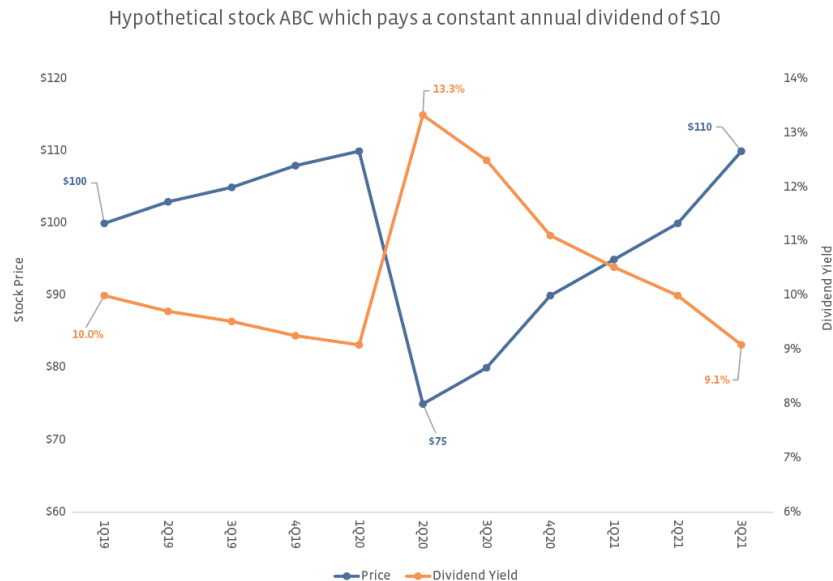Alerian · S·NETWORK GLOBAL INDEXES

## Income Opportunities: Looking Beyond Dividend Yield

August 5, 2021

When looking at the yield tables attached to the end of this note, it seems that most of the Alerian and S-Network indexes are trading at yields below their five-year averages. Does this mean these yields are insufficient? Not necessarily. Dividend yield is defined as the current annual dividend divided by the current stock price (or in the case of an index, it is divided by the current index value). The dividend yield changes constantly as the price (denominator) changes throughout the trading day.

Although dividend yield can provide a picture of the income potential of an investment, investors must consider more context before investing. *Is the dividend yield high because the price of the investment fell?* In this case, if the price normalizes back to median levels, the yield might be less than the investor desires. Or if the price stays low, the dividend might no longer be sustainable and could be cut. *Also, does the investment have a history of paying sustainable/growing distributions?* In that case, a low dividend yield could be temporary. Using equity stocks as an example, many often set their dividend based on earnings growth. If the stock price rises and the dividend stays the same, the yield will steadily decrease. But if the company has a history of raising its dividend along with earnings growth, this could mean that the dividend (and the dividend yield) could eventually increase. More detailed reports on dividend sustainability can be found here for midstream/MLP investments and here for closed-end funds.

To help illustrate, in the image below there is a hypothetical stock ABC at a price of $100 which currently pays a $10 annual dividend. In 1Q19, this is equivalent to a 10.0% dividend yield. The stock grows at a healthy pace until 1Q20. Then the stock price drops drastically to $75 in 2Q20 during the pandemic; however, company management knows that the operations are fundamentally strong and believe earnings will recover in 2H20, so they stay committed to the $10 dividend. At this point, the dividend yield is 13.3%. Management ends up being correct and by 3Q21, the stock price is now at $110, which is above pre-pandemic levels. The dividend is still $10 (in this scenario, the company is waiting for stock price volatility to ease before raising the dividend to ensure that the dividend is sustainable). Even though the stock is now at record high levels, the dividend yield is only 9.1% (lower than the 10.0% yield at the beginning of the scenario and much lower than the 13.3% yield when the stock price crashed).



