DIVIDEND STUDY, 14TH EDITION

Dividends – your second income

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Dividends – your second income

The world is undergoing a profound and unprecedented transformation. While populations in industrialised countries have become wealthier and enjoy longer life expectancies, intelligent algorithms and robotics are increasingly permeating everyday life and the workplace. At the same time, individuals' life plans and career trajectories are evolving. Against this backdrop, it is prudent to consider developing an additional source of income — and dividends can serve as a valuable form of supplementary earnings.

Artificial intelligence has already become an integral part of everyday life and the modern workplace, and it is only a matter of time before humanoid robots begin to take over routine household tasks as well. These advances are likely to accelerate structural changes in the labour market; in fact, the first effects are already visible. Against this backdrop, would it not be reasonable to let these technologies "work for us" by investing in the companies that develop and deploy them – in other words, by holding their equities and participating in their long-term value creation? As Harvard economist Richard Freeman rightly asks: "Are you working for the robots, or are the robots working for you?"[1]

Given demographic trends, these "robots" have arrived at just the right time: Over the next ten years (from the beginning of 2026), the working population in Germany is expected to decline by an average of 500,000 a year — every year. That would mean, taking Germany as an example, the population of a city like Duisburg vanishing from the labour market. In Italy, forecasts suggest that an average of 434,000 more people will leave the workforce than enter it; in Spain, this figure will be 254,000 according to estimates, while France is likely to fare best, with a net loss of 70,000 workers annually. While fewer and fewer people are supporting a growing number of pensioners, life expectancy continues to climb — and with it, the length of time people receive a pension. On average across the European Union, a woman who retires in 2025 at the age of 67 can expect to receive a pension for a full 19 years. A man can expect to draw retirement benefits for around 16 years. According to United Nations projections, remaining life expectancy

of a woman is set to rise to just under 22 years by the year 2050, and that of a man to just under 19 years. A remarkable development that we owe to our prosperity and the innovations that it has enabled. When pensions were introduced shortly after the Second World War, an average person only lived around half as long after retiring.[2]

At the same time, life choices and expectations are evolving. Many people aim to enjoy their wealth well into older age, with longevity — the pursuit of a longer, healthier life — becoming an increasingly important objective. Younger and middle-aged generations are also reassessing the traditional five-day working week until retirement, with sabbaticals becoming more common and four-day weeks emerging as a viable option, at least for certain stages of life. Parallel to this, there is a growing inclination to allocate more spending to leisure activities...

In short, the time has come to establish a second source of income. Such an investment-driven income stream can also be used effectively across generations — for example, through a “grandparents’ grant.” In this model, grandparents retain their capital, which they may require given rising life expectancy, while providing their grandchildren with a monthly income derived from it to support vocational training or university studies.

However: If dividends, which consist of distributed corporate profits, are to make up a large part of this second income, what exactly could a dividend-based investment look like? Time for a deep dive.

Dividends – income from investments in stock corporations

A glimpse in the rear-view mirror can provide some insight into what income from dividends could potentially mean. Let us assume that ten years ago someone invested 100,000 euros on the STOXX Europe 600, a broadly diversified benchmark index for the European equity market.

Based on dividends that would have been paid out over the entire period, an investor could have earned just under 42,000 euros. At the same time, the original sum invested would have risen from 100,000 to around 168,000 euros (based on the price index). The price index simply reflects the price of the stocks included in the index, unlike the so-called "total return" index that also includes dividend payments. This is reasonable from the perspective of an investor who wants to realise capital gains and spend rather than reinvest dividends, while the total return approach shows how the value of the portfolio has developed after factoring in dividend payments.

Based on the S&P 500 index for the US market, price gains alone would have been even more impressive, propelling the original investment of 100,000 US dollars towards the 330,000 US dollar mark, albeit dividend payments would have been lower (see Figure 1).

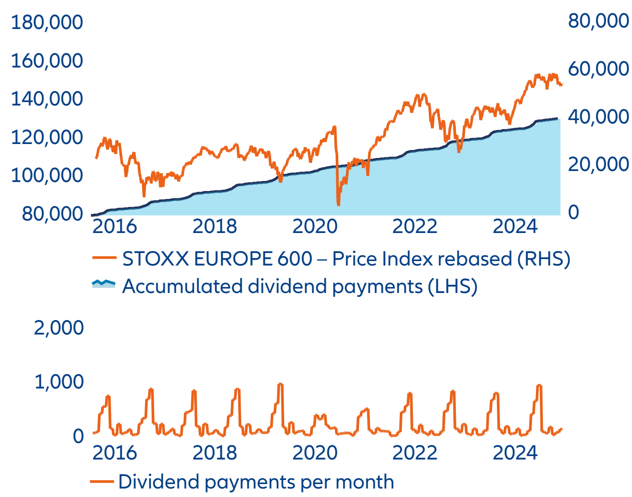
In this example, dividends would have been spread unevenly across the year, as illustrated in the lower section of Figure 1, which shows monthly dividend payments relative to the original 100,000 euro or US dollar investment. However, it would have been possible to create uniform monthly payments with the right strategy.

Granted, these are historical figures and not future projections, and there has also been plenty of price volatility in the past — as there will be in the future, too.[3] Nevertheless, this analysis illustrates that the value of an investment can rise while still providing a regular stream of income. In the next section, we examine just how reliable this income stream can be.

Figure 1: What happened to an investment of 100,000 euros or US dollars over a period of 10 years.

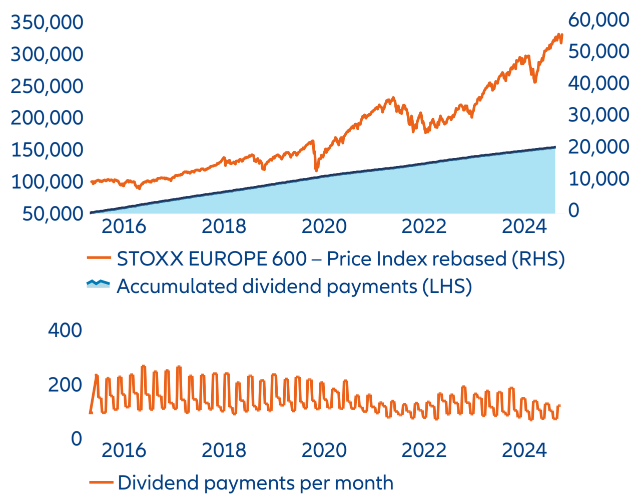
STOXX Europe - 600 price index and dividends

Share price performance and dividends, cumulative & monthly



S&P 500 - price index and dividends

Share price performance and dividends, cumulative & monthly



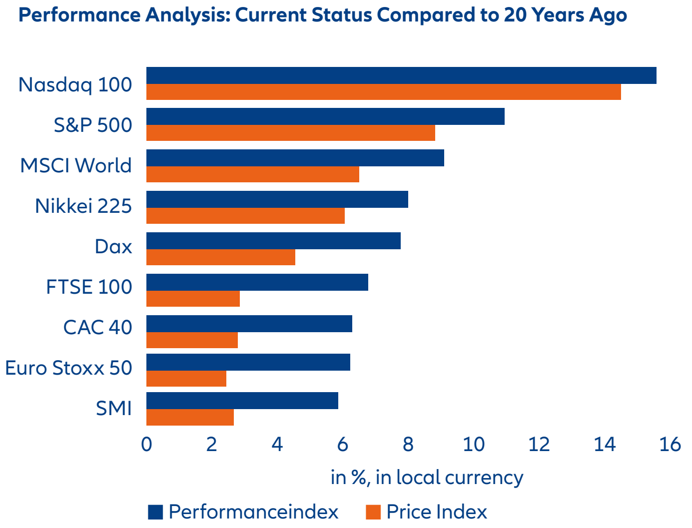
Source: LSEG Datastream, Allianz Global Investors Global Capital Markets & Thematic Research, Past performance is not indicative of future returns. Data as of 04.12.2025. For illustrative purposes only (no reference to any real strategy, portfolio or product data).

