

Income Opportunities: High Yields Don't Have to Mean Low Quality

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A core principle of finance is the tradeoff between risk and return. The higher the risk, the greater the potential return. Given this concept, investors may assume that equity indexes offering high yields must comprise of companies with weak balance sheets and low credit ratings, implying lower quality and higher risk. The credit quality of companies in Alerian and S-Network income indexes may be a positive surprise to investors who equate higher yields with low quality constituents. Specifically, this piece looks at the representation of companies with investment-grade credit ratings in select Alerian energy infrastructure indexes and the [S-Network Sector Dividend Dogs Index \(SDOGX\)](#).

Within the Alerian energy infrastructure index suite, companies with investment-grade credit ratings represent approximately 57% of MLP indexes by weighting and upwards of 80% for broad midstream indexes as shown in the table below. The [Alerian Midstream Energy Dividend Index \(AEDW\)](#) has the highest weighting of investment-grade companies at just over 84%. Because the index is dividend weighted, it also boasts the highest yield among the midstream indexes that include both MLPs and corporations. MLPs have typically provided higher yields than midstream corporations in part because they do not pay taxes at the entity level ([read more on MLP taxation](#)). The [Alerian MLP Index \(AMZ\)](#) and [Alerian MLP Infrastructure Index \(AMZI\)](#) offer more generous yields than the broader midstream indexes but also have a lower representation of investment-grade companies.

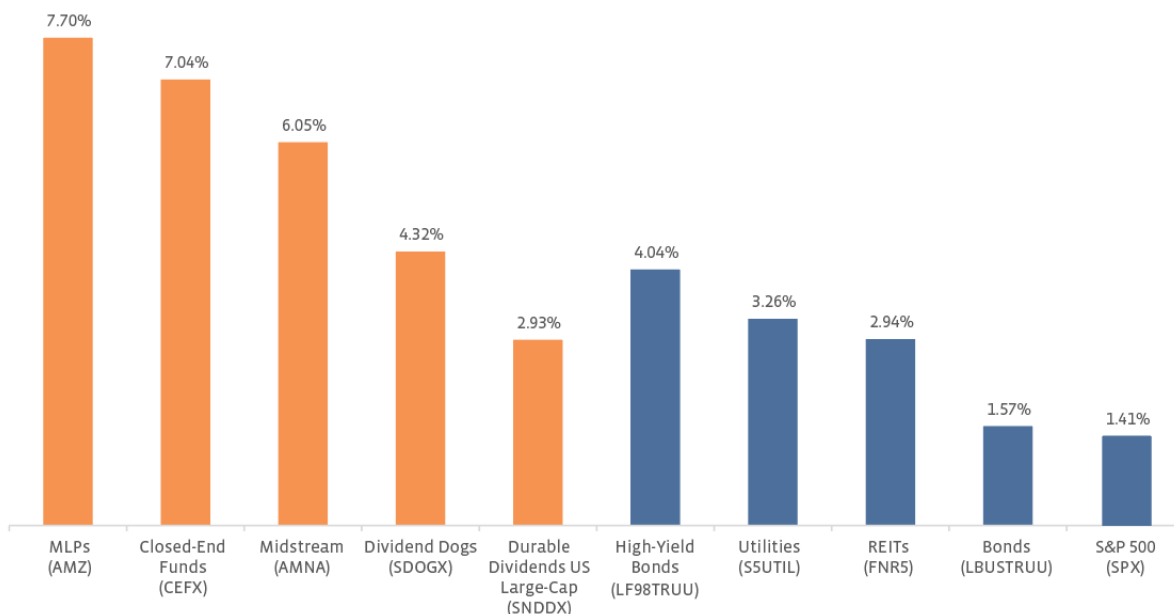
Shifting to a broad equity income index, the [S-Network Sector Dividend Dogs Index \(SDOGX\)](#) offers attractive income from quality companies, with investment-grade companies representing over 86% of the index by weighting. The starting universe for SDOGX is the S&P 500, and the five stocks with the highest yields in ten sectors (real estate is excluded) are selected for inclusion in the index during its annual reconstitution in December. Constituents are then equally weighted. At the end of September, SDOGX was yielding 4.32% compared to a yield of 1.41% for the S&P 500. Looking at total return through September, SDOGX has returned 17.85%, outpacing the S&P 500's total return of 15.92%.

