Berkshire
DIVIDEND STRATEGY

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Dividend Growth Commentary
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GAME CHANGER

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The market has a way of defying even the most confident investors' expectations, and the first quarter of this year has been no exception.

The S&P 500 and large-cap growth indices entered correction territory—the fifth-fastest in 75 years—reminding everyone that trees don't grow to the sky. While volatility surged and bond yields plunged as investors scrambled for safety, we believe our dividend strategy remained a relative port in the storm. Dividend stocks, historically known for their stability and income generation, proved their worth yet again in this environment, in our opinion.

(Source: fsinsight)

A few key themes defined this market shift:

- **The Great Rotation**: In just 3 months, value stocks outperformed growth by ~12%, an abrupt reversal from the AI-fueled rally that dominated 2024. The same mega-cap tech names that led the market to unsustainable highs are now dragging it lower. Investor psychology is shifting—where greed once fueled relentless buying, fear is now prompting a reassessment of risk. This behavioral shift could signal a more sustained correction in growth stocks, particularly those that ran far ahead of their fundamentals.

  (Source: Bloomberg)

- **The Nasdaq's Wild Ride**: 16 consecutive sessions of at least a 1% intraday decline is a rare streak, underscoring just how fragile the market's previous leadership had become. While headlines blamed tariffs and macroeconomic concerns, the real catalyst may have been Deep Seek's new AI chips, which sent the entire tech sector into a valuation reset in late January. This event serves as a stark reminder that market darlings can quickly become market casualties when expectations run too hot. It appears one piece of news – out of the blue – may have shifted the whole narrative.

  (Source: Bloomberg)

- **Sector Performance Highlights**: The correction has not affected all sectors equally. Tech stocks, which soared on AI enthusiasm, have led the downturn as investors reassess stretched valuations. Financials, often seen as beneficiaries of a higher-rate environment, have held up relatively well, with select banks and insurance companies proving resilient. Meanwhile, consumer discretionary stocks have been mixed—luxury and travel remain strong, but concerns over slowing consumer spending are weighing on lower-end retail and cyclical names. We also saw a few consumer (and economic) bell-weather type names like Nike and Fed-Ex warned of tough times ahead. This divergence reinforces the importance of sector selection and active management in navigating market shifts.

  (Source: Bloomberg)

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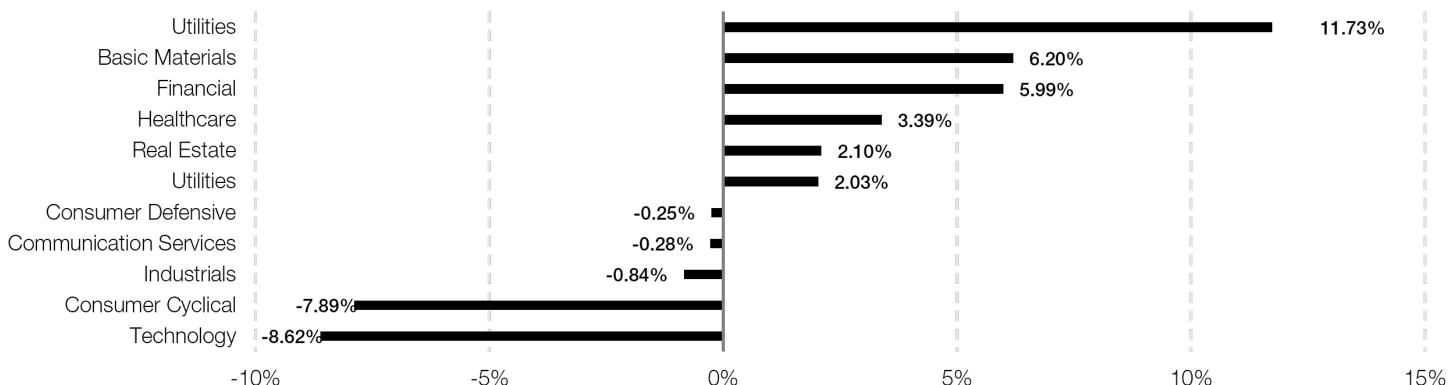
- Sector wise, the following chart shows a sharp rotation. Given the manic enthusiasm for growth sectors at year end, we suspect few investors would have predicted nearly a 20% performance differential between energy and technology in just 3 short months. Indeed, markets often defy even the most ingrained consensus. While there is still a ways to go, this price action should encourage investors that traditional value sectors can provide attractive returns vs. growth – and it may happen faster than one thinks.



(Source: Finviz 3.30.2025)

- **Is There Reason to Worry About Broader Contagion**: Earnings estimates for some high-flying tech names are being revised lower, but we don't see this as a systemic issue—yet. However, the behavioral patterns of past bubbles suggest that once sentiment turns, it often doesn't reverse quickly. Investors are beginning to differentiate between companies with durable cash flows and those propped up by a potential combination of speculative narratives or very high valuations that don't leave any room for error. Fundamentals for many dividend-paying companies remain sound, reinforcing our conviction in our approach.

  (Source: Bloomberg)

- **Tariffs and Market Valuations**: While tariff concerns have dominated recent headlines, we see their impact as likely being cyclical rather than structural. Tariffs can certainly disrupt earnings in the short term, but they should not affect the price-to-earnings (P/E) ratio that a rational investor is willing to pay for a high-quality company. Over time, markets tend to adjust to these external shocks, and well-run businesses with pricing power and resilient demand often emerge stronger. Investors who focus on fundamentals rather than short-term noise are typically rewarded.

Corrections are a normal and necessary function of healthy markets. The actual term "correction" implies something wasn't right – in this case valuations that ran ahead of themselves or were entirely incorrect in the first place. They need not create broader contagion – its wiping out excesses and get investors back to reality.

Most importantly, we believe this time period validates the core principles of our strategy. Markets will always ebb and flow, but we believe that owning businesses with strong balance sheets, consistent cash flow, and a commitment to returning capital to shareholders through dividends should provide a durable foundation of a diversified portfolio.

We remain encouraged by how well we see our portfolio as having held up and are optimistic about the opportunities ahead. Thank you for your continued trust—we look forward to navigating whatever comes next, together.

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