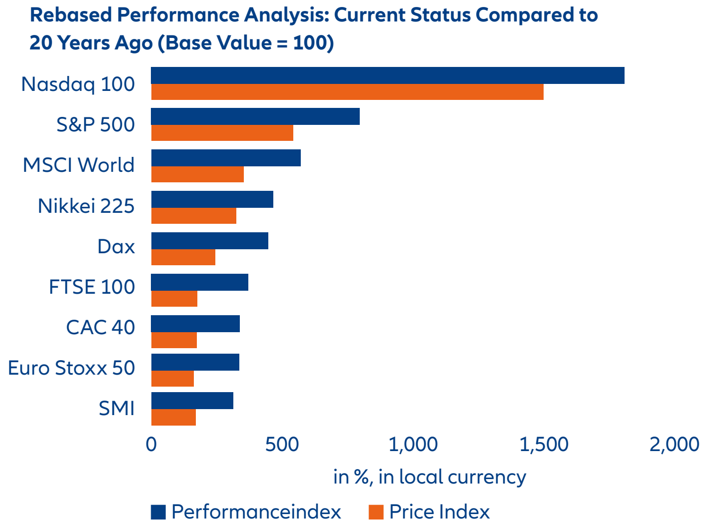
Dividends as a component of return

Yet, dividends make an often underestimated contribution towards the total return of an equity investment, as shown in Figure 2 for an investment horizon of 20 years. To some extent, the total return of the respective benchmarks (based on the performance index in each case) is significantly driven by dividends, as revealed in a comparison with the price index. This is because, unlike in the price index, dividends are not paid out but reinvested instead. This reinvestment leads to a – desired – compounding return effect.

The contribution that dividends make to the total return of an investment becomes even clearer when examining the performance of indexes with and without reinvestment rather than the average total return over the investment period. This is illustrated in the right-hand chart of Figure 2.[4]

Figure 2: Total return vs. price indices (-20 years)



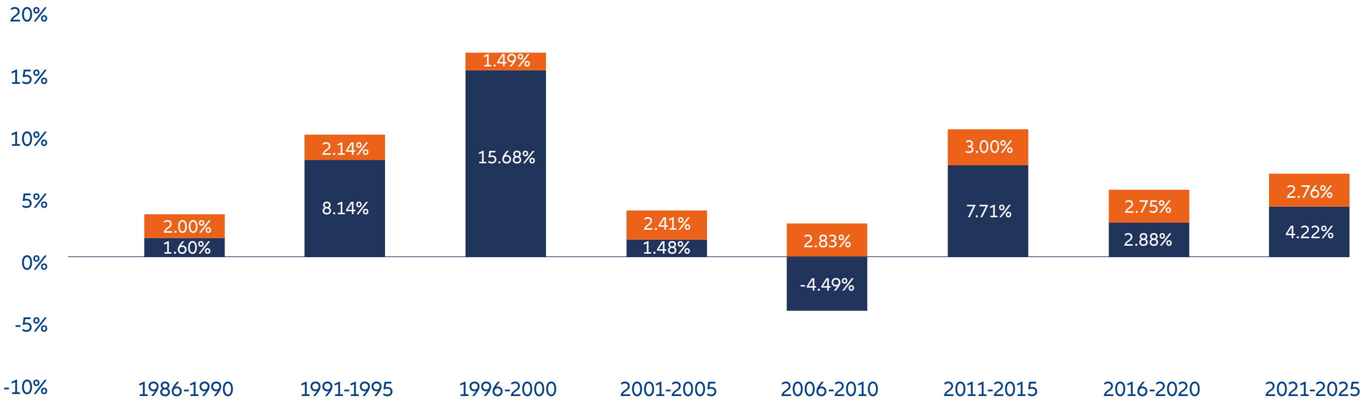


Source: LSEG Datastream, Allianz Global Investors Global Capital Markets & Thematic Research. Past performance does not predict future returns. Data as of 04.12.2025. For illustrative purposes only (no reference to any real strategy, portfolio or product data).

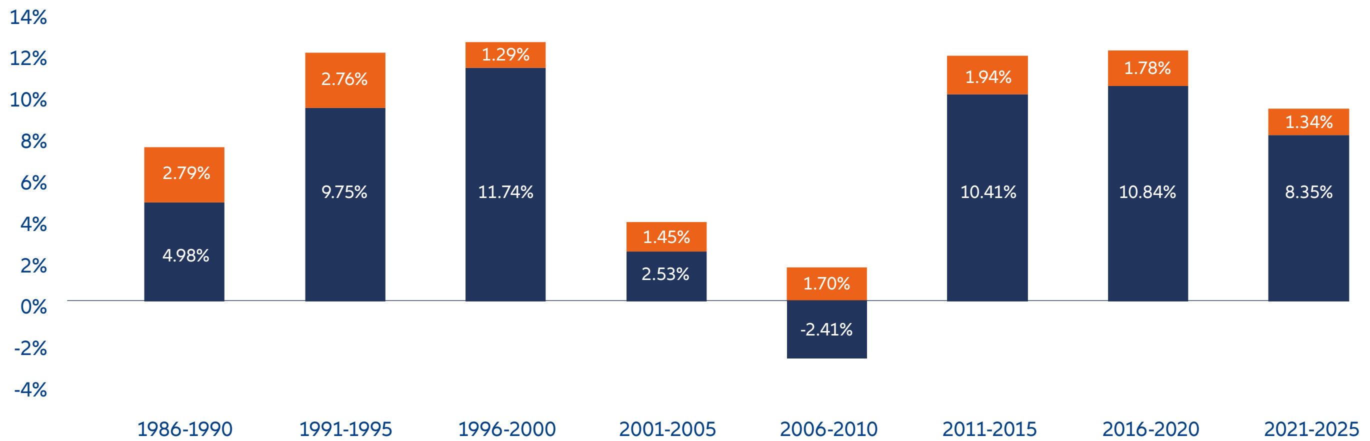
While history never repeats itself, it is still worthwhile taking a closer look at the past share of returns on equity investments that can be attributed to dividends — as clearly illustrated in Figures 3a to 3c. Here, the annualised total return was broken down over various periods into the proportion attributable to price gains and that resulting from dividends. The data suggests that dividends helped to stabilise overall performance in years of declining equity prices.

Figure 3a–3c: Performance contribution of dividends and share prices over the last 40 years in five-year periods (in % p. a.)

