

Income Opportunities with Real Assets

December 9, 2021

With the year drawing to a close, advisors and investors are often reevaluating portfolio allocations –adding positions in areas of conviction for the year ahead and taking profits in categories that have done well while harvesting losses in other areas. Income investors may be performing a similar exercise with a view to adding yield or perhaps positioning a portfolio for inflation concerns. For investors looking for ways to enhance portfolio yield into year-end and also position for inflationary pressures, today’s note highlights a few potential solutions for enhancing income with a diversified equity allocation and sector-specific strategies that may also do well in an inflationary environment.

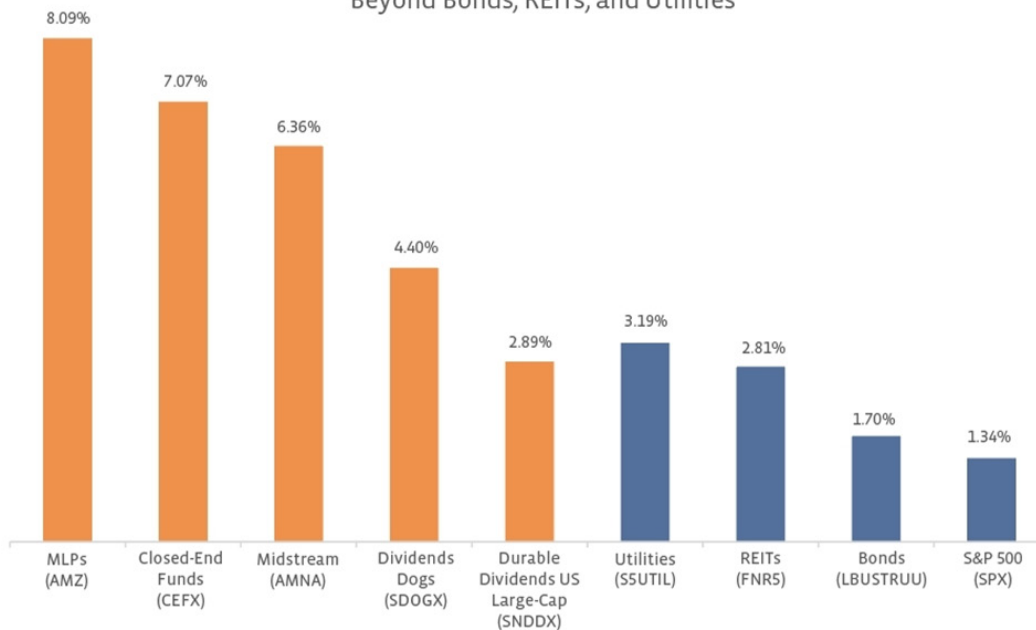
Inflation has been topical for some time now. Fed Chairman Jerome Powell recently [discussed](#) tapering asset purchases sooner than later given the strength of the economy and inflationary pressures. Real assets, which include commodities, precious metals, real estate, and infrastructure, tend to perform better in inflationary periods. Oil prices are also typically higher in inflationary periods, which also bodes well for energy stocks. Given that real assets like commodities and precious metals do not provide an income stream, real estate and energy infrastructure may be particularly attractive portfolio options for income investors concerned about inflation. Additionally, income investors can look at diversified equity income strategies that have greater exposure to sectors like energy and materials that tend to outperform in inflationary periods.

For investors looking for income and a relative overweight to sectors that tend to do well in inflationary periods, the [S-Network Sector Dividend Dogs Index](#) (SDOGX) offers above average yields while providing diversification benefits through equal-weighted exposure at the sector and stock level. Using the Dogs of the Dow approach and the S&P 500 as its starting universe, the index selects the five stocks in ten sectors (real estate is excluded) with the highest dividend yield at each annual reconstitution. The Dogs of the Dow strategy captures reversion to the mean – stocks with the highest yields trade at discounts to peers and those discounts may dissipate as stocks are rerated and yields fall. Because the index is equal-weighted, it provides greater exposure to energy and materials (~10%), which each had weightings in the S&P 500 of less than 3% as of November 30. The yield for the index tends to be at a relative high following the annual reconstitution, which will be completed at the close of trading on December 17. Quarterly rebalancings maintain the equal-weighting scheme by ensuring the index does not become overweight to any single stock or sector. As of November 30, SDOGX was yielding 4.4% compared to 1.3% for the S&P 500.

While a diversified approach may be preferred for some investors, others may be looking for specific sector exposures to enhance income and position for inflation. REITs and midstream energy infrastructure may be particularly interesting for those investors. REITs are well positioned for inflation given that real estate rental prices are typically tied to inflation. The [S-Network REIT Dividend Dogs Index](#) (RDOGX) deploys a similar strategy as SDOGX but using the [S-Network US Composite REIT Index](#) (SNREIT) as its starting universe. RDOGX will also complete its annual reconstitution at the close of trading on December 17. Energy infrastructure companies are well positioned for inflation given real asset exposure and contracts that often have inflation adjustments built into them. Energy infrastructure corporations and MLPs continue to offer generous yields as shown on the following page. Recent weakness against the backdrop of oil price volatility has enhanced yields even as the forward outlook remains constructive for fundamentals and dividends (see related research on the following pages).

