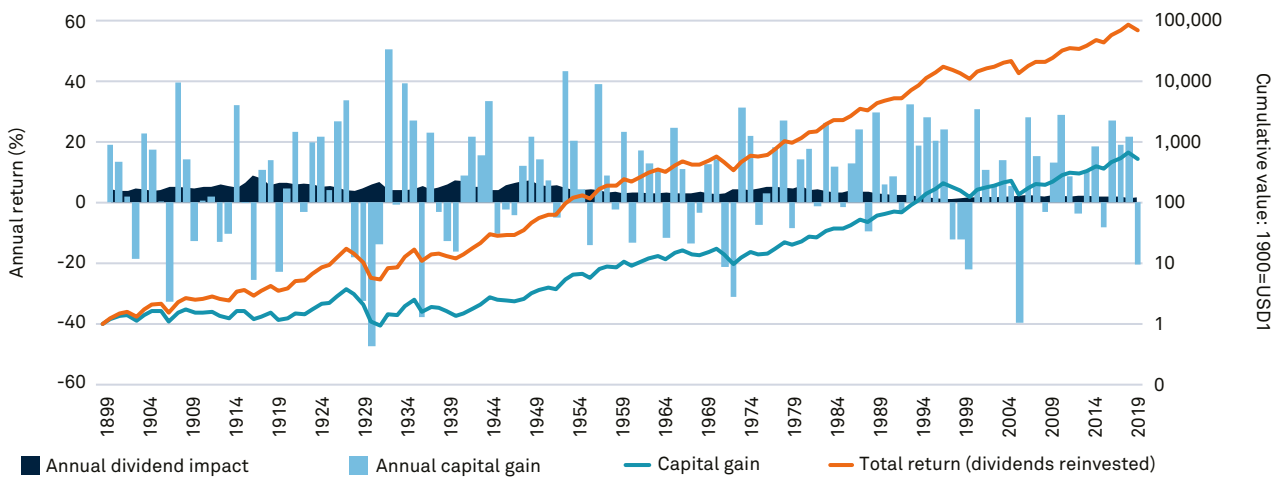
Source: BNY Investment Strategy & Research Group, Macrobond. As of 31 May 2026. Indices: Russell 1000 Value and Russell 1000 Growth.

Inflation has remained higher since 2022 when Russia invaded Ukraine, only to be exacerbated more recently by the Middle East conflict. According to the ISM Manufacturing Prices Paid Index (9-month lead), a useful directional indicator of future inflation⁴, it is likely to remain elevated in the next six to nine months. The following transformations in the global economy are creating inflationary pressures:

- Globalisation to deglobalisation.
- Free trade to protectionism.
- Free movement of resources to resource weaponisation.
- Liberalism to populism.
- Peace dividend to rearmament.

We believe an inflationary environment favours an equity income approach. The era of free money – zero rates and quantitative easing – is over. This era buoyed growth stocks because they are valued by discounting future cash flows at the bond yield, which was essentially zero. Now bond yields are higher, the discount rate has risen, shifting the environment in favour of income stocks. In this more normal environment, characterised by higher interest rates, volatility and drawdown, the history of equity markets shows that the key to long-term total return is not capital appreciation, but dividend compounding (see Figure 2).

Figure 2: Impact of dividends, United States, 1900-2022



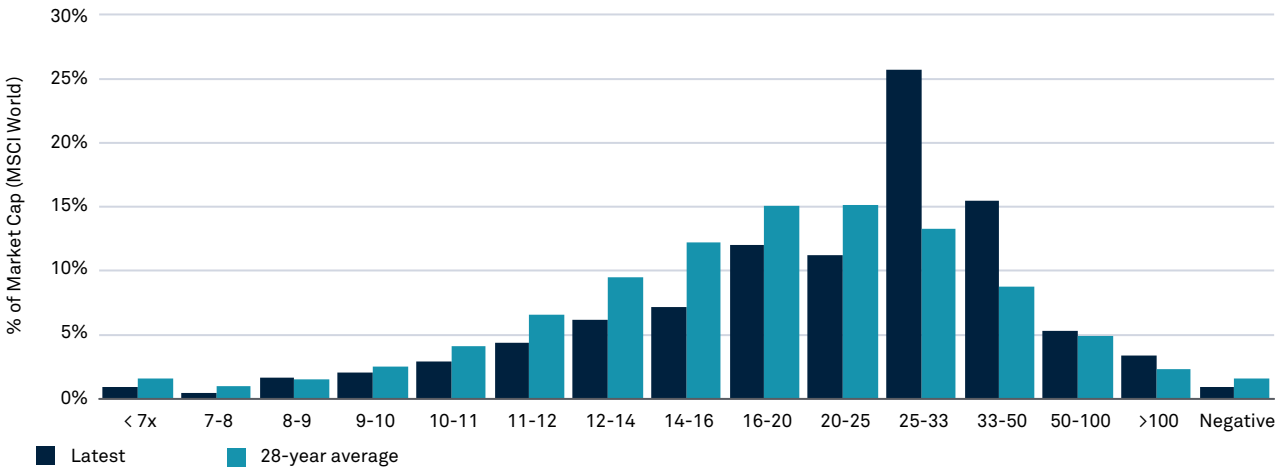
For illustrative purposes only. Note: 1 Bespoke US stock index. Returns and capital gains 1900-2022. Source: DMS Database, copyright © Elroy Dimson, Paul Marsh and Mike Staunton. Returns data licensed by Morningstar, 2022. There is no guarantee that dividend-paying companies will continue to pay, or increase, their dividend.