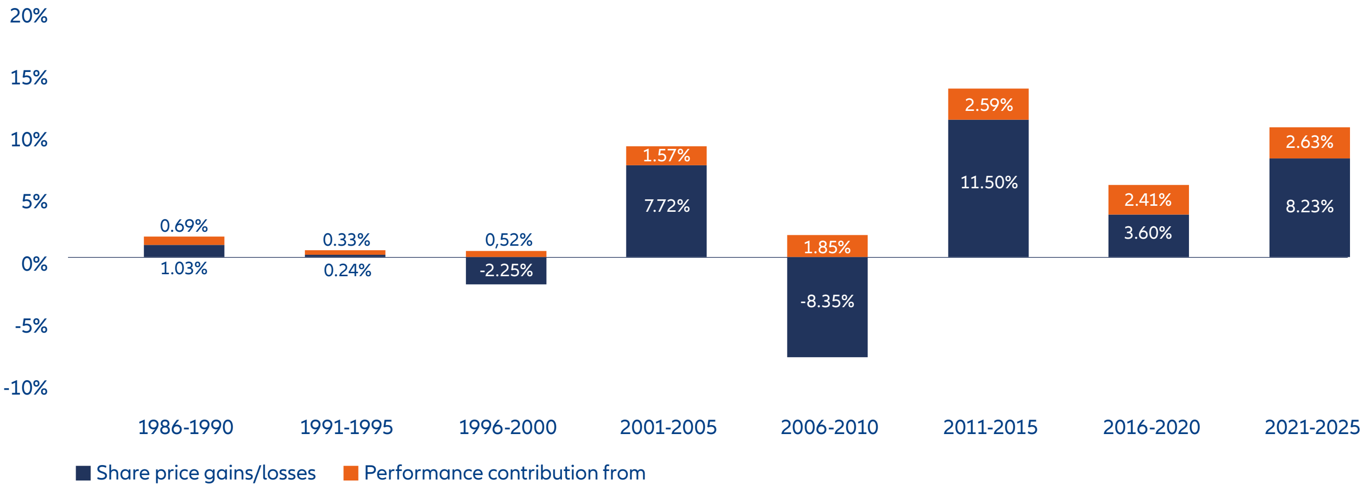
MSCI Europe



MSCI North America



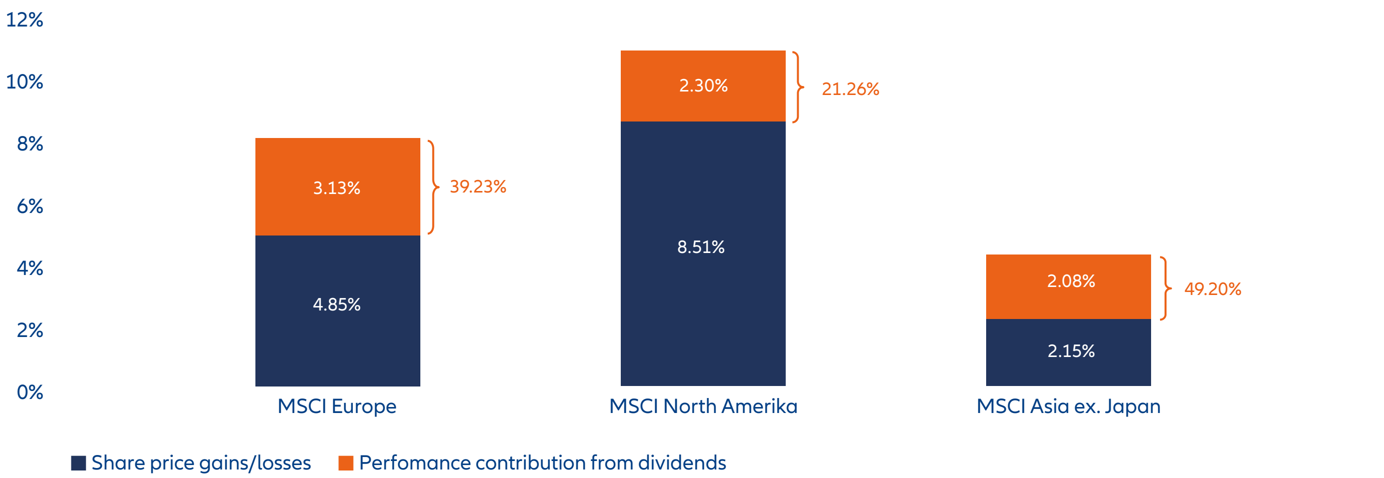
MSCI Asia ex. Japan



Source: LSEG Datastream, Allianz Global Investors Global Capital Markets & Thematic Research. Past performance does not predict future returns. Data as of December 2025. For illustrative purposes only (no reference to any real strategy, portfolio or product data).

If longer time periods are analysed, the contribution from dividends becomes even more pronounced (in part due to the compounding return effect). Over the entire period of the last 40 years, dividends accounted for just over 39 % of the annualised total return of an equity investment in the MSCI Europe. In North America (MSCI North America) and Asia-Pacific (MSCI Pacific), dividends contributed slightly more than 21 % or just over 49 % to the total return of each index, respectively (see Figure 3d).

Figure 3d: Share of p.a. total performance of dividends and price gains over the last 40 years in an international comparison (annualized).

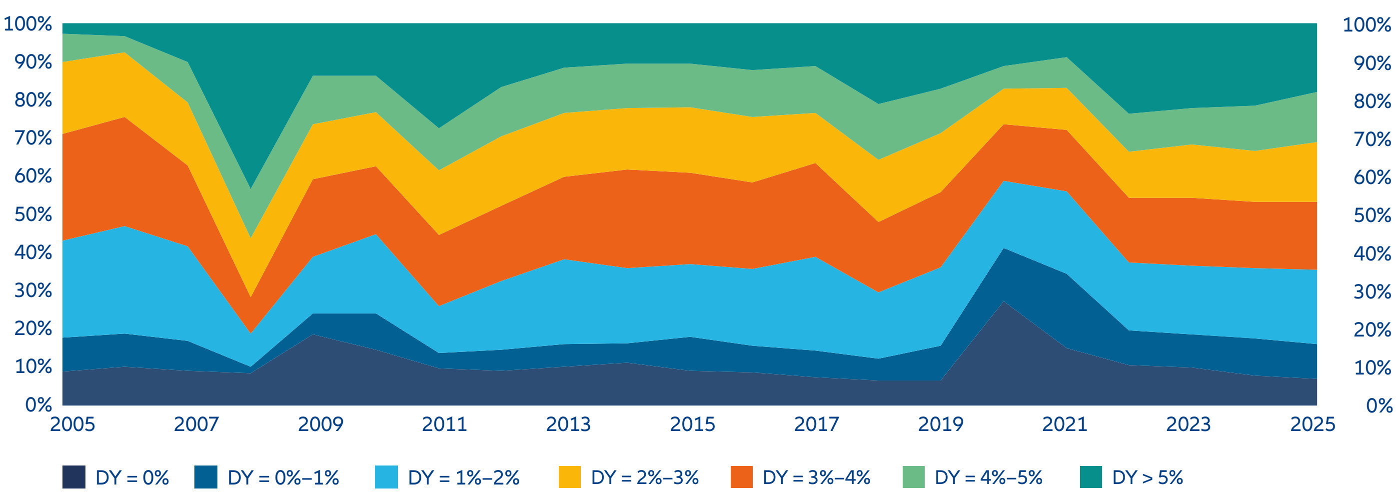


Source: LSEG Datastream, Allianz Global Investors Global Capital Markets & Thematic Research. Past performance does not predict future returns. Data as of December 2025. For illustrative purposes only (no reference to any real strategy, portfolio or product data).

