REAP WHAT YOU SOW:

Cultivating Yield for Long-Term Returns

Every great harvest begins with a single seed. The vibrant assortment of fruits and vegetables at your local farmer's market is the result of careful planning, the right conditions, and patience. Growth takes time, and the reward is worth the wait.

These same principles apply to investing. Investment returns are not simply numbers that appear on a statement. They are cultivated over time, with yield serving as a portfolio's silent workhorse. While often overlooked, yield from dividends and interest is a significant contributor to long-term performance. It plants the seed for future growth.

In this commentary, we roll up our sleeves and examine how investment yield drives returns and why its role is foundational to long-term investment success.

Down on the Farm

Historical Roots. Roughly 12,000 years ago, we abandoned our nomadic hunter-gathering ways for life on the farm during the Neolithic Revolution. This set the foundation for land ownership and laid the groundwork for cities. We might live in the age of AI, but today's groundbreaking technological breakthroughs are the compounding effect of millennia of advancements.

Hard at Work. Less than 1% of the U.S. labor force works in agriculture today,[1] down from around 40% at the turn of the 20th century.[2] Globally, agriculture accounts for approximately a quarter of the workforce.[3] These shifts and global differences highlight how the investing landscape is constantly in flux.

Buzzworthy. Bees are busy at work too. "Buzz pollination" helps pollinate over 20,000 flower species and major crops including tomatoes, cranberries, eggplants, and blueberries. Bees are nature's silent workhorses.

Delayed Gratification. It takes about two years for a pineapple plant to produce a single pineapple. Investing can also feel slow at times, but as the old proverb goes, "Patience is bitter, but its fruit is sweet." For perspective, the U.S. economy (nominal GDP) grew more than $3 trillion over the past two years. That's one expensive pineapple.

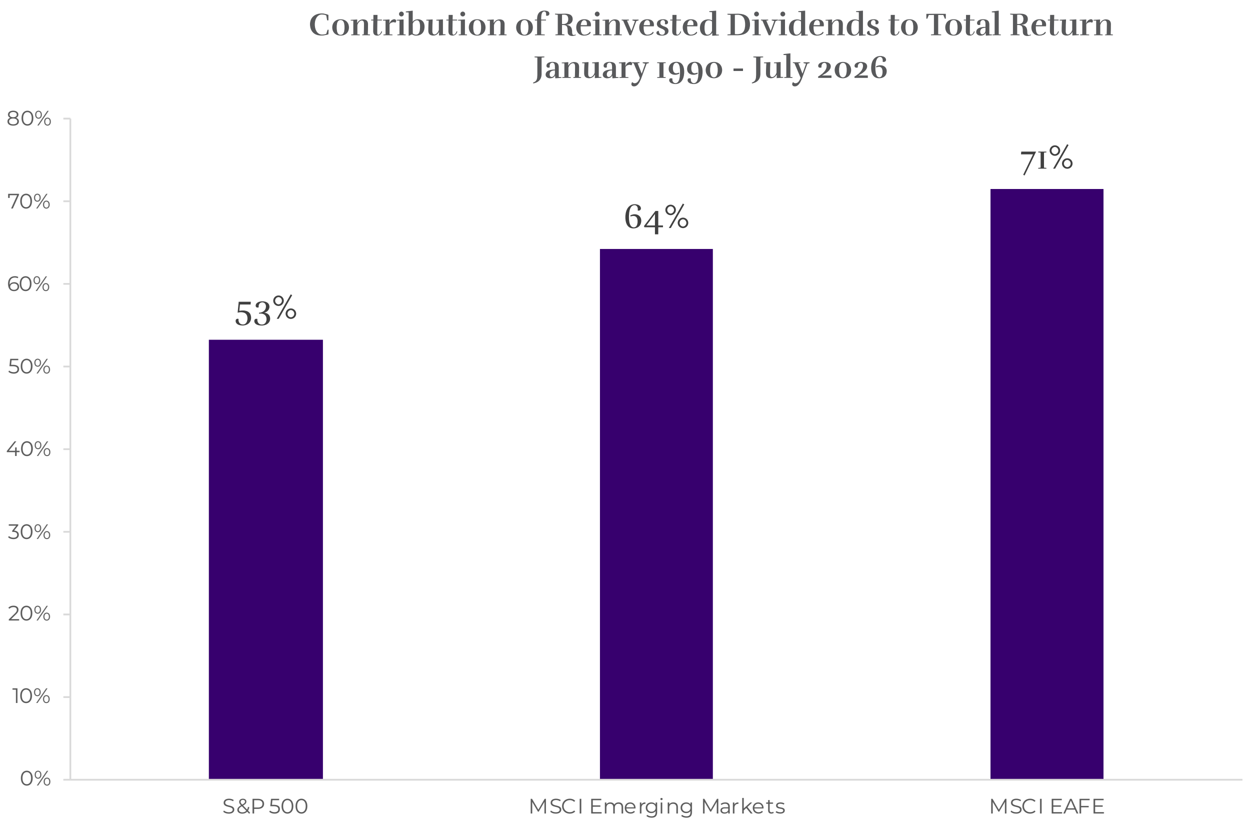
Buon Appetito. Italian cooking didn't feature tomatoes until the late 1600s.[4] Tomatoes, potatoes, corn, avocados, and chocolate weren't introduced to Europeans until after the discovery of the Americas, where these crops are native. Like global cuisine, the menu of investing opportunities grows when you invest globally.

