

Largest Dividend ETFs Diverge in Exposure After Their Annual Reconstitutions in March

Key Takeaways

- The weight of Energy in the Schwab US Dividend Equity ETF (SCHD 28 **) increased by 8% after its March reconstitution.
- By contrast, Vanguard's largest dividend ETFs are overweight in Financials and Health Care. This could result in the major U.S. dividend ETFs having very divergent returns in 2025 based on how the different sectors perform.
- Monitoring these performance differentials is important, since the \$504 billion already invested in dividend ETFs as of March 27, 2025, could increase further as equity investors seek safety.

Positive (+) or Negative (-) Implications

(+) Vanguard Dividend Appreciation ETF (VIG)

Fundamental Context

March 2025 was an important month for dividend-focused investors, with the underlying indices for the three largest dividend ETFs in the U.S. undergoing their annual reconstitutions. The most significant change was with SCHD, where Energy became the largest sector, increasing in weight to 20.8% from 12.3% of the portfolio. Consumer Staples increased by 3.5% while SCHD's weight in Financials dropped by 8.7%.

Table 1: Changes to SCHD's Sector Weights After March 2025 Index Reconstitution

Sector	Post-Reconstitution 3/24/2025		Pre-Reconstitution (3/21/2025)		Change due to Reconstitution	
	Weight	Stock Count	Weight	Stock Count	Weight	Stock Count
Communication Services	4.56%	3	4.89%	3	-0.33%	0
Consumer Discretionary	7.84%	13	8.53%	17	-0.69%	-4
Consumer Staples	18.39%	10	14.90%	5	+3.48%	+5
Energy	20.75%	12	12.25%	7	+8.50%	+5
Financials	8.47%	37	17.21%	41	-8.73%	-4
Health Care	15.65%	4	18.34%	4	-2.68%	0
Industrials	12.27%	11	12.47%	11	-0.20%	0
Information Technology	7.89%	3	8.40%	3	-0.52%	0
Materials	2.78%	6	2.55%	5	+0.23%	+1
Real Estate	0.00%	0	0.00%	0	0.00%	0
Utilities	0.04%	1	0.04%	1	0.00%	0
Other Holdings	1.36%	-	0.42%	-	+0.94%	-
Total	100.00%	100	100.00%	97		

Source: Data sourced from CFRA's FUNDynamix ETF database; Data as of March 24, 2025.

Comparing Sector Weights Across the Four Largest U.S. Dividend ETFs

Monitoring changes in U.S.-listed dividend focused ETFs is important, since this category had \$504 billion in assets in the U.S. as of March 27, 2025. Additionally, they have already taken in \$10.4 billion in net inflows this year through that date, which could accelerate as investors seek safety in an uncertain environment.

Figure 1 compares the sector weights of the four largest dividend focused ETFs in the U.S. relative to the iShares Core S&P 500 ETF (IVV 558 ****). All four dividend ETFs are overweight in Health Care compared to IVV, which tracks the market benchmark S&P 500 index. SCHD stands out relative to the others since it has a 21% weight in Energy, significantly higher than other dividend ETFs and the 4% weight in the market benchmark. It also has a higher weight in Consumer Staples compared to the market and its ETF peers.

By contrast, the Vanguard Dividend Appreciation ETF (VIG 193 ****), Vanguard High Dividend Yield ETF (VYM 128 *) and iShares Core Dividend Growth ETF (DGRO 61 ***) are all overweight in Financials relative to both the market and SCHD. These differentials in sector weights could result in SCHD having very divergent returns in 2025 relative to its dividend ETF peers depending on how different sectors perform.

Figure 1: Comparison of Sector Weights for Four Largest U.S. Dividend ETFs Relative to IVV (S&P 500)



Source: Data sourced from CFRA's FUNDynamix ETF database; Data as of March 27, 2025.

SCHD's differentiated sector exposure was accentuated after its latest index reconstitution, which was effective before the market opened on March 24, 2025. Its Energy holdings increased to 12 from seven stocks, with the addition of names like ConocoPhillips (COP 105 ***), Halliburton (HAL 25 ***), and Ovintiv (OVV 43 ***). The holdings in financials names decreased to 37 from 41, with the sector weight reducing to 8.5% from 17.2%. The three largest financial stocks by weight in SCHD prior to the March reconstitution were dropped - Blackrock (BLK 936 ****), U.S. Bancorp (USB 42 ***), and M&T Bank (MTB 174 ****).