The dividend yields of the respective equities included in the indexes are very broadly scattered around the average dividend yield of the benchmark, a finding depicted in Figures 4a to 4c for the investment regions of Europe, the United States and Asia (ex. Japan). It is even relatively common to see dividend yields of 5 % or more, though yield clusters vary depending on the benchmark and region.

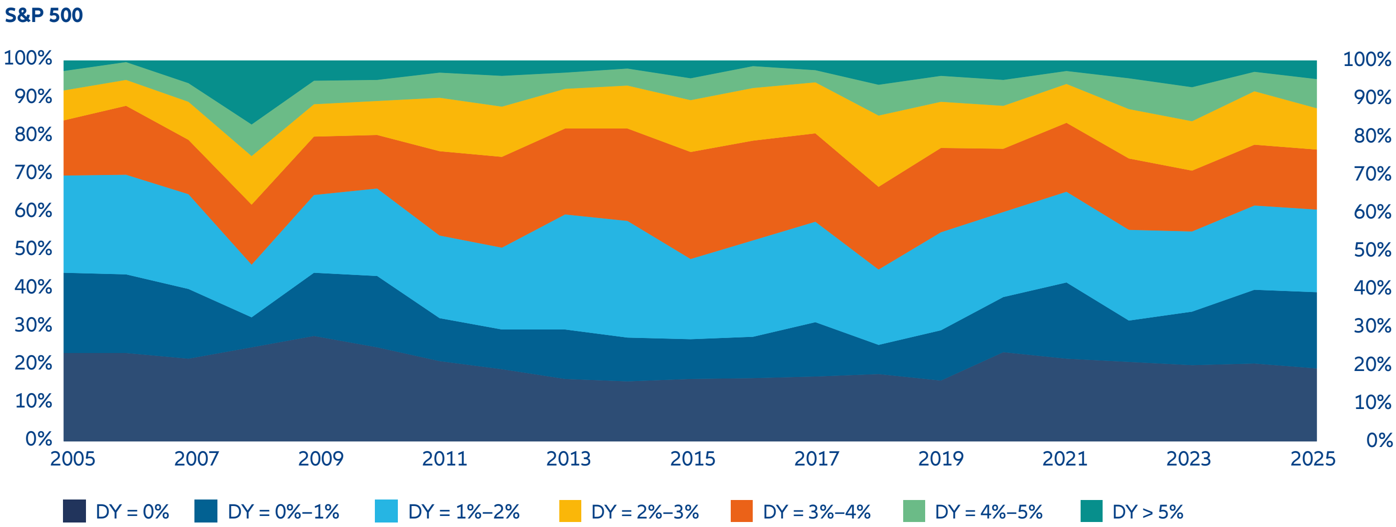
Figure 4a: Dividend yield over time

STOXX Europe 600



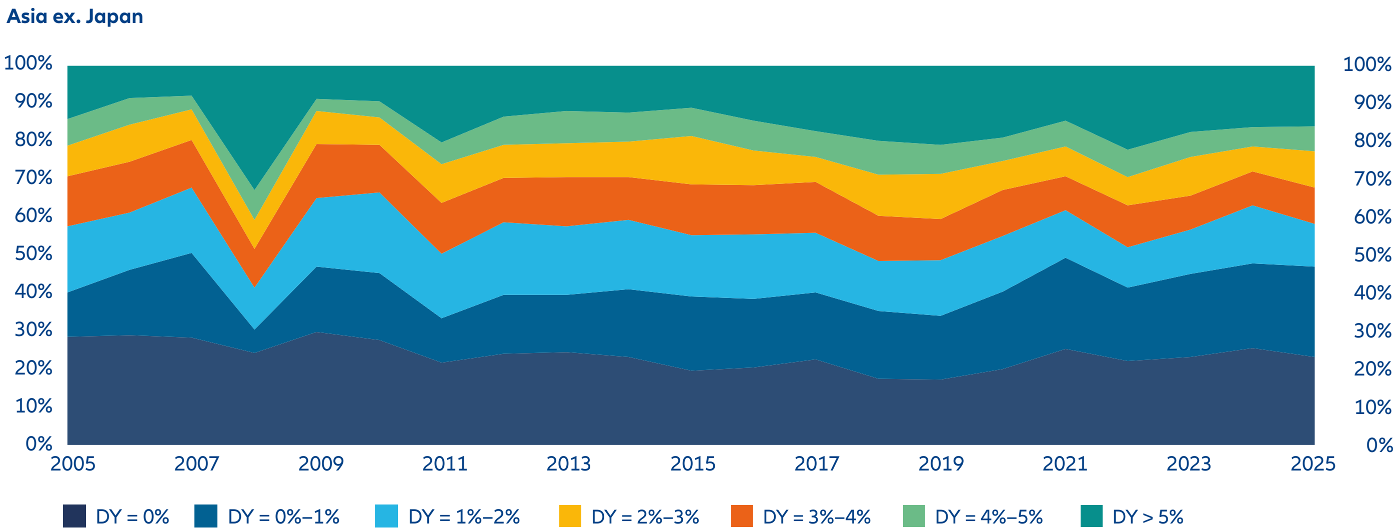
Source: LSEG Datastream, Allianz Global Investors Global Capital Markets & Thematic Research. Past performance does not predict future returns. Data as of December 2025. For illustrative purposes only (no reference to any real strategy, portfolio or product data).

Figure 4b: Dividend yield over time



Source: LSEG Datastream, Allianz Global Investors Global Capital Markets & Thematic Research. Past performance does not predict future returns. Data as of December 2025. For illustrative purposes only (no reference to any real strategy, portfolio or product data).

Figure 4c: Dividend yield over time



Source: LSEG Datastream, Allianz Global Investors Global Capital Markets & Thematic Research. Past performance does not predict future returns. Data as of December 2025. For illustrative purposes only (no reference to any real strategy, portfolio or product data).

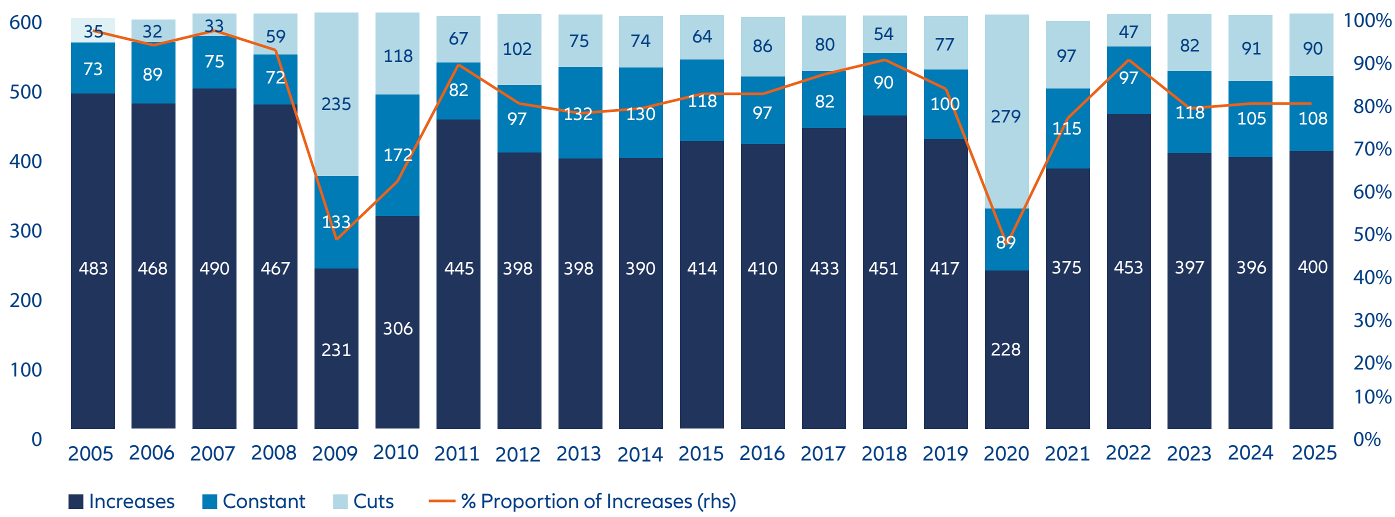
The takeaway here is that implementing an appropriate dividend strategy can optimise the dividend yield by selecting the right stocks – a particularly effective approach for generating investment income from dividends. In turn, this has the potential to raise the share of return from dividends as a factor in the overall performance of an investment.

