

## **Heightened Uncertainty**

Artificial Intelligence (AI) disruption risk for many established companies defined much of the stock market's action in the first quarter of 2026. Onset of war in the Middle East further complicated the business environment. The resulting spike in oil prices caused a dramatic shift in inflation expectations as the market's forecast for 25 basis point interest rate cuts this year dropped from two to zero. Please see Figure 1 on page 3. In the following pages we will discuss how the Dearborn Partners Rising Dividend Investment Team is applying its time-tested philosophy, process, and disciplines to navigate this ever-changing economic environment.

### **Commentary overview:**

- Artificial intelligence-driven disruption pressured many software and information services companies. Our diversified exposure to essential industries helped mitigate risk.
- Geopolitical conflict in the Middle East increased volatility in energy and commodity markets, highlighting the value of balanced sector exposure.
- Higher-for-longer interest rate expectations reinforced our preference for profitable, cash-flow-generating companies capable of sustaining and increasing dividends.

### **Predictable Surprise**

Although predicting the future *exactly* is difficult, it is not difficult to predict that *something* will happen.

We call this a *Predictable Surprise*. *Predictable* because we know the world is not stagnant. *Surprise* because we can't know for sure what will change, when, or how. During the quarter there were a few predictable surprises that we will talk about in more depth below.

We do not predict the future. We believe that is a losing game. Our job, as stewards, is to attempt to preserve the capital entrusted to us and to help it grow in a way that prediction becomes unnecessary. Through the fog, we stick to our time-tested philosophy that guides us towards our long-term objective, no matter how scary the headlines of the day are. We do not try to time the market. We invest in well-diversified portfolios of stocks of what we consider to be high-quality companies that can endure in or throughout good times and bad and that have the potential to raise dividends every year.

### **Advances in AI caused investors to question many businesses.**

Everyday millions of people try to make their lives better. They ask good questions. They come up with new ideas. They experiment and iterate until they have something better than before. Entrepreneurial spirit pushes the world's frontier forward through creative destruction.

Creative destruction presents both opportunity and risk for every company. It's better to acknowledge this reality and face it than pretend it doesn't exist. After all, if someone doesn't acknowledge gravity or says it isn't real, in the real world they will still fall.

Today, there is nowhere that creative destruction is more apparent than in anything AI touches (or even appears to touch). In what seemed like a relentless barrage of AI-driven headlines, the market was solely

focused on the *destruction* side of the equation by AI for the stocks of many companies. Shares of many software and business information services companies declined dramatically during the quarter. Consider that the iShares Expanded Tech-Software Sector ETF (IGV), an ETF composed of software stocks, was down -24.26% during the quarter. Our favorite nickname we heard for this was the SaaSocalypse (a mashup of SaaS for “Software as a Service” and Apocalypse).

While there is much more nuance to this, for simplicity’s sake, the market’s line of thinking can be summed up as: the barriers to writing code are shrinking, competition is increasing, and therefore the quality and attractiveness of these business models is decreasing. We agree that there will be winners and losers. Ambition routinely and ruthlessly punishes complacency. That won’t change. So, how does our portfolio stack up against AI disruption risk?

Earlier we said that our job is not to predict the future; it is to construct high-quality, well-diversified portfolios so that prediction becomes unnecessary. We believe that our portfolio is structured to withstand AI disruption risk well. A sample of our holdings includes companies that are leaders in: telecommunications, food, energy, financial exchanges, air conditioning, and pharmaceuticals. If we could sum up our positioning in one word it would be *balance* - balance in business models, balance in end customer industry exposure, balance in geographic revenue, and balance in position sizing and risk. If we were pushed to identify a spot in which we may be off balance, it would be that we over index to businesses that provide “needs” vs. “wants.” That is a trade-off we will make every day. As the legendary Alabama football coach, Paul “Bear” Bryant, said: “Offense sells tickets, but defense wins championships.”

### **Conflict in the Middle East has increased volatility in commodity markets.**

When conflict in the Middle East erupts, oil prices tend to rise due to uncertainty as to supply. When oil prices rise, stocks of energy companies that sell oil tend to rise as well. The link is clear. A higher oil price means higher revenue as well as a higher value of existing reserves and potential reserves. What may be less obvious is the linkage and reaction of other companies downstream of oil. For example, companies that rely on plastics as an input into their business may be forced to pay higher prices because plastics are derived from oil. That potentially means lower profits. Adjacent materials such as helium and other industrial gases that are critical to the manufacturing and cooling process of many products, especially semiconductors, are also negatively affected by conflict in the Middle East. Helium is derived from liquid natural gas, and since energy infrastructure in the Middle East is in a very uncertain state, it’s entirely possible manufacturers will need to pay higher costs, re-work supply chains, and make other tradeoffs.

When we construct portfolios, we attempt to balance obvious and non-obvious links. Sometimes there are times when that preparation goes unnoticed and unrewarded, just as most of the time we forget that we have a spare tire in our cars. However, when predictable surprises occur or conflict inevitably arises, we are very glad we have exposure to all eleven Standard & Poor’s sectors. Having energy company exposure helps offset negative reactions elsewhere in the portfolio.