4 Bloomberg, 31 December 2025.

2. Attractive valuations

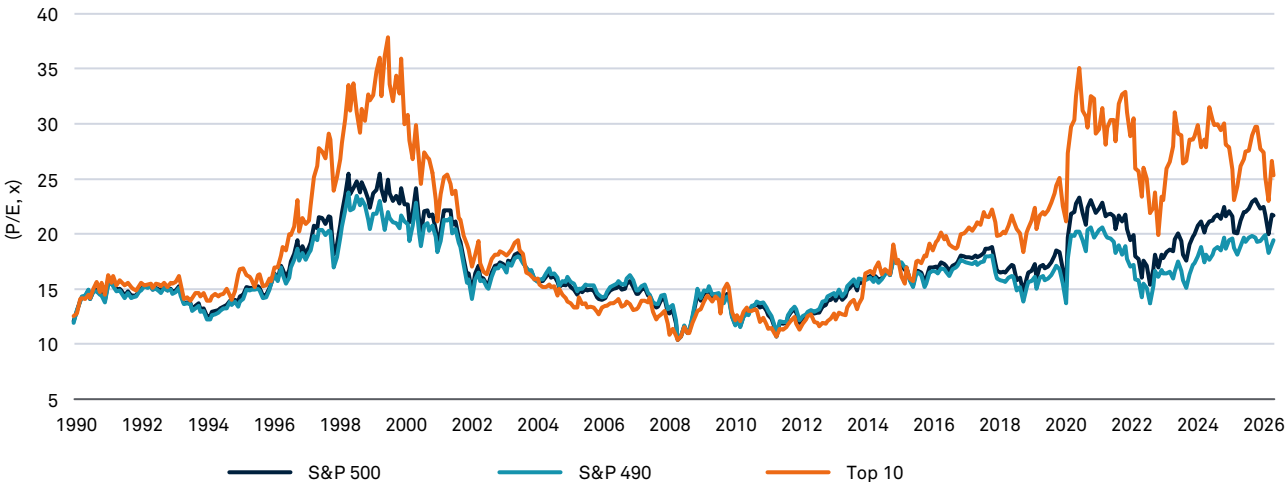
Stock market valuations are historically high. About 62% of the global market is trading on above 20x earnings compared with the long run average of 40% (Figure 3). In the US, the top 10 stocks are trading on around 25x earnings, dragging up the overall valuation of US equities (Figure 4).

Figure 3: Distribution of market cap in MSCI World by P/E
 Compared to the 28-year average, the market is very expensive



Source: SG Cross Asset Research/Quant Research, FactSet, 29 May 2026.