A "steady-as-she-goes" dividend policy

It is interesting to note in this regard that companies themselves tend to pursue a very consistent dividend policy and, in many cases, one that even tilts towards rising payouts.

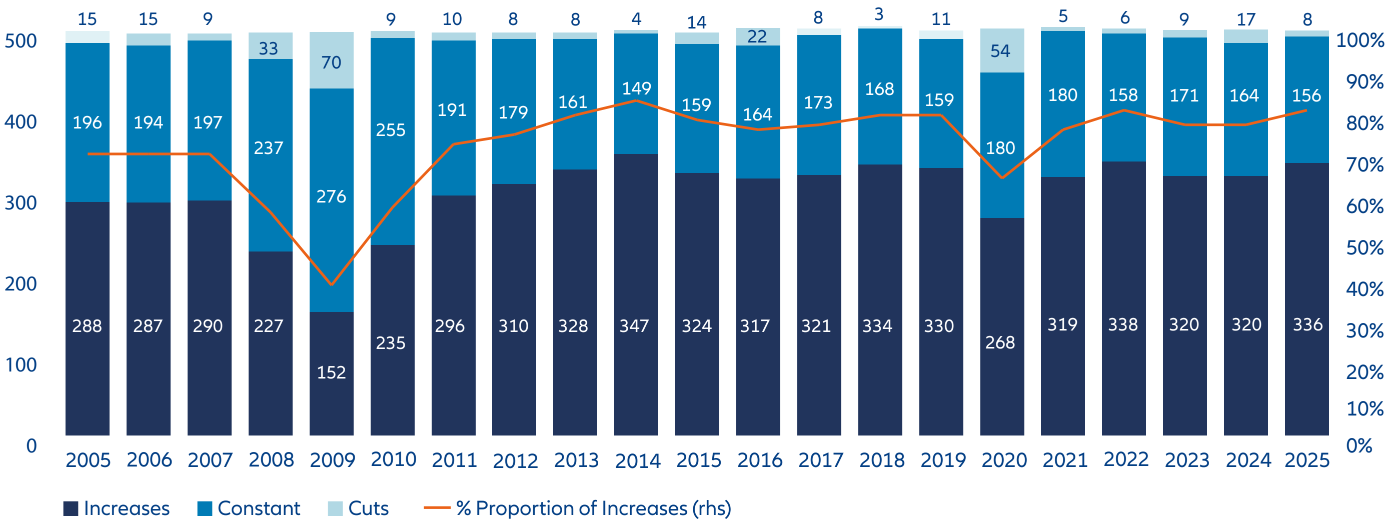
This trend is illustrated very clearly in Figures 5a to 5c. The companies included in each index were clustered according to whether they increased, maintained or cut their dividends compared to the previous year. The results continue to show that the vast majority of companies raised their dividend payments every year. A considerably smaller number reduced their dividend payments, with the exception of years such as 2009 (the year after the outbreak of the global financial crisis) and the pandemic-stricken year of 2020. These findings are also consistent with the historical trend of a steady year-on-year increase in total payouts (excluding crisis-hit years). In other words, investors have benefited from a parallel growth in corporate profits.

Figure 5a: Number of companies with dividend increases and decreases in the years 2005-2025 – STOXX Europe 600



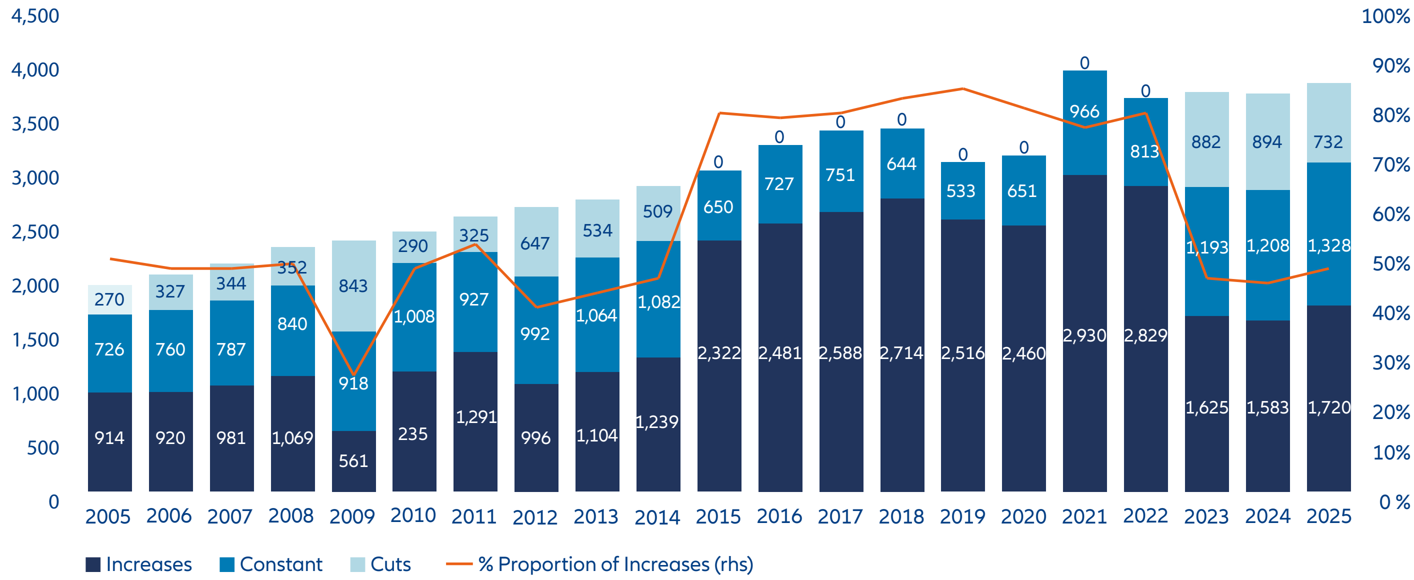
Source: LSEG Datastream, Allianz Global Investors Global Capital Markets & Thematic Research. Past performance does not predict future returns. Data as of December 2025. For illustrative purposes only (no reference to any real strategy, portfolio or product data).