### **Market expectations for interest rate cuts fell.**

The Federal Reserve has a dual mandate: 1) maximum employment, and 2) stable inflation of about 2% as determined by the annual change in the price index of personal consumption expenditures. It’s not surprising that the Federal Reserve Open Market Committee (FOMC) has had a hard time reading the tea leaves on the direction of the U.S. economy. Headlines warning of and actual announcements from

companies of layoffs from AI, combined with questions about how the conflict in the Middle East will play out surely don't help.

The FOMC decides the federal funds rate, which is the overnight rate at which banks borrow. Many other interest rates are based upon the federal funds rate. When the FOMC lowers the fed funds rate, capital gets cheaper and when they increase it, capital gets more expensive. In short, the level and direction of the federal funds rate has enormous sway over the value of financial assets.

Last year, on December 10, 2025, the FOMC reduced the federal funds rate to 3.50% – 3.75% from 3.75% – 4.00%. Figure 1 shows that market expectations for the fed funds rate by the end of 2026 moved dramatically throughout the quarter. For example, at the end of 2025, the market gave the highest probability outcome (a 31.7% probability) that the fed funds rate at the end of 2026 would be 3.00% - 3.25%, or said differently, the FOMC would cut rates 25 basis points two times. Then, due to a variety of factors, by March 19, 2026 the market reversed expectations for fed cuts and placed an 80.3% probability that there would be no rate cuts at all. Even more wild, on March 26, 2026, even though the market's highest probability outcome was no rate cuts (54.2%), the market started pricing in rate *hikes* - a 35.1% probability of going to 3.75 – 4.00% and an 8.5% probability of going to 4.00 – 4.25%. By March 31, 2026, the market's highest probability outcome by the end of the year of 76.1% was that the FOMC doesn't cut rates at all.

Figure 1: Market Expectations for the Fed Funds Rate at the December 9<sup>th</sup>, 2026 Meeting

Fed Funds Rate	3.00 – 3.25%	3.25 – 3.50%	3.50 – 3.75% (current rate)	3.75 – 4.00%	4.00 – 4.25%
12/31/2025	31.7%	24.9%	8.6%	0.5%	0.0%
3/19/2026	0.3%	14.2%	80.3%	5.2%	0.0%
3/26/2026	0.0%	1.3%	54.2%	35.1%	8.5%
3/31/2026	2.0%	20.9%	76.1%	1.0%	0.0%

Source: <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>

Why does this matter? We invest in companies that are established and profitable. Paying a dividend requires cash flow. Paying a growing dividend requires growing cash flow. When interest rates remain “higher for longer,” or if the FOMC starts raising interest rates, companies that are profitable, generating growing streams of cash flow, and not relying on debt markets to fund operations—such as most of the companies in our portfolios—should be better off than companies that are unprofitable, don't generate cash flow, and/or need to tap debt markets.

We believe that our portfolios' holdings offer the potential to continue compounding capital regardless of: 1) whether AI continues to rapidly improve and transform the world, or if someday we look back and it's clear that AI was a bubble, 2) whether conflict in the Middle East resolves or continues, and 3) whether interest rates go up or down. It will take time and patience as the market sorts out winners and losers, but for our companies, under most scenarios, there will still be a critical need to communicate, eat, uncover and process physical resources, transact globally, manage indoor temperatures, and discover new drugs to treat disease. We remain optimistic that our holdings can withstand creative destruction and, while we patiently wait, pay us dividends with the potential to consistently increase over time.

## Here Is Our Dividend Growth Record

The companies in our Dearborn Partners Rising Dividend portfolios have on average continued to increase dividends at rates in accordance with our stated objectives of mid- to high single-digit annual growth. Here are some details about the dividend increases announced by the companies in our separately managed accounts (SMAs) in the first quarter 2026.

### Dividend Growth: Core Rising Dividend SMA portfolio

In the first quarter of 2026, 15 of the 49 companies in our Core Rising Dividend portfolio announced 15 dividend increases averaging about 6.1% more than those companies paid a year earlier. One company announced a dividend increase after only two quarters. One company declared a special dividend in addition to increasing its regular dividend in the quarter. No companies in this portfolio have reduced or suspended dividends so far this year.

### Dividend Growth: High & Rising Dividend SMA portfolio

In the first quarter of 2026, 10 of 25 companies in our High & Rising Dividend portfolio announced 10 dividend increases averaging about 5.3% more than those companies paid as dividends a year earlier. One company announced a dividend increase after only one quarter. One company declared a special dividend in addition to increasing its regular dividend in the quarter. No companies in this portfolio have reduced or suspended dividends so far this year.