Sowing the Seeds for Growth

Yield is one of the most important drivers of long-term investment returns. Think of it as a portfolio's irrigation system. At the most basic level, an investment's return is the sum of price appreciation and income (yield) from dividends and interest. For bonds, interest is the main contributor to returns if held to maturity, while dividends historically have been a major contributor to long-term returns for stocks, across broader indexes such as the S&P 500 (U.S. large cap stocks) and the MSCI EAFE index (international developed stocks).

Since 1990, dividends and reinvestment of dividend income have accounted for 53% of the S&P 500's total return. In any given year, the impact is much smaller, but over time the compounding effect produces a surprisingly large contribution from dividends. International stocks typically have higher dividend yields, which has led to dividends and reinvestment accounting for 64% of the total return in the MSCI Emerging Markets index and 71% of the total return in the MSCI EAFE index since 1990 **(Figure 1).**

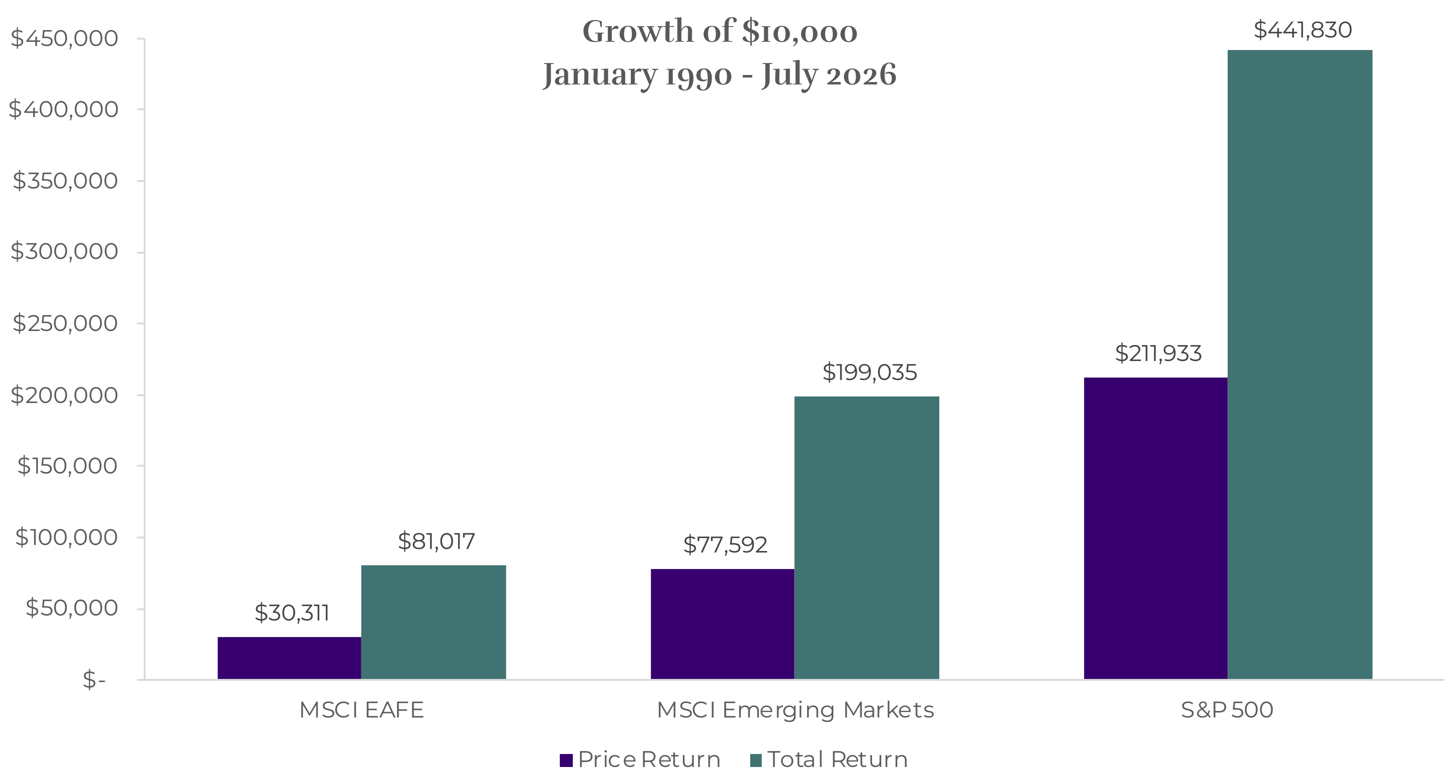
Figure 1: Reinvested Dividends Are a Key Ingredient



Source: Cetera Investment Management, YCharts, S&P Global, MSCI. Returns shown are based on price appreciation and reinvested dividends. Percentages represent the share of total returns attributed to dividends and reinvested income. Investors cannot invest directly in indexes. Past performance is not indicative of future results. Data from January 1, 1990, through July 31, 2026.

To put this in dollar terms, a $10,000 investment at the beginning of 1990 in an index that tracks the S&P 500 would have grown to roughly $212,000 based on price alone. With dividends reinvested, that figure grows to over $441,000. The impact of dividends on U.S. and international index returns is highlighted in **Figure 2.** Dividend reinvestment acts like fertilizer over time, and it's needed for compounding to be effective. Taking dividends as cash prunes long-term returns.

Figure 2: Fertilizing Long-Term Growth



Source: Cetera Investment Management, YCharts, S&P Global, MSCI. Price returns exclude dividends. Total returns include dividend reinvestment. Investors cannot invest directly in indexes. Past performance is not indicative of future results. Data from January 1, 1990, through July 31, 2026.

