Oil, inflation and income: reading Q3 through a dividend lens

Published 19 November 2026

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Key Takeaways

- The US-Iran war has pushed headline inflation well above core in the US, Europe and the UK, and central banks are leaning towards tighter policy.
- Q3 earnings growth is strong but narrow: excluding energy, STOXX 600 earnings are expected to grow 8.4% rather than 21.9%.
- Energy windfalls are being returned mainly through buybacks and special dividends, while ordinary dividends rise more slowly.
- Of 56 developed-market companies that confirmed a dividend alongside Q3 results, 42 raised their dividend, seven paid a special dividend and seven cut, suspended or lowered their payout policy.
- Dividend growth is broad, but it is strongest where balance sheets are strongest.

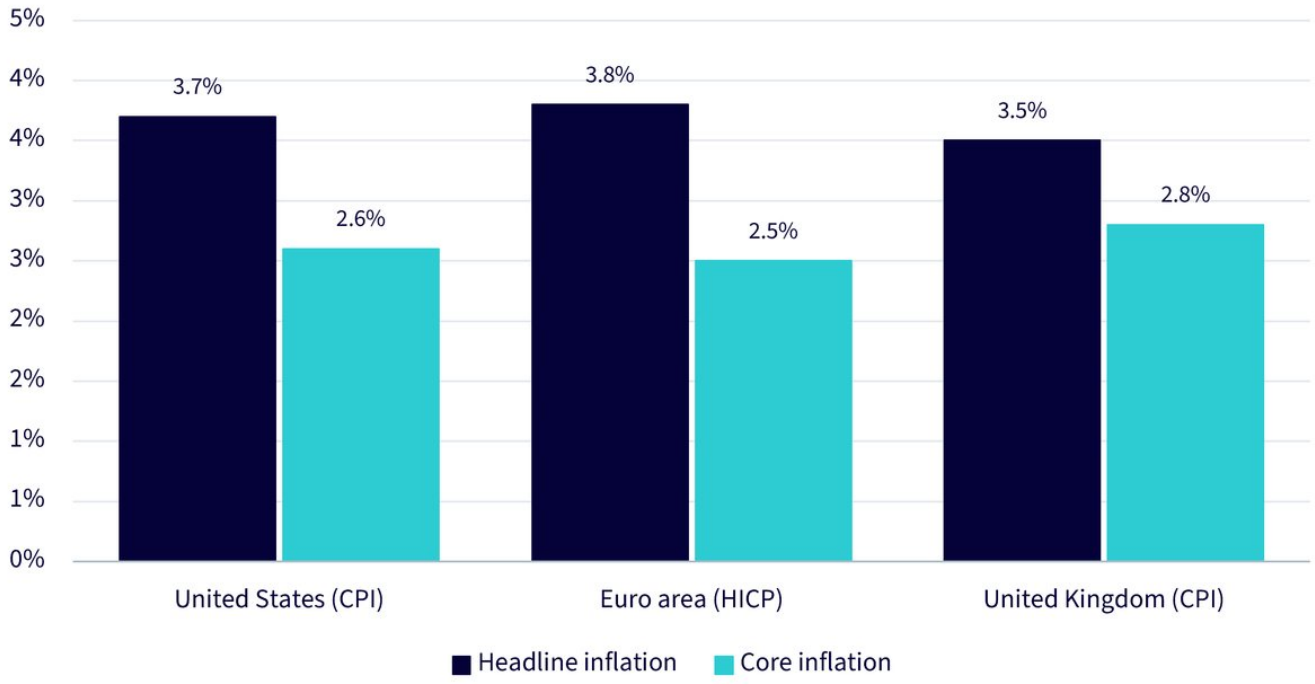
Last month we discussed why the case for dividend equities rests on income that grows, rather than on yield being scarce. Since then, the backdrop has hardened. The war between the US and Iran is in its ninth month. Brent crude is trading close to US$114 a barrel. Headline inflation has risen again in the US, Europe and the UK, and central banks are leaning towards tighter policy rather than looser.

An inflation shock that starts with supply

Energy is the transmission channel. Brent traded at US$114 a barrel1 on 27 October, after Yemen's Houthis claimed a missile strike on Saudi Arabia's Ras Tanura refinery. October was also the worst month for attacks on shipping in and around the Strait of Hormuz since tracking began in 20172.

The inflation data show where that pressure lands. In September, US consumer prices rose 3.7% from a year earlier, while core inflation was 2.6%. Gasoline prices rose 9.1% in the month alone and accounted for more than half of the monthly increase. Euro area inflation reached 3.8%, a three-year high, with energy prices up 18.9% and core inflation at 2.5%. UK inflation rose to 3.5%, with core inflation at 2.8%, and motor fuels made the largest upward contribution3.