Figure 5b: Number of companies with dividend increases and decreases in the years 2005-2025 – S&P 500



Source: LSEG Datastream, Allianz Global Investors Global Capital Markets & Thematic Research. Past performance does not predict future returns. Data as of December 2025. For illustrative purposes only (no reference to any real strategy, portfolio or product data).

Figure 5c: Number of companies with dividend increases and decreases in the years 2005-2025 – LSEG Asia ex. Japan



Source: LSEG Datastream, Allianz Global Investors Global Capital Markets & Thematic Research. Past performance does not predict future returns. Data as of December 2025. For illustrative purposes only (no reference to any real strategy, portfolio or product data).

Dividends – a stabilising factor for the portfolio

However, portfolio stability is supported not only by the dividend contribution to total return and the inherently steady distribution policy. Portfolios with higher dividend payout ratios also exhibit lower volatility than those composed of equities with low payout ratios.

To examine this question, two sub-portfolios were constructed for each of the broad market indexes, the STOXX Europe 600 and the S&P 500: one comprising the 25 percent of constituents with the highest dividend payout ratios ("H"), and another comprising the 25 percent with the lowest payout ratios ("L"). These sub-portfolios were then compared with each other and with their respective parent index. The analysis covers a 20-year period.

> Dividend strategies also confer a behavioural-finance advantage by helping investors mitigate their inherent loss aversion.
>
> **Dr Hans-Jörg Naumer**
> Director Global Capital Markets &
> Thematic Research

High dividend payout ratios – lower volatility

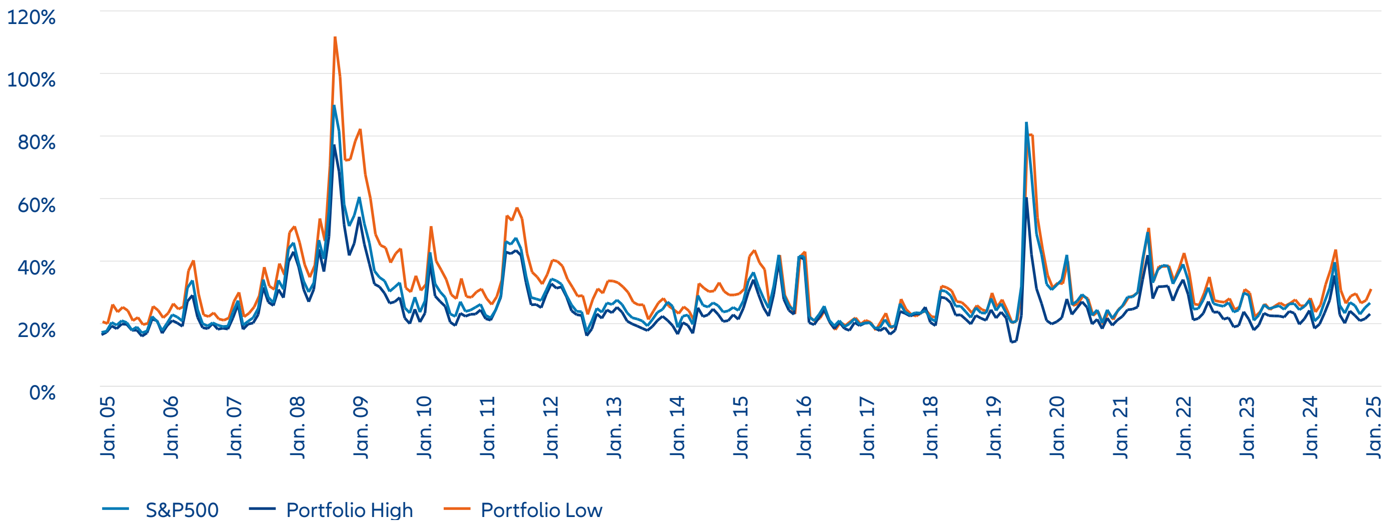
This portfolio construction reveals that portfolios with high payout ratios — also known as dividend portfolios — exhibit lower levels of volatility. While both the S&P and STOXX "H" portfolios are less volatile than their respective benchmarks over the entire period from 2005 to the end of 2024, the "L" portfolios fluctuated to a considerably greater extent. This was the case in comparison to both the "H" portfolios as well as the underlying STOXX and S&P indexes.

This pattern also carries clear implications for returns. An investor allocating to the "H" and "L" portfolios, as well as to the respective parent indexes, over the 20-year period from early 2005 to end-2024 would observe that the "H" portfolios only marginally underperformed their benchmarks. The STOXX Europe 600 "H" portfolio delivered an annual return 0.29 percentage points below the index, while the S&P 500 "H" portfolio lagged by 0.47 percentage points per annum. By contrast, the "L" portfolios generated materially weaker results in both markets. The STOXX Europe 600 "L" portfolio underperformed the index by 2.57 percentage points per year, while the S&P 500 "L" portfolio lagged by an average of as much as 3.50 percentage points annually.

The upshot of these findings is that dividends provide greater stability to a portfolio (cf. Figures 6a and 6b).

Figure 6a: STOXX 600 Europe

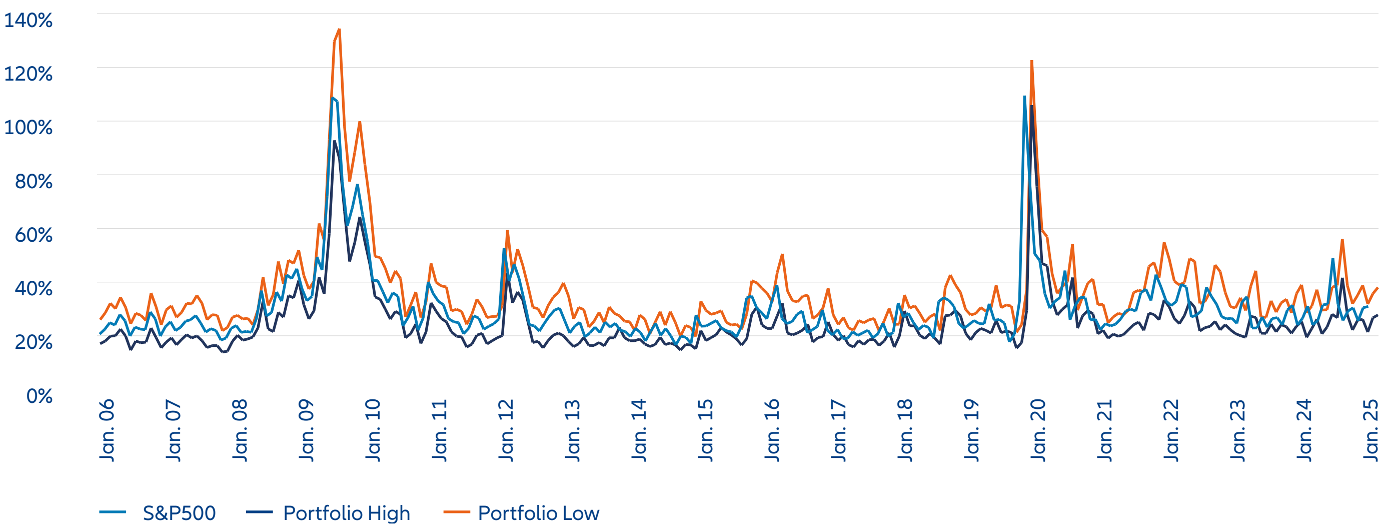
Volatility of the STOXX 600 Europe and its companies with the 25% highest & lowest payout ratios (2005–2025)



Source: LSEG Datastream, Allianz Global Investors Global Capital Markets & Thematic Research. Data as of December 2025. For illustrative purposes only (no reference to any real strategy, portfolio or product data).