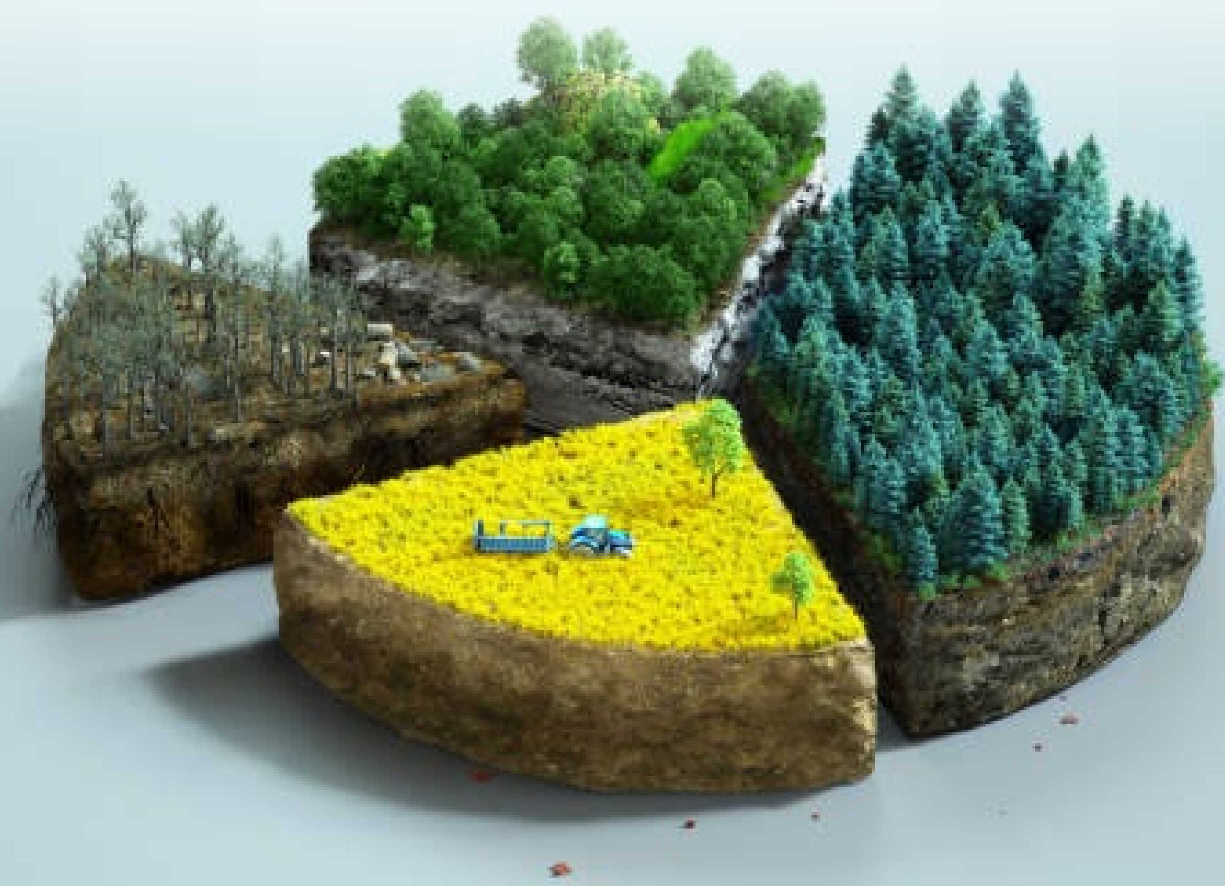
While investment income plants the seed for future growth, higher yield does not always equal better outcomes, and chasing after yield indiscriminately can introduce additional risks. Higher-yielding bond investments may introduce duration risk or lower credit quality in certain instances. But over time, an investment's yield has an outsized impact on returns. It provides a cushion during market downturns and can help accelerate recoveries, offering some stability even when asset prices fluctuate. In bear markets, dividend contributions are made as stock prices fall, providing reinvestment at a discount with lower prices.

Where Yield Takes Root

Fixed income markets typically have a base with richer soil for a more stable and predictable source of yield. Coupon clipping is a cash crop for bond holders, providing a steady stream of income. By comparison, equities tend to provide lower levels of income but higher total returns over the long run, though certain sectors such as utilities, real estate and consumer staples generate relatively higher dividend yields. Still, higher-yielding sectors do not always deliver the strongest long-term total returns, as more cyclical, lower-yielding growth-oriented sectors like technology tend to drive much of the market's growth during bull markets. But when an early frost hits the economy, market leadership often rotates toward dividend-oriented defensive sectors, like a "crop rotation" for portfolios.