*SDOGX is the underlying index for the ALPS Sector Dividend Dogs ETF (SDOG).
RDOGX is the underlying index for the ALPS REIT Dividend Dogs ETF (RDOG).*

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



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

Current Yields vs. History

Midstream/MLPs offer attractive yields that are currently above their 10-year averages and slightly below their 5-year averages.

Midstream & MLPs

Index Name	Ticker	YTD Total Return	Yield		
			Current	5-Year Average	10-Year Average
Alerian Midstream Energy Index	AMNA	36.87%	6.36%	6.60%	N/A
Alerian MLP Index	AMZ	35.35%	8.09%	8.80%	7.66%
Alerian MLP Infrastructure Index	AMZI	35.90%	8.11%	8.76%	7.54%
Alerian Midstream Energy Dividend Index	AEDW	34.78%	7.39%	7.64%	N/A
Alerian Midstream Energy Select Index	AMEI	38.43%	6.33%	6.41%	5.42%

Source: Alerian as of November 30, 2021

Yields offered by Sector Dividend Dogs are currently above or in line with their 5-year averages.

Sector Dividend Dogs

Index Name	Ticker	YTD Total Return	Yield	
			Current	5-Year Average
S-Network Sector Dividend Dogs Index	SDOGX	16.53%	4.40%	4.45%
S-Network International Sector Dividend Dogs Index	IDOGX	6.02%	5.26%	5.18%
S-Network Emerging Sector Dividend Dogs Index	EDOGX	8.34%	5.87%	5.06%
S-Network REIT Dividend Dogs Index	RDOGX	26.08%	4.24%	N/A

Source: S-Network Global Indexes, Bloomberg as of November 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	5-Year Average
S-Network Durable Dividends US Large-Cap Index	SNDDX	21.24%	2.89%	3.56%
S-Network Durable Dividends US Mid-Cap Index	SNDDMX	20.99%	2.23%	3.16%
S-Network Durable Dividends Developed International Index	SNDDIX	13.15%	4.39%	4.59%

Source: S-Network Global Indexes, Bloomberg as of November 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	Tax-Equivalent ¹	5-Year Average	10-Year Average
S-Network Composite Closed-End Fund Index	CEFX	13.18%	7.07%	N/A	7.97%	8.33%
S-Network Municipal Bond Closed-End Fund Index	CEFMX	6.82%	4.44%	7.05%	4.93%	N/A
S-Network Option Income Closed-End Fund Index	CEFOIX	14.62%	6.43%	N/A	8.15%	N/A

¹ Calculated using a 37% federal tax rate.

Source: S-Network Global Indexes, Bloomberg as of November 30, 2021.

Related Research:

[Income Opportunities: Finding Income in an Inflationary Environment](#)

[3Q21 Midstream Dividends: No Cuts, Growth Profile Improving](#)

[Income Opportunities: High Yields Don't Have to Mean Low Quality](#)

[Income Opportunities: Offsetting Low Yields in a Portfolio](#)

Underlying Index

Midstream/MLPs

[Alerian Midstream Energy Index \(AMNA\)](#)

[Alerian MLP Index \(AMZ\)](#)

[Alerian Midstream Energy Dividend Index \(AEDW\)](#)

[Alerian MLP Infrastructure Index \(AMZI\)](#)

[Alerian Midstream Energy Select Index \(AMEI\)](#)

Sector Dividend Dogs

[S-Network Sector Dividend Dogs Index \(SDOGX\)](#)

[S-Network International Sector Dividend Dogs Index \(IDOGX\)](#)

[S-Network Emerging Sector Dividend Dogs Index \(EDOGX\)](#)

[S-Network REIT Dividend Dogs Index \(RDOGX\)](#)

Closed-End Funds

[S-Network Composite Closed-End Fund Index \(CEFX\)](#)

[S-Network Municipal Bond Closed-End Fund Index \(CEFMX\)](#)

Associated Product

ETRACS Alerian Midstream Energy Index ETN (AMNA)

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)

ETRACS Alerian Midstream Energy High Dividend Index ETN (AMND), Alerian Midstream Energy Dividend UCITS ETF (MMLP)

Alerian MLP ETF (AMLPL), ETRACS Alerian MLP Infrastructure Index ETN Series B (MLPB)

Alerian Energy Infrastructure ETF (ENFR)

ALPS Sector Dividend Dogs ETF (SDOG)

ALPS International Sector Dividend Dogs ETF (IDOG)

ALPS Emerging Sector Dividend Dogs ETF (EDOG)

ALPS REIT Dividend Dogs ETF (RDOG)

Invesco CEF Income Composite ETF (PCEF), ETRACS 1.5X Leveraged Closed-End Fund ETN (CEFD)

VanEck Vectors CEF Municipal Income ETF (XMPT)

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