Figure 6b: S&P 500

Volatility of the S&P 500 and its companies with the 25% highest & lowest payout ratios (2005–2025)



Source: LSEG Datastream, Allianz Global Investors Global Capital Markets & Thematic Research. Data as of December 2025. For illustrative purposes only (no reference to any real strategy, portfolio or product data).

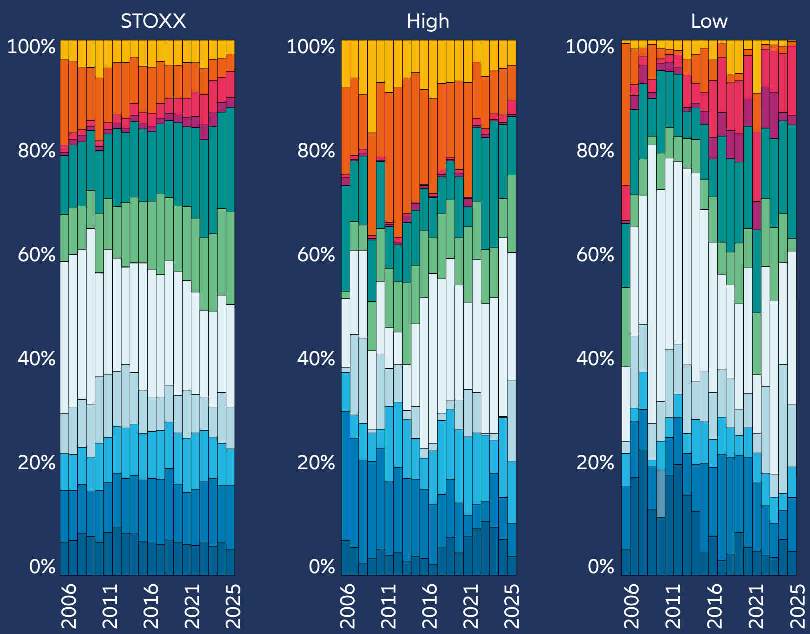
What precisely does exposure to dividend portfolios entail?

A recurring question regarding dividend strategies concerns the extent to which they exhibit systematic biases towards particular investment styles. Such tilts could, in principle, account for the comparatively lower volatility observed in dividend portfolios. To assess this, it is useful to examine the characteristics of the portfolios outlined above, differentiated by low ("L") and high ("H") payout ratios.

Sectoral dominance

Differences in volatility are largely attributable to sector composition. A sector-level review indicates that portfolios comprising the top 25 percent of dividend payers in both the STOXX Europe 600 and the S&P 500 exhibit materially higher allocations to utilities, telecommunications and non-cyclical consumer goods. By contrast, portfolios in the lowest dividend-paying quartile are more heavily weighted towards technology, cyclical consumer goods and energy (see Figures 7a and 7b).

Figure 7a: STOXX 600 Europe – Sector distribution by market capitalization

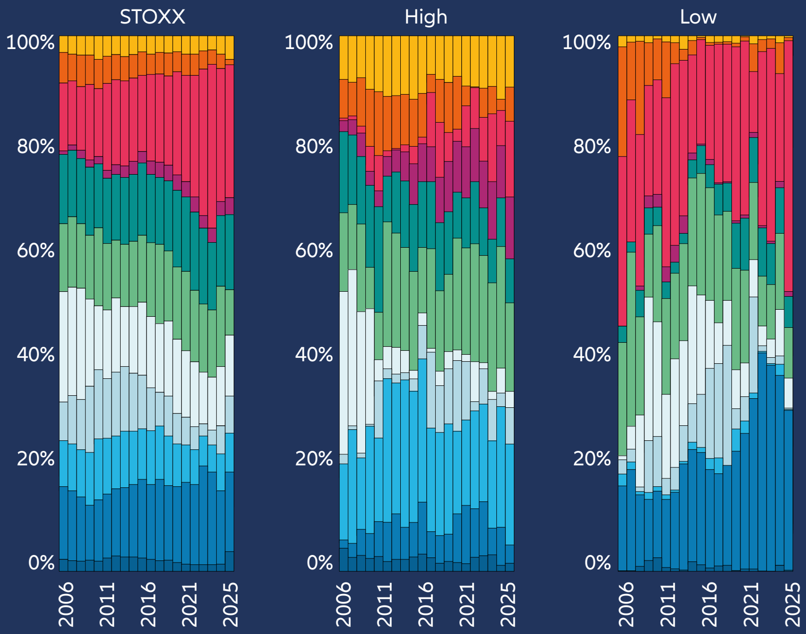


Average Sector Shares 2006-2025

STOXX	High	Low	Sector
4.5%	8.1%	2.5%	Utilities
8,3%	16.1%	4.2%	Telecommunications
2.8%	0.8%	6.5%	Technology
1.3%	0.6%	3.2%	Real Estate
14.5%	11.6%	13.5%	Industrials
12.0%	9.7%	7.7%	Health Care
22.3%	19.7%	27.3%	Financials
8.6%	5.6%	9.4%	Energy
8.5%	10.1%	5.1%	Non-cyclical consumer goods
10.7%	12.6%	11.1%	Cyclical consumer goods
6.5%	5.1%	9.5%	Basic Materials

Source: LSEG Datastream, Allianz Global Investors Global Capital Markets & Thematic Research. Data as of October 2025. For illustrative purposes only (no reference to any real strategy, portfolio or product data).

Figure 7b: S&P 500 – Sector distribution by market capitalization



Average Sector Shares 2006-2025

STOXX	High	Low	Sector
3.5%	9.7%	1.2%	Utilities
4.2%	7.3%	5.1%	Telecommunications
18.0%	5.3%	27.2%	Technology
2.2%	6.9%	1.1%	Real Estate
13.0%	11.6%	5.4%	Industrials
12.8%	9.7%	17.4%	Health Care
13.7%	7.8%	11.4%	Financials
8.1%	5.5%	7.2%	Energy
8.6%	19.9%	1.3%	Non-cyclical consumer goods
13.8%	6.4%	21.9%	Cyclical consumer goods
2.1%	2.4%	0.8%	Basic Materials

Source: LSEG Datastream, Allianz Global Investors Global Capital Markets & Thematic Research. Data as of October 2025. For illustrative purposes only (no reference to any real strategy, portfolio or product data).

Do certain investment styles have an edge?

If dividend strategies are dominated by specific sectors, this naturally prompts the question of whether distinct patterns also emerge with respect to investment styles. Are portfolios with higher dividend payers more heavily influenced by companies with larger market capitalisations? Or do they exhibit a pronounced tilt towards value stocks? This, at least, is the commonly held view.

A factor attribution analysis provides an appropriate framework for addressing these questions. Using a multi-factor approach, the analysis assessed the extent to which the respective portfolios diverge from the market in terms of excess returns and whether they lean towards particular investment styles. The results indicate no statistically significant bias towards any particular investment style. In other words, categorising dividend portfolios solely on the basis of company size or value orientation appears insufficient.

Finally, it should be emphasised that the analysis was purely schematic, distinguishing portfolios solely on the basis of high versus low dividend payout ratios. No active stock selection was undertaken, for example on the basis of anticipated dividend growth.