U.S. companies have increasingly favored stock buybacks over dividends because they are more tax efficient. Buybacks are when companies buy back their own shares, which reduces the share count and can support stock prices over time. They don't put cash directly in investors' pockets the way dividends do.

Where yield is generated and how it is delivered across asset classes plays an important role in how investors balance income needs with long-term growth objectives. This is only part of the picture. Current conditions shape how much opportunity yield can provide.



Farmer's Almanac: Current Conditions

Farmers must plan ahead and pay close attention to changing seasons. For investors, understanding current conditions is just as important. Today, the yield environment looks much different than it did at the start of the decade. The 10-year treasury yield was as low as 0.5% during the pandemic and has since risen above 4.5%, making income a more meaningful contributor to returns than it was during much of the past decade.

Following the Great Financial Crisis of 2008, bond yields remained low for more than a decade as interest rates hovered near zero under the Fed's Zero Interest Rate Policy (ZIRP). Forward returns are heavily impacted by starting yield, and today's higher starting point looks constructive for investment-grade bonds.

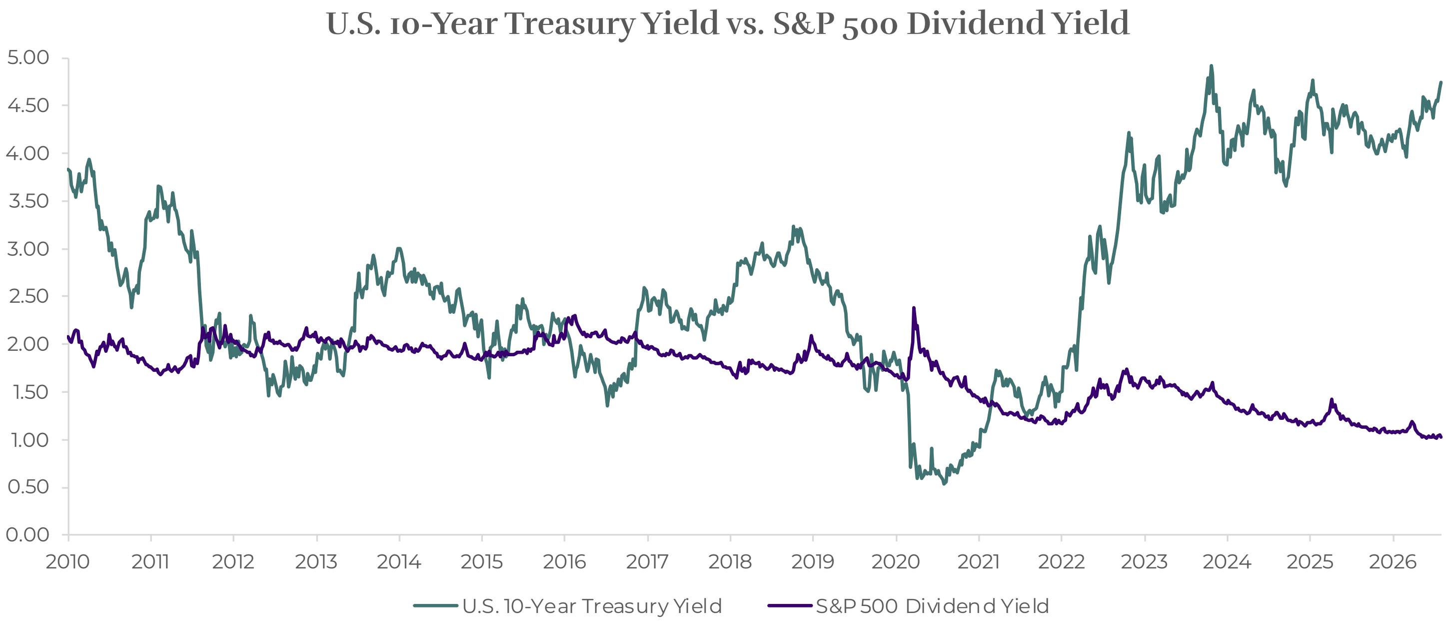
Today, inflation remains above the Fed's 2.0% target, eating into real returns like an invasive species. The Fed uses rate hikes like a pesticide to help tame inflation and support more stable conditions for the economy. That said, bond returns are sensitive to interest rates and inflation, and today's environment doesn't come without risks. Bond returns have faced headwinds this year, with yields climbing higher as inflation pressures have risen and the likelihood of rate hikes has increased. Rising rates can negatively impact bond prices in the short term. Bonds with longer maturities typically offer more income but can experience greater price volatility when interest rates change.