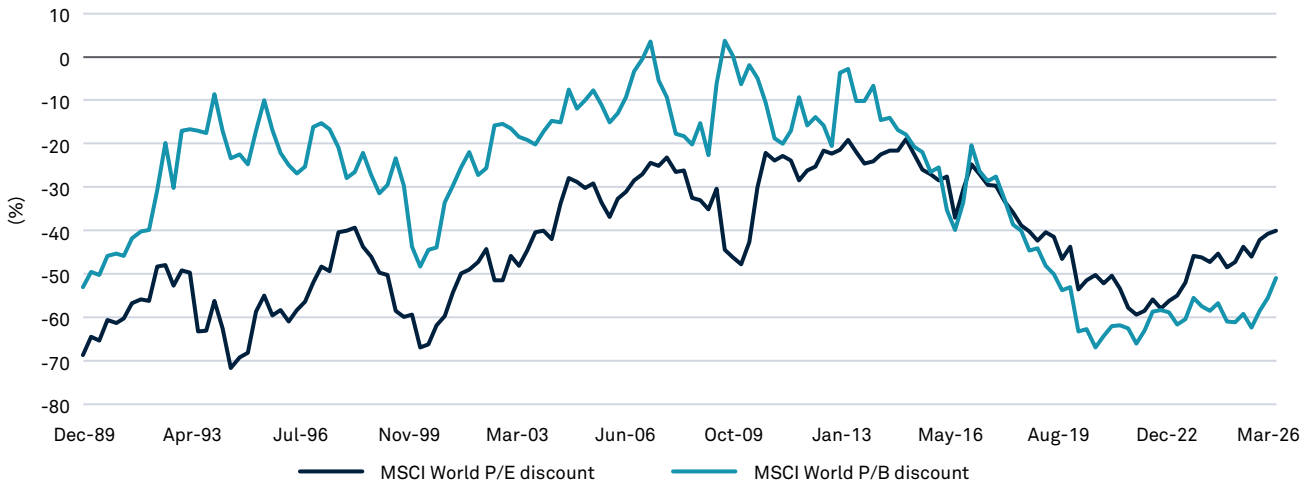
Figure 4: US 'exceptionalism'
 S&P 500 is expensive, top 10 are very expensive



Source: SG Cross Asset Research/Quant Research, FactSet, 29 May 2026.

But higher income stocks, those with above average dividend yields, are trading at about a 50% discount relative to those with below average dividend yields, on a P/E basis, and a 60% discount on a P/B basis (see Figure 5).

Figure 5: The P/B and P/E valuations of the ‘above average dividend yielding’ stocks relative to the ‘below average yielding’ stocks



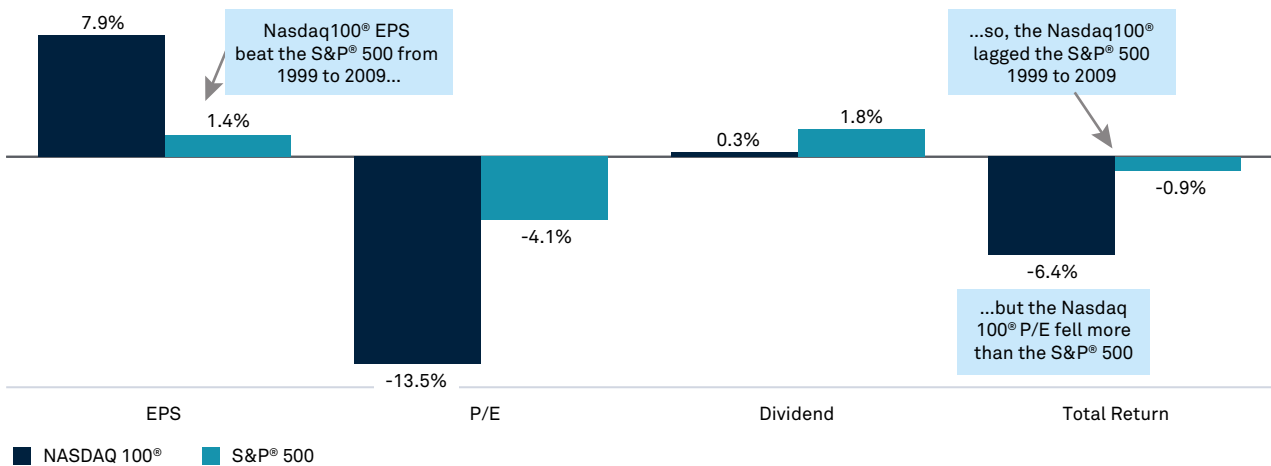
Source: Société Générale Global Income Investor, 31 March 2026.

The last time income stocks traded this low was before the Nasdaq bubble of 1999. In the 10 years that followed, Nasdaq companies delivered earnings growth of just under 8% per year, compared with 1.4% for the broader S&P 500.

Yet, that growth could not justify their elevated valuations. P/E multiples lagged, and dividends contracted. Ultimately, total returns fell 6.4% for Nasdaq companies versus a 0.9% drop for the S&P 500 (see Figure 6). History cautions that high growth alone rarely offsets stretched valuations.