The findings imply that a blanket classification of dividend strategies as “value” is overly simplistic. Likewise, the analysis offers no meaningful support for the often-asserted notion that dividend strategies are disproportionately driven by large-cap stocks.

Dividends, a second income and outsmarting yourself

Dividend strategies mitigate portfolio volatility in two distinct ways: first, through the substantial contribution of dividends to total returns, and second, through the inherently lower volatility of dividend-oriented portfolios relative to the broader market.

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From a behavioural economics standpoint, this can help investors mitigate their loss aversion when allocating capital. One principle remains clear, however: Investors seeking higher returns and a participation in corporate earnings must be prepared to assume a commensurately higher level of risk.

From an investor’s perspective, consistent dividend payments have another advantage in terms of behavioural psychology. Capital that is committed to an investment is often perceived as a “loss” as it is (temporarily) unavailable for consumption. Humans are naturally inclined towards immediate gratification. Although this response may appear irrational, it has evolutionary foundations: our prehistoric ancestors had limited life expectancy and faced constant uncertainty, rendering long-term financial planning largely irrelevant. This predisposition continues to influence our decision-making today. Regular investment income can help mitigate this psychological barrier by providing a recurring sense of reward, ideally on a monthly basis. This makes the investment more tangible and significantly reduces the mental resistance associated with allocating capital for the long term.

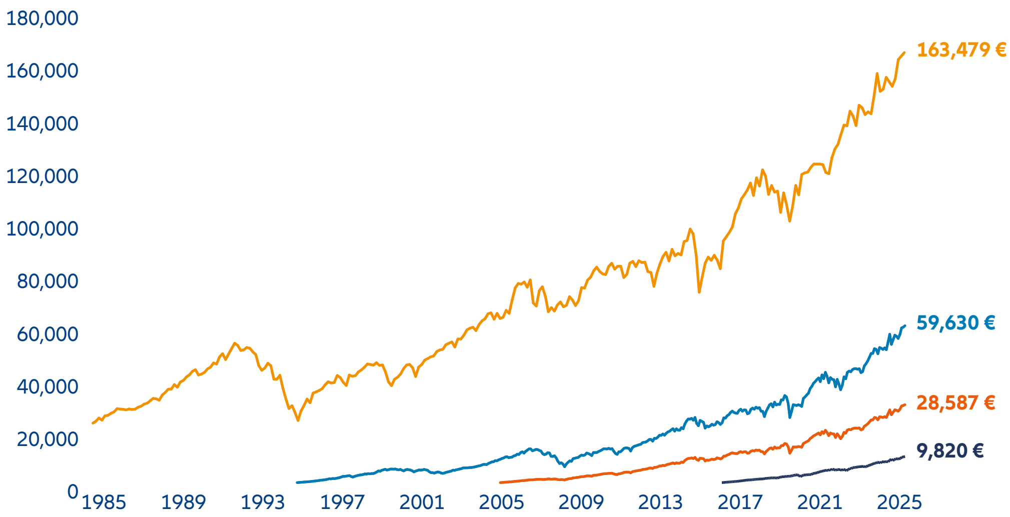
On the subject of outsmarting yourself, a savings plan is one possible way of helping to mitigate volatility on the capital markets by using the cost-averaging effect while still benefiting from a risk premium. Figure 8 illustrates the potential return that can be generated based on the example of saving 50 euros a month in the STOXX Europe 600 over 10, 20, 30 and 40 years. Clearly, even a savings plan is not a magic formula against losses: If markets decline over a prolonged period, it will not deliver any positive returns either. However, in the longer term, it is reasonable to hope that the higher risk of equities will be reflected in higher returns – as risk is rewarded. When you commit to a regular savings plan, you quickly get used to a set amount leaving your account each month. The simplest approach is to have the contribution deducted automatically as soon as your salary comes in. If the money never reaches your available balance, you cannot spend it. Over time, this turns saving into a natural habit.

Ultimately, one point is clear: anyone who wants to generate investment income should start accumulating capital as early as possible – whether for their own future or for the benefit of their children or grandchildren.

Find out more about this in our study "Outsmart yourself!".

Figure 8 „Prosperity for all" is possible - even with small contributions

Example of a savings plan on the MSCI Europe and Stoxx 600, 50 euro/month



	Deposited
Last 10 years	6,000 €
Last 20 years	12,000 €
Last 30 years	18,000 €
Last 40 years	**24,000 €**

Assumptions: reinvestment of dividends, dividends tax-free. Due to the insufficient history of the Stoxx 600, a switch was made to the MSCI Europe for the 30 and 40-year periods.
Source: AllianzGI Global Capital Markets & Thematic Research; Past Performance does not predict future returns. Data as of December 2025.
For illustrative purposes only (no reference to any real strategy, portfolio or product data).

Dividends – your second income

Although the past cannot simply be projected into the future, dividends nevertheless offer several interesting lessons that can be drawn from historical experience.

Our historical analysis suggests that dividends have made a significant contribution to the total return generated by equity investments. It also shows that dividends have delivered a more consistent performance than corporate earnings. Portfolios composed of equities from companies with higher dividend payout ratios have exhibited lower volatility than those invested in firms with lower payout ratios or no dividend distributions – at least according to our analysis. Dividends may help investors to outsmart themselves by providing them with a constant stream of "rewards" in the form of dividend payments that reduce the feeling of "loss" associated with an investment in securities. Thanks to their consistency and their substantial contribution to total return, dividends are a suitable means of generating a second income. Supplementary **investment income** that can then be used, for example, to fund the grandchildren's education (a "grandparents' grant"), as extra money for a holiday or for the third phase of life. The bottom line is: **Let your money work for you!**

Dr Hans-Jörg Naumer

A special thanks to Moritz Wind for their support in collating the data for this study.

> Thanks to their consistency and their substantial contribution to total return, dividends are a suitable means of generating a second income — supplementary investment income that can then be used, for example, to fund the grandchildren's education (a "grandparents' grant"), as extra money for a holiday or for the third phase of life.
>
> **Dr Hans-Jörg Naumer**
> Director Global Capital Markets & Thematic Research

Further publications

Tactical & strategical asset allocation

- The investment multiverse
- The Week Ahead

Behavioral Finance

- Outsmart yourself!
- 7 habits of successful investors

Dividend Study,
14th edition

Dr Hans-Jörg Naumer

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[1] Freeman, R. B. (2018). Employee and citizen ownership of business capital in the age of AI Robots. In CSR und Mitarbeiterbeteiligung: Die Kapitalbeteiligung im 21. Jahrhundert–Gerechte Teilhabe statt Umverteilung (pp. 101-108). Berlin, Heidelberg: Springer Berlin Heidelberg.
[2] Naumer, H.-J. (2025). Kapitaleinkommen in Zeiten der Disruption: Lassen Sie Ihr Geld für sich arbeiten. Springer-Verlag.
[3] Vgl. dazu Naumer, H.-J. (2024). Zwischen „Arm" und „Reich" – die Risikoprämie als vergessene Größe in der Verteilungsdebatte (eine Wiederaufnahme). In Vermögensbildungspolitik: Wohlstand steigern – Ungleichheit verringern – Demokratie stärken (pp. 207–214). Wiesbaden: Springer Fachmedien Wiesbaden.
[4] Each index was rebased to 100 for better comparability.

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