The count of consumer staples stocks in SCHD increased to 10 from five, with Target (TGT 105 ****), General Mills (GIS 60 ***), and Archer-Daniels-Midland (ADM 48 **) all being added. The count of consumer discretionary stocks in SCHD was reduced by four, with Tapestry (TPR 71 ***), Dick's Sporting Goods (DKS 203 ***), and H&R Block (HRB 55 NR) all being dropped during the reconstitution.

Implications of Dividend ETF Methodology Differences for Investors

Understanding what drives the differences in exposure between the four largest dividend ETFs requires a closer look at their methodologies and reconstitution schedules, which is summarized in Table 2 below.

Table 2: Comparison of Methodologies for Four Largest U.S. Dividend ETFs

ETF	Vanguard Dividend Appreciation ETF (VIG)	Schwab US Dividend Equity ETF (SCHD)	Vanguard High Dividend Yield ETF (VYM)	iShares Core Dividend Growth ETF (DGRO)
Net Assets (\$M)	\$86,689	\$69,783	\$59,215	\$30,088
Expense Ratio	0.05%	0.06%	0.06%	0.08%
Index Name	S&P U.S. Dividend Growers	Dow Jones US Dividend 100	FTSE High Dividend Yield	Morningstar US Dividend Growth
Trailing-12-Month Yield	1.84%	3.76%	2.89%	2.26%
Number of Stock Holdings	338	100	587	407
Key Stock Selection Criteria	Stocks that increased cash dividends every year for 10 years. Remove top 25% (top 15% for existing constituents) with highest indicated annual dividend (IAD) yield.	Minimum 10 consecutive years of dividend payments. Composite ranking score based on free cash flow to debt, return on equity, IAD yield, and five-year dividend growth rate.	Stocks in eligible universe ranked by forecasted dividend yield. Top half of universe market cap selected for inclusion.	Five consecutive years of dividend growth. Positive consensus earnings forecast and payout ratio of less than 75%.
Index Weighting Scheme	Float market cap weighted, with single stock cap of 4%.	Float market cap weighted, with single stock cap of 4%. Sector cap of 25%	Dividend yield-based weighting.	Proportional to value of indicated dividend payments; 3% single stock cap.
Index Reconstitution Date	Annual three-day reconstitution ending the third Friday of March.	Annual reconstitution after close on the third Friday of March.	Semi annual in March and September.	Annual in December.

Source: Data sourced from CFRA's FUNDDynamix ETF database and Issuer websites; Data as of March 27, 2025.

The four largest dividend ETFs in the U.S., while all indexed, have different approaches to security selection, weighting, and index reconstitution. Investors need to consider a few important factors when selecting between them.

1. **Emphasis on dividend growth versus dividend yield:** The ETF methodologies attempt to balance choosing between stocks that pay or grow dividends regularly versus those that have high dividend yields. VIG and DGRO are focused primarily on historical dividend growth, with the former even excluding stocks with the highest yields. Presumably this is because firms with the highest forecasted yields are also most at risk of not sustaining dividend growth. As a result, VIG has the lowest 12-month trailing distribution yield (1.84% as of March 27, 2025) of the four ETFs. By contrast, VYM, the other large Vanguard dividend ETF, uses only forecasted dividend yield and does not factor in whether a firm has been a regular dividend grower historically. This explains why its distribution yield is higher (2.89% as of March 27) than that of VIG and DGRO (2.26% as of the same date).

2. Breadth of holdings: Although SCHD factors in both regular historical payments and indicated yield, it has the highest yield (3.76% as of March 27, 2025) of the four ETFs. This is largely due to holding a maximum of 100 stocks, which allows it to be more concentrated in dividend-oriented stocks. While VYM factors in only forecasted yield in its methodology, since it holds half the market capitalization of the eligible universe, its focus on dividend yield gets diluted by the breadth of its holdings. As a result, as of March 27, 2025, VYM had a lower trailing 12-month distribution yield than that of SCHD.
3. Sector weighting: Finally, investors also need to factor in the different sector weights, particularly the high energy exposure in SCHD after the March 2025 rebalance. Energy stocks currently have high indicated yields but historically have been inconsistent in maintaining dividends. This could potentially put investors at risk of cuts to dividends and for SCHD to outperform its peers, price appreciation in the Energy sector would need to be higher than in other sectors like Information Technology and Financials.

Looking Ahead

Given the current market uncertainty driven by tariffs and above target inflation, we expect the already substantial asset base of \$504 billion in U.S. listed dividend ETFs to grow further. Since the recent index rebalance resulted in SCHD having a different sector exposure than its peers, investors will need to factor this and other methodology differences into their selection of dividend ETFs. The performance of the Energy sector, in relation to Information Technology and Financials, will determine which of these dividend ETFs outperform this year.

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