Quarterly Point of View
Tectonic Shifts

July 9, 2025

It's hard to overstate the magnitude of the changes we are seeing on the geopolitical and global economic stage. Amid a historic realignment of U.S. trade policy, a fundamental reassessment of America's geopolitical leadership, a structural shift from disinflation to inflation, and a fiscal reality in which interest on the national debt now exceeds defense spending, investors face a landscape different than anything seen since WWII.

Looking at the market indexes and how many investors are positioned, it would be easy to conclude, however, that none of the tectonic shifts highlighted above are in motion. A survey of the top 10 stocks owned by Bank of America private clients at the start of the year showed an aggregate beta at the highest level in at least 17 years[1], illustrating an aggressive risk appetite without much concern for potential market downside. Additionally, the largest ten companies in the S&P 500 continue to make up almost 40% of the index, the highest concentration in at least 55 years. Valuation also illustrates a lack of concern for potential headwinds that these structural shifts portend, with the S&P500 price to earnings ratio exceeding 22x at the end of June, well above historical averages over most time periods.

At Martin Capital Partners, it's our view that to be wise long-term investors we need to first be cognizant of developing risks, then analyze opportunities in that context. This is why, foundationally, we are dividend-centric investors that seek the best 'dividend cultures' representing companies that have durable competitive advantages and are prudent stewards of capital.

Considering the structural shifts in geopolitics and macroeconomics, this seems to be a very fitting time to own the characteristics that high-quality companies, with durable and rising income streams, possess.

Lower Volatility & Downside Protection

High-quality dividend-paying stocks have historically provided lower volatility and greater downside protection than non-dividend-paying equities. During periods of macroeconomic stress— be it due to inflation shocks, war, trade tensions, or monetary tightening — companies

940 Willamette Street ▲ The Woolworth Building, Suite 350 ▲ Eugene, OR 97401
tel 541.636.4170 ▲ fax 541.636.4815 ▲ www.martincp.com

that generate steady cash flows and return capital to shareholders tend to hold up better. Their consistent income stream cushions losses, especially when broader markets decline.

Evaluating the six largest market drawdowns of the last 15 years, dividend stocks illustrated their mettle. Beginning with the 18.6% sell-off spurred by Standard & Poor's downgrading of the United States debt rating in 2011, to the 18.8% drop recorded earlier this year in the war of words over trade, MCP's Quality Dividend Strategy outperformed the S&P500 in all six downside periods. As always, past performance is no guarantee of future results, but it is a good indication of the types of characteristics the market seeks under stress.

Inflation Hedge Potential Through Real Asset Exposure & Pricing Power

One of the most significant changes in today's financial environment is the transition from a disinflationary environment, which has characterized much of the last 40 years, to an inflationary economic backdrop. For decades, globalization, technological deflation, and cheap capital kept prices—and interest rates—low. That era appears over in a realignment of trade policy, as supply chains are being reshored, commodity nationalism is on the rise, and labor markets are tight. For these reasons, inflation may no longer be simply 'transitory'.

High-quality dividend-paying companies often operate in sectors with real asset exposure—such as energy, utilities, real estate, consumer staples, and industrials—and possess resilient pricing power. These attributes tend to allow them the ability to maintain profitability during inflationary periods, while continuing to raise dividends.

Fiscal Reckoning & Valuation Impact

For the first time in nearly a century, the United States spent more last year on interest payments servicing its debt, than on spending for national defense.[2] This staggering development reflects decades of deficit spending colliding with a higher interest rate environment. As fiscal constraints tighten, investors must recalibrate expectations regarding government stimulus and monetary policy. This may have a direct impact on asset valuation.

As mentioned earlier, the market collectively is trading well above historical price to earnings metrics. The good news is that dividend payers, for the most part, are not. Given the infatuation investors currently have with technology, communications and anything to do with AI, many high-quality firms paying dividends have been ignored for those 'sexier' parts of the market, leading to much more appealing valuations. For instance, the S&P Dividend Aristocrats Index, containing some of the highest quality payers with long histories of dividend distributions, trades at a 23% P/E discount to the S&P500. A narrowing of this discount has the potential to enhance relative future upside, as well as cushion downside.

The convergence of these tectonic shifts; realignment of global trade policy, reassessment of geopolitical leadership, the end of disinflation and evidence of fiscal strain, appears to mark the beginning of a fundamentally different era.

High-quality payers of durable and growing dividends offer a unique combination of growth potential and income, while providing ballast in turbulent times and rewarding long-term discipline.

We believe investors who recognize and adapt to these shifts will be best positioned to preserve capital, generate income, and participate in attractive asymmetric return opportunities this changing landscape may present.

As we return to writing our quarterly commentary as Martin Capital Partners, we want to thank you for reading.

It is a sincere privilege serving those that have entrusted us with their capital.

Respectfully,

Cameron K Martin
Chief Investment Officer
Martin Capital Partners, LLC

1. Richard Bernstein Advisors, BofA Global Investment Strategy, 2024
2. Debt Has Always Been the Ruin of Great Powers, Niall Ferguson, Wall Street Journal, 2/23/25

Statistical and analytical data provided by Factset.
If you would like additional information on how Martin Capital Partners, LLC conducts business, we can provide a copy of our SEC Form ADV part II, firm brochure.

As always, past performance provides no indication of future results, further, loss of principal value is possible as the strategy invests in equities. The market views and opinions expressed above reflect the opinions of Martin Capital Partners, LLC and are not intended to predict or forecast the performance of any security, market, or index mentioned.