Hypothetical stock ABC which pays a constant annual dividend of $10

Source: Source: Alerian, S-Network Global Indexes as of July 30, 2021

To apply this to a real-life example, if you look at the index yield of S-Network Sector Dividend Dog Index (SDOGX), you can see that the yield averaged over 6.5% from March to April 2020, reaching a five-year peak of 8.9% on March 23, 2020. But it is also evident that the index price value reached a five-year trough on March 23 as stocks took a hit during the pandemic. Currently the yield is 4.20% (as of July 30, 2021), which is below the five-year average of 4.42%. But examining the constituent data more closely—out of the current 50 constituents of the index, only one dividend cut occurred in the past year, and the current index value is 19.1% higher than the five-year average. This demonstrates that the "lower" yield of the index is not necessarily from dividend cuts, but rather from equity price appreciation. It is also worth noting that indexes like SDOGX will reconstitute annually in order to keep yields healthy, while also using an equal-weight methodology, which ensures that a few large dividend cuts won't substantially hurt the yield.
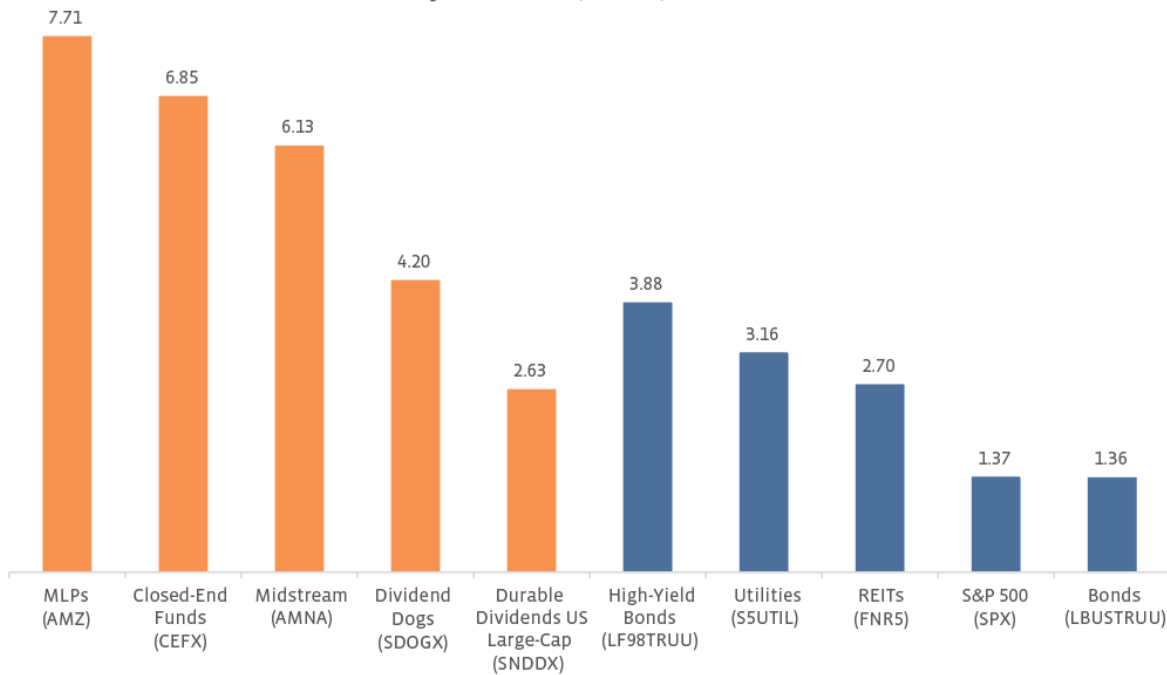
**SDOGX Price Value vs. Dividend Yield**
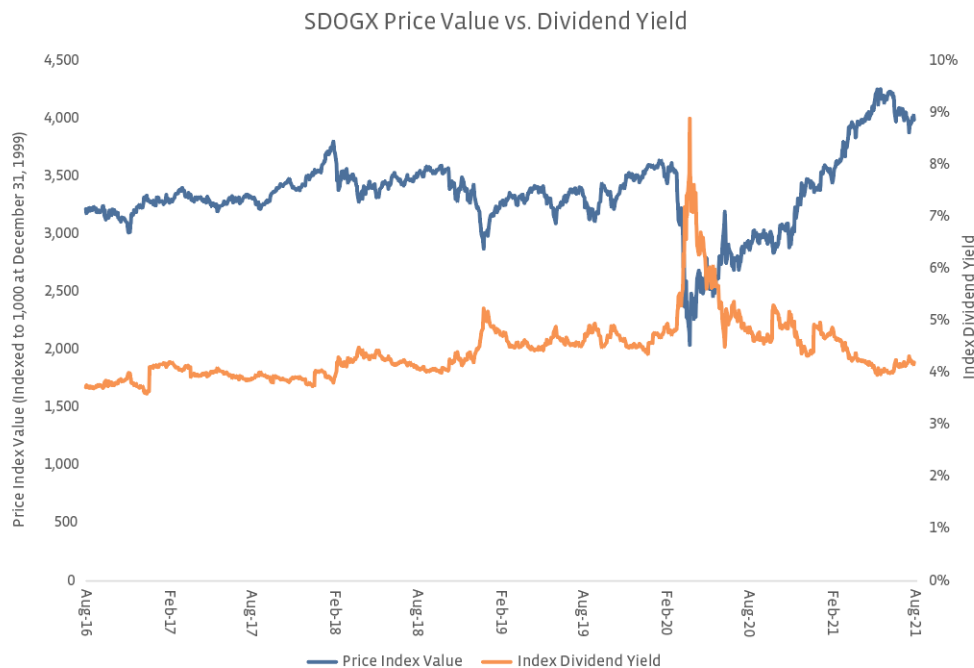