## The Power of Rising Dividends to Cushion the Fall of Stock Prices in Challenging Markets

With the introduction of tariffs worldwide at the beginning of 2025, stocks reflected the nervousness about the potential effects of tariffs on company earnings. Ned Davis Research divides the Standard & Poor's 500 index into categories by dividend policy: Dividend Growers & Initiators; All Dividend-Paying Stocks; Dividend Payers with No Change in Dividends; Dividend Cutters & Eliminators; Non-Dividend Paying Stocks; and, as the benchmark, the Total Return of the Geometric Equal-Weighted S&P 500. Figure 2 shows that from December 31, 2024 through April 2025, the Dividend Growers category held up best during this nervous period, declining only -2.1%. Non-Dividend Paying Stocks, which performed the best throughout 2023 and 2024, dropped the most at the beginning of 2025, -8.2%.

Figure 2: Stocks of Companies with Rising Dividends Held Up Best During the Tariff Tantrum

Portfolio Performance Statistics		
Analysis Dates: 2024-12-31 - 2025-04-30		
Portfolio	Holding Period Return*	Growth of \$100
Dividend Growers & Initiators	-2.1	97.9
All Dividend-Paying Stocks	-3.0	97.0
Dividend Payers w/No Change in Dividends	-6.3	93.7
Dividend Cutters & Eliminators	-8.0	92.0
Non-Dividend Paying Stocks	-8.2	91.8
S&P 500 Geometric Equal-Weighted Total Return	-4.0	96.0
* Non-annualized return		

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Furthermore, Figure 3 shows that over the entire 53-year period that Ned Davis has data, back to January 31, 1973, the Dividend Growers have outperformed all the other categories.

Figure 3: For More Than a Half Century, Dividend Growers Have Outperformed

Portfolio Performance Statistics		
Analysis Dates: 1973-01-31 - 2026-03-31		
Portfolio	Gain/Annum %	Growth of \$100
Dividend Growers & Initiators	10.2	17584.4
All Dividend-Paying Stocks	9.2	10783.4
Dividend Payers w/No Change in Dividends	6.9	3429.3
Dividend Cutters & Eliminators	-0.9	61.9
Non-Dividend Paying Stocks	4.0	792.4
S&P 500 Geometric Equal-Weighted Total Return	7.7	5149.9

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We think that portfolios of patient, long-term oriented investors can benefit from owning stocks of companies with the potential to consistently increase dividends.

### **Dearborn Partners' Rising Dividend Philosophy**

The lens through which we examine every company in our portfolios and those that may be candidates for our portfolios is: do they possess the ability to not only pay a dividend but increase the dividend consistently over time. **Our view is: A dividend is tangible evidence of a company's health; a rising dividend telegraphs a company's strength.**

What sustains our confidence is not short-term market behavior, but the enduring strength of the businesses we own — the consistency of their cash flows, the quality of their balance sheets, and their demonstrated commitment to increasing dividends across full market cycles. **These are not temporary characteristics; they are the foundation of long-term wealth creation.** We remain deeply engaged, disciplined, and accountable as stewards of your capital, while remaining faithful to the principles that have guided this strategy for more than three decades.

We are profoundly grateful for the trust you have placed in us. We work diligently every day to earn it.

The Dearborn Partners Investment Team  
Carol, Mike, Pete, Matt, and Jon

**Dearborn Partners Rising Dividend Separately Managed Account Average Calendar Year Dividend Increases<sup>1</sup>**

	<b>Core Rising</b>	<b>High &amp; Rising</b>	<b>CPI*</b>
<b>14-Year Average</b>	10.1%	7.3%	2.8%
<b>2026 YTD</b>	6.1%	5.3%	2.5%
<b>2025</b>	9.2%	5.8%	2.6%
<b>2024</b>	9.1%	5.8%	3.3%
<b>2023</b>	8.6%	6.9%	4.0%
<b>2022</b>	11.8%	8.7%	6.0%
<b>2021</b>	9.9%	6.3%	5.5%
<b>2020</b>	7.6%	5.9%	1.6%
<b>2019</b>	9.6%	8.2%	2.3%
<b>2018</b>	12.9%	8.8%	2.2%
<b>2017</b>	7.8%	5.8%	1.7%
<b>2016</b>	8.0%	6.5%	2.1%
<b>2015</b>	9.7%	7.5%	2.1%
<b>2014</b>	12.2%	7.4%	1.6%
<b>2013</b>	12.2%	8.7%	1.7%
<b>2012</b>	13.0%	9.6%	1.9%

*\* Core Consumer Price Index for All Urban Consumers Unadjusted 12-month Percent Change for 12 months ending February 2026 Updated Mar. 11, 2026. 14-Year average represents December 2012-December 2025.*

*YTD = Year to Date*

*Source: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items Less Food and Energy [CPILFENS], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CPILFENS> Mar. 11, 2026.*

<sup>1</sup> On the date that a company in our SMA portfolios announces a dividend increase, we calculate the percentage difference from the dividend the company paid a year earlier. We are excluding any special or accelerated dividends paid. We then calculate the average of all those year-over-year increases. However, if a company announces a dividend increase more than once a year, we use the average of that company's multiple increases to be considered in the year-over-year comparison.

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