Figure 1: Headline versus core inflation, September 2026 (year on year)



Source: US Bureau of Labor Statistics, Eurostat, Office for National Statistics. Data for September 2026, released 14, 16 and 21 October 2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

A gap of more than a percentage point between headline and core inflation can be indicative of a supply shock. Higher energy prices raise costs for households and companies at the same time, weighing on growth while pushing prices up. Central banks cannot produce more oil. What they can do is stop an energy shock from becoming embedded in wages and inflation expectations, and that is the risk they are positioning against.

The Federal Reserve (Fed) held its target range at 3.75%–4.00% on 28 October, after raising it in September4. The European Central Bank (ECB), which has raised its deposit rate twice this year to 2.5%, held rates on 29 October. It said the energy shock has become larger and more prolonged, creating upside risks to inflation and downside risks to growth5. In the UK, the Bank of England raised Bank Rate to 4% on 5 November 2026, up from 3.75%.

For income investors, this has two consequences. Policy rates are likely to stay higher for longer than growth alone would justify, which raises the hurdle any equity income stream has to clear. Input-cost inflation separates companies that can pass on higher costs from those that cannot. Both point towards dividends that are paid from strong balance sheets and can grow, rather than towards the highest headline yield.

Q3 earnings: strong headline growth, narrow base

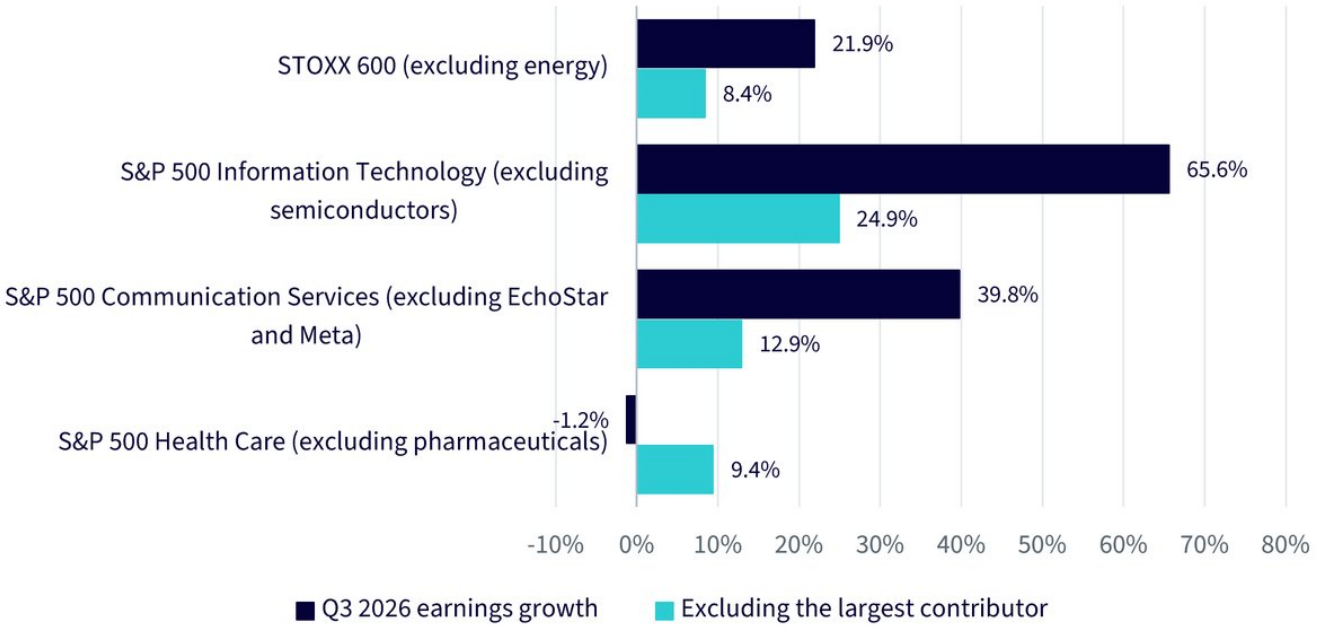
The US earnings season has started well. With 24% of S&P 500 companies reporting, blended earnings growth for Q3 stands at 29.5%, and revenue growth at 12.7%. So far, 83% beat earnings estimates, above

the five-year average of 78%, although the aggregate surprise of 2.1% is well below the five-year average of 7.5%6.

The headline flatters the breadth. Energy earnings are up 136%, as the oil price averaged US$85.68 a barrel in the quarter, 32% higher than a year earlier. Information technology earnings are up 65.6%, but semiconductors alone grew 131%. Excluding them, sector growth falls to 24.9%. Healthcare is the only sector reporting a decline, at -1.2%, because of a 17% fall in pharmaceutical earnings, where analysts have included acquired research and development charges at Eli Lilly and Bristol Myers Squibb. Excluding pharmaceuticals, Healthcare earnings grew 9.4%7.