Source: Alerian, S-Network Global Indexes, Bloomberg as of July 30, 2021

**Bottom Line:**

In an environment where Treasury yields are falling and investors are searching for high yield investments, it is important to remember that the dividend yield tells only part of the story for a dividend-paying investment. Investors must also consider the health of the investment, price volatility, and past dividend history to evaluate the investment's income potential.

## Alerian/S-Network Indexes Showcase Attractive Income Opportunities Beyond Bonds, REITs, and Utilities



Chart values, left to right:
- MLPs (AMZ): 7.71
- Closed-End Funds (CEFX): 6.85
- Midstream (AMNA): 6.13
- Dividend Dogs (SDOGX): 4.20
- Durable Dividends US Large-Cap (SNDDX): 2.63
- High-Yield Bonds (LF98TRUU): 3.88
- Utilities (S5UTIL): 3.16
- REITs (FNR5): 2.70
- S&P 500 (SPX): 1.37
- Bonds (LBUSTRUU): 1.36

AMZ and AMNA yields are calculated by Alerian. All other yields are Bloomberg data.
Source: Alerian, S-Network Global Indexes, Bloomberg as of July 30, 2021

## Current Yields vs. History

Midstream/MLP indexes continue to offer healthy yields within the 6% to 8% range.

### Midstream & MLPs

| Index Name | Ticker | YTD Total Return | Yield | | |
| --- | --- | --- | --- | --- | --- |
| | | | Current | 5-Year Average | 10-Year Average |
| Alerian Midstream Energy Index | AMNA | 35.52% | 6.13% | 6.56% | N/A |
| Alerian MLP Index | AMZ | 38.51% | 7.71% | 8.78% | 7.62% |
| Alerian MLP Infrastructure Index | AMZI | 39.24% | 7.72% | 8.72% | 7.50% |
| Alerian Midstream Energy Dividend Index | AEDW | 35.43% | 7.16% | 7.58% | N/A |
| Alerian Midstream Energy Select Index | AMEI | 37.49% | 5.83% | 6.35% | 5.39% |

Source: Alerian and S-Network Global Indexes as of July 30, 2021

Among the Sector Dividend Dogs, yields are close to historical averages. EDOGX is the only index in the suite to offer a current yield above the 5-year average.

### Sector Dividend Dogs

| Index Name | Ticker | YTD Total Return | Yield | |
| --- | --- | --- | --- | --- |
| | | | Current | 5-Year Average |
| S-Network Sector Dividend Dogs Index | SDOGX | 19.05% | 4.20% | 4.42% |
| S-Network International Sector Dividend Dogs Index | IDOGX | 11.04% | 5.17% | 5.18% |
| S-Network Emerging Sector Dividend Dogs Index | EDOGX | 6.97% | 5.77% | 4.95% |
| S-Network REIT Dividend Dogs Index | RDOGX | 24.35% | 4.44% | N/A |

Source: Alerian, S-Network Global Indexes, Bloomberg as of July 30, 2021

Multiple screens for dividend durability, including evaluating cash flows, EBITDA, and debt-to-equity ratios, help ensure reliable income from the durable dividend indexes.

