

INCOME OPPORTUNITIES



Examining Price and Total Return in 2021

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In a year when broad equity indexes like the S&P 500 posted an annual gain of close to 27%, it can be disappointing to see a portfolio with modest price returns. But price performance only tells part of the story—particularly when examining income-generating investments, which tend to perform better on a total return basis over long time periods. But because it is inevitable that many investors may focus on price performance as part of a year-end portfolio assessment, this note looks back at 2021 annual performance of several income indexes and examines price returns relative to total returns and distribution rates.

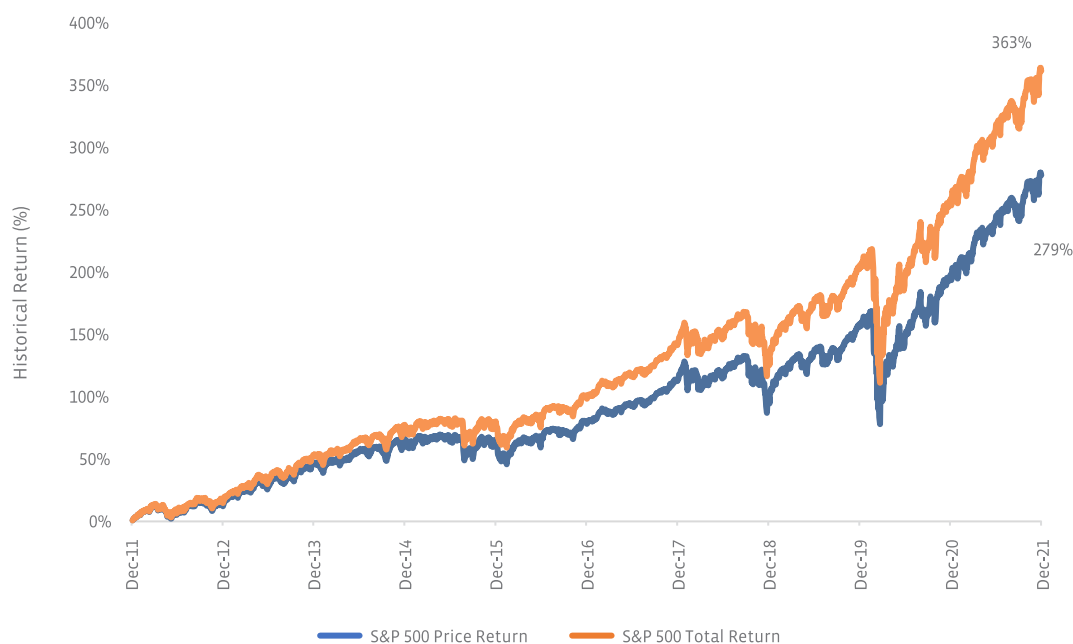
Introduction: why examining total return is important in a long-term time horizon.

Price return simply reflects the change in price and is widely used in media reports. For example, when the news quotes the S&P 500, they are usually referring to the price index and its price return. Unlike price return, total return reflects both price appreciation and the income generated from dividends and distributions. It is also important to remember that total-return indexes typically assume that all dividends are reinvested. Over longer time periods, dividend reinvestment increases compounding power to amplify returns—something that may not be obvious when looking at short-term performance.

To illustrate using a widely known market index, the chart in the next page shows the S&P 500's total return over the last 10 years. The S&P 500 is not considered an “income-oriented index,” given its ten-year average dividend yield of under 2%. So understandably, the difference between price performance and total-return performance of the S&P 500 is not that significant during a single year—during 2021, price return was 26.9% vs. a total return of 28.7%. But this is a good example because it reveals that even small dividend payments will add up over a period of several years. As seen below, S&P 500's total return in the last 10 years is significantly higher than its price return during the same period when accounting for the impact of dividends over time.

(See chart in next page)

Total Return Significantly Higher Than Price Return Over Longer Time Periods Due to Compounding



Source: S&P DowJones Indices, Alerian and S-Network Global Indexes.
Data is ten-year return through December 31, 2021

How did equity income indexes perform in 2021?