Index	Ticker	Investment-Grade Weighting	Yield
Alerian Midstream Energy Dividend Index	AEDW	84.18%	7.18%
Alerian Midstream Energy Index	AMNA	79.41%	6.05%
Alerian Midstream Energy Select Index	AMEI	69.46%	5.73%
Alerian MLP Infrastructure Index	AMZI	57.45%	7.73%
Alerian MLP Index	AMZ	56.50%	7.70%
S-Network Sector Dividend Dogs Index	SDOGX	86.43%	4.32%

Investment-grade weightings based on S&P ratings from Bloomberg.
Source: Alerian, S-Network Global Indexes, Bloomberg as of September 30, 2021.

Finally, for additional context, the [Bloomberg US Corporate High Yield Index](#) (LF98TRUU) was yielding 4.04% at the end of September. By definition, securities included in the index cannot be investment grade¹. Admittedly, comparing bond and equity yields is a bit like comparing apples and oranges given different risk profiles and interest payments on bonds taking priority over dividend payments to equity holders. However, it is possible to attain more generous equity yields from companies with a higher credit quality relative to accepting a lower yield on bonds from companies with lower credit quality.

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 September 30, 2021

AMNA is the underlying index for the ETRACS Alerian Midstream Energy Index ETN (AMNA). AMZI is the underlying index for the Alerian MLP ETF (AMLP) and the ETRACS Alerian MLP Infrastructure Index ETN Series B (MLPB). AMEI is the underlying index for the Alerian Energy Infrastructure ETF (ENFR). AEDW is the underlying index for the Alerian Midstream Energy Dividend UCITS ETF (MMLP) and the ETRACS Alerian Midstream Energy High Dividend Index ETN (AMND). SDOGX is the underlying index for the ALPS Sector Dividend Dogs ETF (SDOG).

Current Yields vs. History

Following significant price improvement year-to-date through September, midstream yields are below 5-year historical averages but are modestly above the 10-year averages.

Midstream & MLPs

Index Name	Ticker	YTD Total Return	Yield		
			Current	5-Year Average	10-Year Average
Alerian Midstream Energy Index	AMNA	38.91%	6.05%	6.59%	N/A
Alerian MLP Index	AMZ	39.40%	7.70%	8.80%	7.64%
Alerian MLP Infrastructure Index	AMZI	39.73%	7.73%	8.75%	7.52%
Alerian Midstream Energy Dividend Index	AEDW	36.60%	7.18%	7.62%	N/A
Alerian Midstream Energy Select Index	AMEI	41.84%	5.73%	6.38%	5.41%

Source: Alerian as of September 30, 2021

1. Specifically, securities must have a rating of Ba1/BB+/BB+ or lower using the middle of the Moody's, S&P, and Fitch ratings.

Of the S-Network Sector Dividend Dogs, IDOGX and EDOGX stand out for offering yields above their 5-year average. The current yield for SDOGX is just modestly below its 5-year average.

Sector Dividend Dogs

Index Name	Ticker	YTD Total Return	Yield	
			Current	5-Year Average
S-Network Sector Dividend Dogs Index	SDOGX	17.85%	4.32%	4.44%
S-Network International Sector Dividend Dogs Index	IDOGX	9.79%	5.27%	5.18%
S-Network Emerging Sector Dividend Dogs Index	EDOGX	12.88%	5.47%	5.01%
S-Network REIT Dividend Dogs Index	RDOGX	20.35%	4.60%	N/A

Source: S-Network Global Indexes, Bloomberg as of September 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. While current yields are below the 5-year average, they are well above the S&P 500's current 1.41% yield.

Durable Dividends

Index Name	Ticker	YTD Total Return	Yield	
			Current	5-Year Average
S-Network Durable Dividends US Large-Cap Index	SNDDX	19.09%	2.93%	3.59%
S-Network Durable Dividends US Mid-Cap Index	SNDDMX	19.11%	2.44%	3.21%
S-Network Durable Dividends Developed International Index	SNDDIX	14.70%	4.41%	4.59%

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

Though current yields are 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	12.41%	7.04%	N/A	8.02%	8.36%
S-Network Municipal Bond Closed-End Fund Index	CEFMX	5.93%	4.46%	7.08%	4.96%	N/A
S-Network Option Income Closed-End Fund Index	CEFOIX	11.70%	6.57%	N/A	8.24%	N/A

¹ Calculated using a 37% federal tax rate.

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

Related Research:

[Midstream/MLP Buyback Update](#)

[Natural Gas: Short- and Long-Term Benefits for Midstream](#)

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 (AMLPE), 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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