**Durable Dividends**

| Index Name | Ticker | YTD Total Return | Yield Current | Yield 5-Year Average |
|---|---|---|---|---|
| S-Network Durable Dividends US Large-Cap Index | SNDDX | 20.13% | 2.63% | 3.65% |
| S-Network Durable Dividends US Mid-Cap Index | SNDDMX | 20.30% | 2.02% | 3.32% |
| S-Network Durable Dividends Developed International Index | SNDDIX | 18.10% | 4.08% | 4.59% |

Source: Alerian, S-Network Global Indexes, Bloomberg as of July 30, 2021

Though current yields are slightly below historical averages, closed-end funds continue to represent an attractive option for enhancing the yield of an income-oriented portfolio.

**Closed-End Funds**

| Index Name | Ticker | YTD Total Return | Yield Current | Yield Tax-Equivalent[1] | Yield 5-Year Average | Yield 10-Year Average |
|---|---|---|---|---|---|---|
| S-Network Composite Closed-End Fund Index | CEFX | 13.40% | 6.85% | N/A | 8.06% | 8.41% |
| S-Network Municipal Bond Closed-End Fund Index | CEFMX | 9.06% | 4.29% | 6.81% | 4.98% | N/A |
| S-Network Option Income Closed-End Fund Index | CEFOIX | 15.20% | 6.30% | N/A | 8.34% | N/A |

1. Calculated using a 37% federal tax rate.
Source: Alerian, S-Network Global Indexes, Bloomberg as of July 30, 2021

## Related Research:

[Income Opportunities: Interpreting Closed-End Fund Distributions](#)
[Midstream Income Opportunities: Dividends Resilient Throughout Recent Quarters](#)
[Biden's Tax Proposal and Tax-Efficient Income Opportunities](#)
[Finding Income and Value in a Robust Economic Recovery](#)

| Underlying Index | Associated Product |
|---|---|
| **Midstream/MLPs** | |
| Alerian Midstream Energy Index (AMNA) | ETRACS Alerian Midstream Energy Index ETN (AMNA) |
| Alerian MLP Index (AMZ) | JP Morgan Alerian MLP Index ETN (AMJ), ETRACS Alerian MLP Index ETN Series B (AMUB), ETRACS Quarterly Pay 1.5X Levered Alerian MLP Index ETN (MLPR) |
| Alerian Midstream Energy Dividend Index (AEDW) | ETRACS Alerian Midstream Energy High Dividend Index ETN (AMND), Alerian Midstream Energy Dividend UCITS ETF (MMLP) |
| Alerian MLP Infrastructure Index (AMZI) | Alerian MLP ETF (AMLP), ETRACS Alerian MLP Infrastructure Index ETN Series B (MLPB) |
| Alerian Midstream Energy Select Index (AMEI) | Alerian Energy Infrastructure ETF (ENFR) |
| **Sector Dividend Dogs** | |
| S-Network Sector Dividend Dogs Index (SDOGX) | ALPS Sector Dividend Dogs ETF (SDOG) |
| S-Network International Sector Dividend Dogs Index (IDOGX) | ALPS International Sector Dividend Dogs ETF (IDOG) |
| S-Network Emerging Sector Dividend Dogs Index (EDOGX) | ALPS Emerging Sector Dividend Dogs ETF (EDOG) |
| S-Network REIT Dividend Dogs Index (RDOGX) | ALPS REIT Dividend Dogs ETF (RDOG) |
| **Closed-End Funds** | |
| S-Network Composite Closed-End Fund Index (CEFX) | Invesco CEF Income Composite ETF (PCEF),  ETRACS 1.5X Leveraged Closed-End Fund ETN (CEFD) |
| S-Network Municipal Bond Closed-End Fund Index (CEFMX) | VanEck Vectors CEF Municipal Income ETF (XMPT) |

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