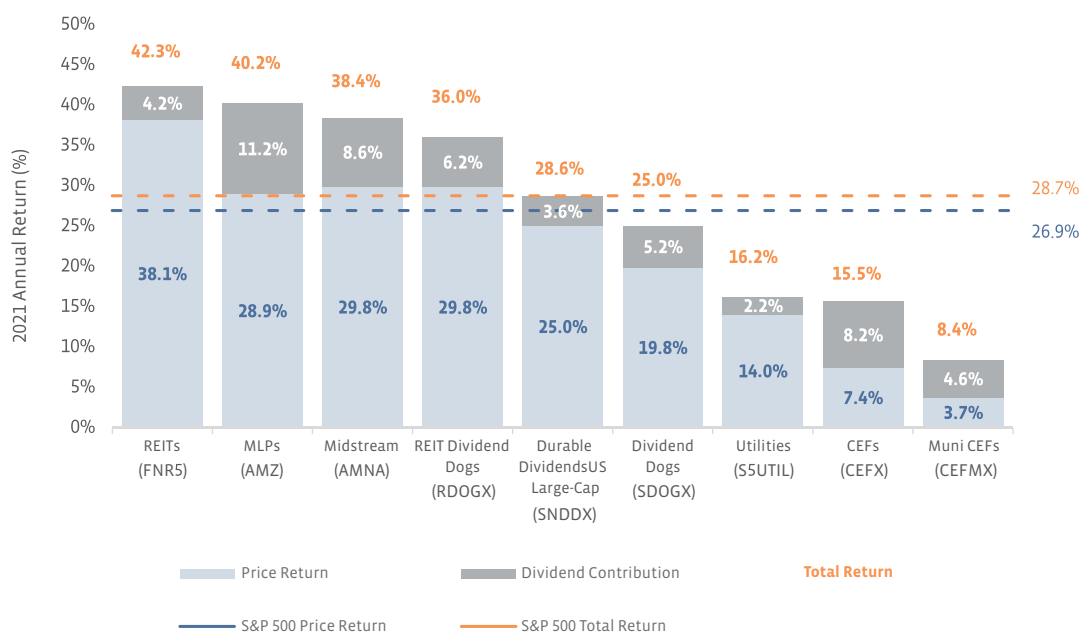
While all of the equity income indexes in the chart below provided positive price return in 2021, performance varied significantly. Given growing inflation concerns over the course of 2021, equity income investments with real asset exposure tended to provide standout performance, with REITs and midstream leading the way. Though Utilities also provide real asset exposure, the sector lagged the S&P 500 due in part to its more defensive characteristics, which are less desirable in a strong year for equities. The diversified equity income indexes below performed relatively in line with the broader market. Closed-end funds (CEFs) rounded out 2021 performance with modest price gains in the single-digits, though price returns tend to be less important as discussed below.

Dividend indexes were in line with the broader market on a total-return basis – Dividend indexes like the [S-Network Durable Dividends US Large-Cap Index \(SNDDX\)](#) and the [S-Network Sector Dividend Dogs Index \(SDOGX\)](#), which provide exposure to companies with higher dividend yields, should generally be evaluated using total returns. On a total-return basis in 2021, SNDDX and SDOGX were about in line with the S&P 500 as seen in the chart below. Some of the variance this year could also be attributed to the equity market rally, which seemed to favor high growth stocks, rather than value stocks. Many dividend paying companies, particularly those with higher yields included in these indexes, have a value tilt. Additionally, the equal sector-weighting of SDOGX provides more exposure to value-oriented sectors like energy and less exposure to growth sectors like information technology than broad market benchmarks.

Generous payouts and energy recovery drove midstream outperformance in 2021 – Flush with free cash flow, the midstream space (including midstream MLPs) offers generous payouts and attractive yields in today’s low-yielding environment (see the most recent midstream dividend report [here](#)). All else equal, higher payouts can potentially enhance the total return profile. Additionally, midstream participated in a broad energy recovery as commodity prices improved during the year, which resulted in outperformance relative to the S&P 500 on a price-return basis. Midstream significantly outperformed on a total-return basis as it benefited from an 8-11% return contribution from dividends.

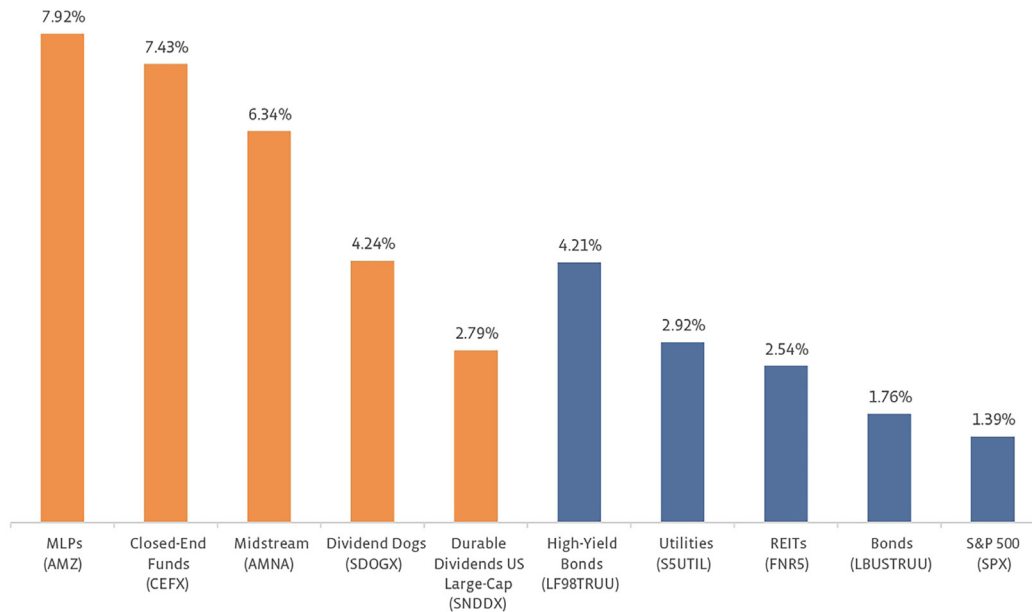
CEFs focus less on price and more on income generation – Price returns for CEF indexes were lower than other income indexes, but distributions contributed significantly to total return. Price is arguably less important for CEFs than it is for traditional income stocks. Many CEFs pay out the majority of their earnings as distributions and keep their NAV generally stable (and price tracks NAV). Over short time periods, decreases in NAV (and therefore price return) may occur if unrealized earnings are used to fund distributions, which is not uncommon. But long-term, total return should be greater or equal to the distribution rate—otherwise this could indicate that distributions have been eating into the original invested principal.