Many investors have soured on bonds after years of weaker returns, but bonds still play a vital role in portfolios, and today's higher yields may provide more favorable conditions going forward.

A Tale of Two Yields

The yield gap between stocks and bonds has widened. At current levels, investors can earn above 4.5% in 10-year treasury yields, or in investments that track the broadly diversified Bloomberg U.S. Aggregate Bond Index, compared to around 1.0% for investments tracking the S&P 500 **(Figure 3).**

Figure 3: Growing Yield Gap



Source: Cetera Investment Management, FactSet, S&P Global, Tullet Prebon Information. Data as of 7/31/2026.

In dollar terms, every $100,000 invested would result in more than $4,500 in annual income for 10-year Treasury bonds compared to roughly $1,000 in dividend income from an index that tracks the S&P 500. While stocks and bonds serve different purposes in a portfolio, bonds had a lower yield than stocks just five years ago.

The yield gap has shifted the valuation outlook for stocks, because current bond yields provide a larger income cushion and a more competitive source of return compared to the low-yield environment that persisted through most of the post-financial crisis era. Furthermore, higher yields increase borrowing costs, which can pressure elevated stock valuations lower.

Today's low S&P 500 dividend yield is largely offset by buybacks, though returns could face headwinds if firms were to pull back on share repurchases. Either way, dividends will likely make up a smaller percentage of total returns than they did in the past.

Allocating more portfolio acreage to fixed income can make sense for investors that are more conservative or income focused. But for investors that have a longer time frame and the ability to withstand higher volatility, a higher allocation to stocks can be appropriate. Stocks historically have delivered higher long-term total returns and remain essential for long-term growth. They have also provided a better hedge against inflation. Just be careful about storing all your grain in one silo.

A Bountiful Harvest

Like any successful harvest, long-term investing requires patience and discipline. Portfolio income does not sprout all at once, but over time reinvested dividends and interest can meaningfully compound returns. Investors that remain focused on consistent income generation and a long-term approach, rather than chasing short-term opportunities, are often better positioned to benefit from the compounding effect. In today's higher-rate environment, income has become a more attractive source of return that investors should not overlook.

A bountiful harvest depends on the right conditions, consistent effort, and time. Investors have long relied on these principles. Whether in the field or in a portfolio, outcomes are shaped by the decisions made consistently over time. You truly reap what you sow.

Your Cetera financial professional can help cultivate an investment plan designed to meet your goals and support sustainable growth over time.

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Glossary
The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Dow Jones Industrial Average is a price-weighted average of 30 U.S. blue-chip stocks traded on the New York Stock Exchange and NASDAQ. The index covers all industries except transportation, real estate and utilities.

The NASDAQ Composite Index includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index includes over 2,500 companies, spanning all 11 sector groups.

The Russell 2000 index is comprised of 2000 small-capitalization companies. It is made up of the bottom two-thirds in company size of the Russell 3000 index.

Sources:

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