Figure 6: P/E compression was key to the deflation of the Nasdaq bubble

Nasdaq 100 © 1999-2009 10-year annual return contribution



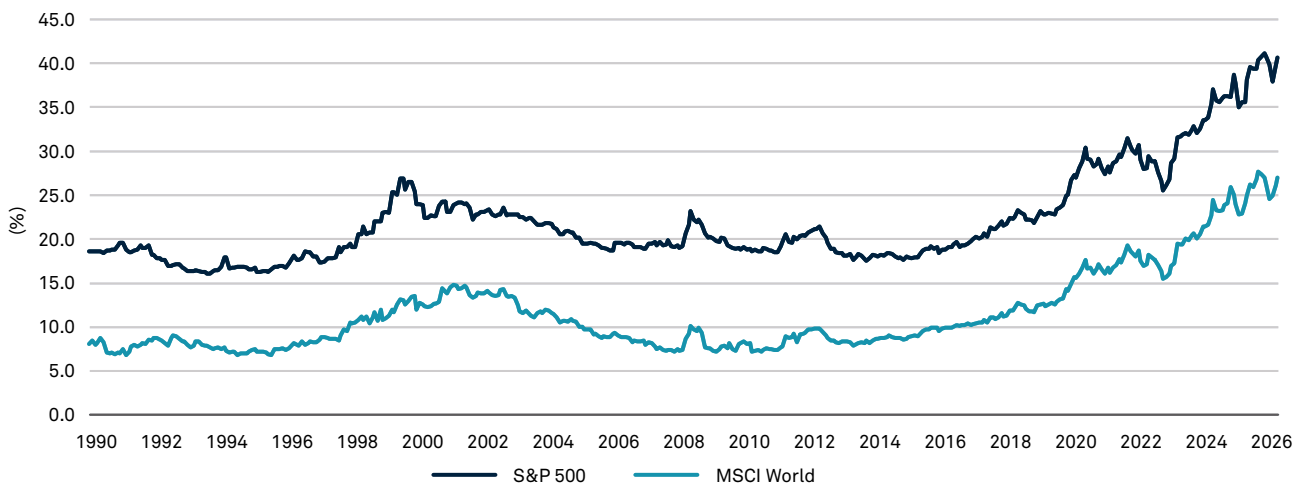
Source: Stifel. SRC Chart Books (various issues), Standard & Poor’s, Bloomberg, Univ. of Alabama Bruno Library historical financial reports database. 31 December 2009.

3. Mitigate concentration risk

Many global equity portfolios in recent years have had a growth overweight whether passive or active. This oversized beta play has left investors exposed to just a handful of mega cap companies.

The top 10 companies make up about 40% of US market cap and about 27% of global market cap (see Figure 7). But concentration risk becomes more significant when it is combined with correlation. Of the top 10 companies, only Berkshire Hathaway is not related to artificial intelligence (AI). Essentially, a single trade is dominating stock markets. So much so, that if you don't own those 10 companies, the tracking error is around 5%⁵ – a number beyond many investors' risk tolerance. Only a disciplined income process with valuation at its core can afford to not own those companies.

Figure 7: Concentration risk is at all-time highs: top 10 largest stocks as a percentage of total market capitalisation



Source: SG Cross Asset Research/Equity Quant, 29 May 2026.



⁵ Source: SG Cross Asset Research/Equity Quant, 31 March 2026.

4. Tech sector differentiation restores market discipline

AI companies have evolved beyond the secular tide raising all boats – differentiation within the sector now favours strategies built on income and value. As the industry matures, capital is moving away from speculative exposure and rotating toward companies demonstrating financial discipline, sustainable margins and predictable cash flows.

Large language models (LLMs) were the early AI beneficiaries, but this is changing. The real opportunity lies in identifying which firms can convert technological advantage into lasting cash flow power, not just early productivity gains. We see the market shifting focus from who is building and using AI to who can truly capture value from AI.

Other winners are emerging downstream in areas such as utilities, semiconductor capital equipment, power infrastructure, and memory suppliers – and in companies that can transform their business models through implementing AI.

Having exposure to areas outside of large cap growth, technology in particular, can help differentiate a portfolio from the index. We see opportunities in stable sectors, such as healthcare and utilities alongside selective more cyclical exposure in consumer discretionary and energy.



WHY NOW FOR GLOBAL INCOME?

The case for global equity income rests on four forces: sustained inflation, historically stretched valuations, dangerous equity concentration, and a maturing AI landscape that is beginning to reward financial discipline over speculative positioning.

A disciplined, valuation-based investment approach focused on quality companies with sustainable dividends can build differentiated portfolios and improve resilience across market cycles.

In an environment where the default answer has been concentrated in a handful of stocks, the more disciplined path may prove to be the more rewarding one.



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