REITs and Midstream MLPs Stand Out Among Income Indexes in 2021



Source: Index company websites, Alerian and S-Network Global Indexes.
 All indexes shown are Alerian and S-Network Global Indexes except S&P 500 (SPX), S&P 500 Utilities (S5UTIL), and FTSE NAREIT Real Estate 50 (FNR5)
 Data is one-year return through December 31, 2021

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 December 31, 2021

Current Yields vs. History

Midstream/MLPs offer attractive yields and provided a strong total return in 2021. Yields are slightly below five-year averages but marginally higher than ten-year averages.

Midstream & MLPs

Index Name	Ticker	YTD Total Return	Yield		
			Current	5-Year Average	10-Year Average
Alerian Midstream Energy Index	AMNA	38.42%	6.34%	6.62%	N/A
Alerian MLP Index	AMZ	40.17%	7.92%	8.82%	7.67%
Alerian MLP Infrastructure Index	AMZI	40.92%	7.91%	8.77%	7.56%
Alerian Midstream Energy Dividend Index	AEDW	37.01%	7.33%	7.65%	N/A
Alerian Midstream Energy Select Index	AMEI	40.75%	6.43%	6.44%	5.44%

Source: Alerian as of December 31, 2021

Yields offered by Sector Dividend Dogs are about in line with historical averages, with double-digit total returns in 2021.

(See table in next page)

Sector Dividend Dogs

Index Name	Ticker	YTD Total Return	Yield	
			Current	5-Year Average
S-Network Sector Dividend Dogs Index	SDOGX	25.00%	4.24%	4.46%
S-Network International Sector Dividend Dogs Index	IDOGX	12.48%	5.50%	5.19%
S-Network Emerging Sector Dividend Dogs Index	EDOGX	13.71%	N/A	5.06%
S-Network REIT Dividend Dogs Index	RDOGX	35.98%	4.14%	N/A

Source: S-Network Global Indexes, Bloomberg as of December 31, 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	28.59%	2.79%	3.55%
S-Network Durable Dividends US Mid-Cap Index	SNDDMX	25.87%	2.20%	3.13%
S-Network Durable Dividends Developed International Index	SNDDIX	19.12%	4.25%	4.60%

Source: S-Network Global Indexes, Bloomberg as of December 31, 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	15.55%	7.43%	N/A	7.95%	8.31%
S-Network Municipal Bond Closed-End Fund Index	CEFMX	8.35%	4.36%	6.92%	4.90%	N/A
S-Network Option Income Closed-End Fund Index	CEFOIX	26.10%	6.79%	N/A	8.09%	N/A

¹ Calculated using a 37% federal tax rate.

Source: S-Network Global Indexes, Bloomberg as of December 31, 2021

Related research:

[Income Opportunities with Real Assets](#)

[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 \(RDOGX\)](#)

Durable Dividends

[S-Network Durable Dividends US Large-Cap Index \(SNDDX\)](#)

[S-Network Durable Dividends US Mid-Cap Index \(SNDDMX\)](#)

[S-Network Durable Dividends Developed International Index \(SNDDIX\)](#)

Closed-End Funds

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

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

[S-Network Option Income Closed-End Fund Index \(CEFOIX\)](#)

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); Available on the C8 platform

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); Available on the C8 platform

Alerian Energy Infrastructure ETF (ENFR); Available on the C8 platform

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)

Available on the C8 platform and the SMARTX platform

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

VanEck Vectors CEF Municipal Income ETF (XMPT)

Available on the C8 platform and the SMARTX platform

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