Europe shows the same pattern. LSEG I/B/E/S data point to STOXX 600 earnings growth of 21.9% for Q3, but only 8.4% once energy is excluded. Energy earnings are expected to rise 134%7.

Figure 2: Q3 2026 earnings growth with and without the largest contributor



Source: FactSet Earnings Insight as of 23 October 2026 (S&P 500, blended growth); LSEG I/B/E/S as of 22 October 2026 (STOXX 600, estimated growth). **Historical performance is not an indication of future performance and any investments may go down in value.**

For dividend investors, the point is that profit growth outside energy and semiconductors is healthy but ordinary, and the two growth engines sit where payouts are smallest or most cyclical: semiconductors, where payout ratios are typically low, and energy, where earnings move with oil prices.

Windfalls are being paid as buybacks and special dividends

Energy companies are returning their windfall, but mostly through channels that can be switched off. Eni is a clear example. Its adjusted net profit more than doubled in Q3 to €2.8bn. It confirmed an ordinary dividend of €1.10 per share for 2026, 5% higher than in 2025, declared an extraordinary dividend of €0.46 per share

and raised its buyback to €3.8bn from €3.4bn. Its framework pays out cash flow upside as extraordinary distributions when Brent is forecast above US$90 a barrel8.

This is rational: a management team that expects the oil price to fall back will not commit to an ordinary dividend that assumes it will not. Buybacks and special dividends are discretionary; the ordinary dividend is the commitment, and the better guide to what will compound.

Q3 dividend announcements

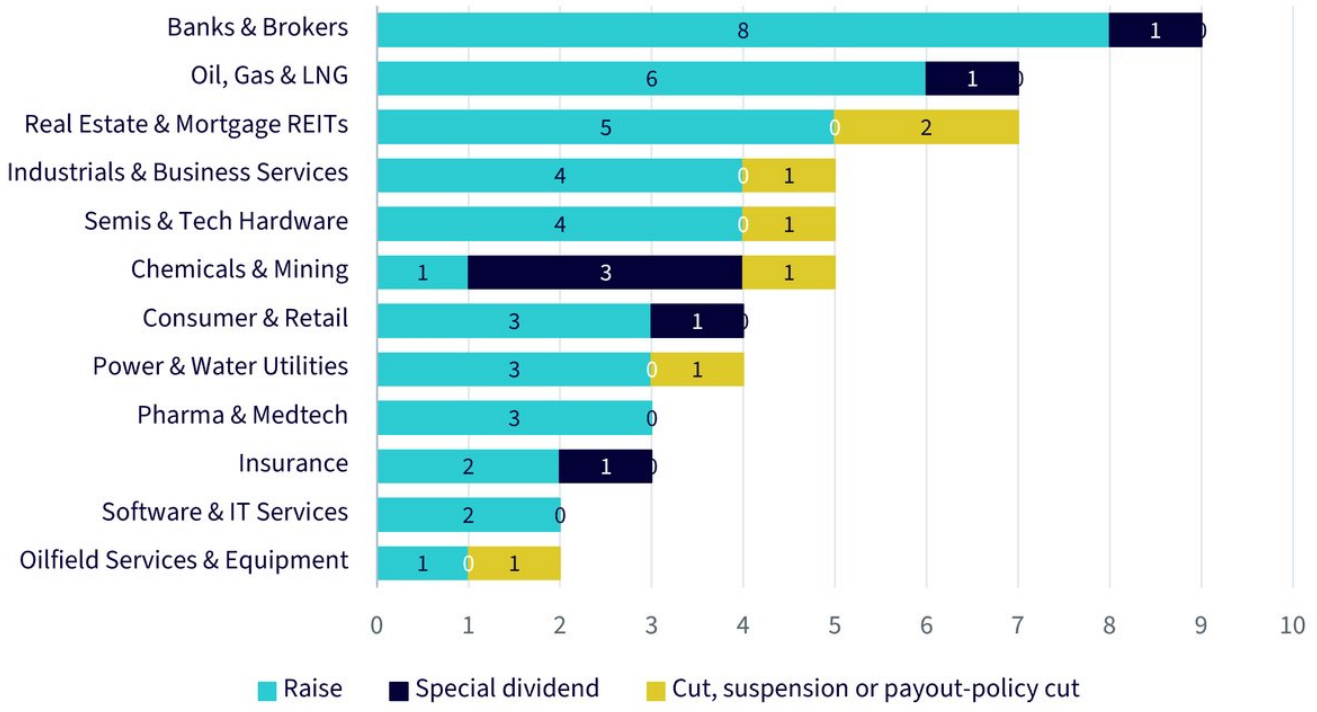
Earnings show what companies can afford. Dividend announcements convey what boards are prepared to commit to. Across 56 developed-market companies that have confirmed a dividend alongside Q3 results so far, 42 raised their dividend, seven paid a special dividend and seven cut, suspended or lowered their payout policy. The median raise was 11.7%, and 33 of the 42 raises came with an earnings beat or year-on-year earnings growth.9

By sector, the pattern lines up with the macro backdrop. Banks and brokers produced eight raises, one special and no cuts, with a median raise of 16%. BBVA paid a record interim dividend, nearly 16% higher than last year, and Santander raised its interim cash dividend by 10%10. Oil, gas and LNG companies produced six raises and Eni's extraordinary dividend, again with no cuts. But the median raise was 5.8% in a quarter when the sector's earnings more than doubled, which is consistent with the windfall being paid out through buybacks and specials. TotalEnergies raised its interim by 5.9% under a policy of growing the dividend by more than 5% a year11.

Healthcare companies also raised, despite the sector's reported earnings decline. GSK lifted its quarterly dividend to 17p from 16p, Shionogi raised its full-year forecast to ¥86 from ¥76 and West Pharmaceutical Services raised by 18%. That supports the view that the Q3 earnings decline reflects acquisition-related charges at a small number of large pharmaceutical companies rather than a broad deterioration across the sector. It matters for high dividend portfolios, where health care is typically one of the largest sectors.

The sectors most exposed to higher rates show restraint. American Electric Power limited its raise to 2.1% to fit a larger capital plan, and Pennon rebased its dividend by around 30% alongside a rights issue to fund roughly £1bn of additional investment. Real estate raises were modest, with a median of 5.7%, and Blackstone Mortgage Trust cut its dividend by 36% after higher rates and a slow office recovery weighed on reserves and book value.

Figure 3: Q3 2026 dividend actions in developed markets, by sector (56 companies)



Source: WisdomTree analysis of company announcements, filings and earnings call transcripts via AlphaSense, as of 29 October 2026. Sample of 56 developed-market companies with a confirmed dividend action alongside calendar Q3 2026 results released 1–29 October 2026 (July–September half-year results for Japanese March year-end companies), including actions declared during the quarter ahead of results. Excludes emerging markets. **Historical performance is not an indication of future performance and any investments may go down in value.**

Japan stands out. All nine Japanese companies in the sample raised their dividend or paid a special, with a median raise of 20%, as companies lifted full-year dividend forecasts alongside their half-year results. Anritsu raised its forecast to ¥63 from ¥50, OBIC's annual dividend of ¥100 compares with ¥84 a year earlier, and Hitachi raised its interim to ¥32 from a forecast of ¥2812. Technology raises also continued, from Amphenol (20%), Microsoft (8%) and Texas Instruments (7%, its 23rd consecutive annual increase).

The cuts are company-specific and balance-sheet driven rather than a sign of broad pressure. Xerox suspended its dividend to redirect cash to debt reduction, citing among other headwinds around US$60m of higher memory and oil costs. Archer paused distributions as its net debt rose, Victrex halved its dividend in a strategic reset and NORMA Group lowered its payout policy on thin margins. Texas Instruments, GSK, Prosperity Bancshares and Redeia raised their dividends, and Millrose Properties kept its dividend unchanged while lowering its payout policy13.

Conclusion

The message from earnings season so far is that dividend growth is broad, but companies with healthier balance sheets are leading the way. With inflation rising and interest rates under pressure, strong balance sheets give businesses room to absorb higher costs and keep rewarding shareholders. That brings us back

to last month's argument: the appeal of dividend equities is income that can grow. The key is identifying which companies can sustain that growth once the boost from higher oil prices fades.

In part 2, we explore how the 2026 annual rebalance reshaped the WisdomTree Global High Dividend UCITS Index across sectors, countries and company fundamentals, and what those changes mean for investors.

1 Bloomberg Finance L.P. as of 27 October 2026.
2 Reuters as of 27 October 2026.
3 US Bureau of Labor Statistics (14 October 2026), Eurostat (16 October 2026), Office for National Statistics (21 October 2026). Data for September 2026.
4 Federal Reserve, as of 28 October 2026.
5 European Central Bank as of 29 October 2026.
6 FactSet Earnings Insight as of 23 October 2026.
7 LSEG I/B/E/S as of 22 October 2026.
8 Eni, third quarter 2026 results, October 2026.
9 WisdomTree analysis of company announcements, filings and earnings call transcripts via AlphaSense, as of 29 October 2026
10 Bloomberg Finance L.P., Q3 reporting season
11 Bloomberg Finance L.P., Q3 reporting season
12 AlphaSense, as of 29 October 2026, Q3 2026 reporting season.
13 AlphaSense, as of 29 October 2026, Q3 2026 reporting season.

IMPORTANT INFORMATION

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