

Zacks Yield Hog Index (ZAXYH) Commentary

Q2 Commentary as of 6/30/2019

Summary

Zacks Yield Hog (ZAXYH) is the first yield-oriented index to combine equities, preferred stocks, ADRs, REITs, master limited partnerships (MLPs), and closed-end funds, creating a diversified portfolio that minimizes risk. During the quarter ending June 30, 2019, ZAXYH returned 3.75%, outperforming the Dow Jones US Select Dividend Index (DJDVY Index), which returned 2.30%. The common stock sleeve of the index continued to strongly outperform the benchmark DJDVY Index, returning 5.97%. All the sleeves other than the common stock also have a higher dividend yield¹ than their respective benchmarks. The overall index maintains a yield of 5.01%, ahead of 4.08% for the DJDVY Index.

Zacks Yield Hog Index Performance² as of 6/30/2019

	Average Weight (%)	Total Return (%)	Dividend Yield	Benchmark	Benchmark Return (%)	Benchmark Div Yield
Total	100	3.85	5.01			
COM	51.61	5.97	3.39	DJDVY Index	2.30	4.08
ADR	9.82	-0.96	6.10	SPADRTR Index	3.01	3.9
CEF	9.78	5.04	8.63	CEFX Index	4.25	7.75
MLP	9.68	2.53	8.18	AMZ Index	0.05	7.86
PFD	9.61	2.6	5.84	SPPREFXT Index	2.65	5.24
REIT	9.49	-1.02	4.86	FNERTTR Index	1.79	3.75

Source: Bloomberg, Morningstar, Zacks Investment Research, FTSE, S&P

The U.S. Stock Market

The U.S. economic fundamentals remain solid but show signs of deceleration with the yield curve being inverted since May. The U.S. stock market continued to rally during the 2nd quarter of 2019. The S&P 500 Index is up 4.3% for the quarter and the large-cap stock continued to outperform small-cap stock. However, 2nd quarter earnings for S&P500 firms are expected to be down -3.3% year over year, with Technology, Aerospace, basic materials, and construction at double-digit declines. This is following the -0.2% earnings decline the previous quarter, making this the second consecutive quarter with a decline in earnings. The market rally seems to be largely driven by the expected interest rate cut. Uncertainty regarding the status of trade negotiations and Fed policy remain ongoing concerns for investors. The ZAXYH index heavily overweighs Financials. The strong performance of the financial sector was a major contributor to the outperformance of the ZAXYH common sleeve compared to the benchmark DJDVY Index. The Consumer Discretionary sector had negative attribution alpha for the 2nd quarter due to double-digit losses for Bed Bath & Beyond, Big Lots Inc., and Signet Jewelers LTD.

Global Stock Market

MSCI EAFE Index tracking the developed market went up 3.93% for the quarter while the MSCI emerging market index when up 0.69%. The developed markets have outperformed the emerging markets in part due to concern regarding the effect of the trade war on China. Concerns of a global recession have mounted with the contraction in manufacturing in multiple developed countries and China on the cusp of a contraction. The ADR sleeve of ZAXYH underperformed the benchmark S&P ADR Index (SPADRTR Index), losing -0.96%. The large loss of BRASKEM SA ADR was the major contributor to the underperformance.

Crude Oil and MLP

Concern regarding conflicts in the Middle East as well as the decline in U.S. oil inventories is likely to put upward pressure on oil prices. Furthermore, OPEC and their allies have agreed to continue their

production cuts. However, the expected oil demand growth has declined due to concern regarding the slowdown of global economic growth. The MLP sleeve of the ZAXYH index went up 2.53% and strongly outperformed the benchmark Alerian MLP Index (AMZ) which returned 0.05%.

REITs Market Outlook

The FTSE NAREIT Equity REITs Index (FNERTR Index) went up 1.79% for the second quarter of 2019 while the REIT sleeve of ZAXYH underperformed going down -1.02%. The underperformance was partly due to overweighing small-cap stocks (12.5% of REIT sleeve vs 5% of the benchmark), which performed poorly. There was an overall -2% negative selection alpha indicating that the alpha model, particularly the 6-month momentum factor, did not work this quarter. However, the strong labor market and accelerating wage growth makes the outlook for housing and office markets favorable.

Zacks Yield Hog Index Sector Attribution from 3/31/2019 to 6/30/2019

	% AVERAGE WEIGHT			TOTAL RETURN (%)			ATTRIBUTION (%)		
	ZAXYH	DJDVY	+/-	ZAXYH	DJDVY	+/-	Allocation	Selection	Total
	(CVY)	(CVY)		(CVY)	(CVY)				
Total	100.00	100.00		3.85	2.30	1.55	0.88	0.62	1.55
Communication Services	3.43	6.99	-3.56	7.53	2.91	4.62	-0.09	0.29	0.21
Consumer Discretionary	7.99	14.42	-6.43	-5.33	0.03	-5.36	0.15	-0.42	-0.24
Consumer Staples	0.28	7.85	-7.57	6.16	-3.03	9.19	0.4	0.06	0.45
Energy	14.96	8.57	6.39	2.49	-5.01	7.50	-0.38	1.09	0.72
Financials	33.74	14.57	19.17	6.42	7.73	-1.31	1.1	-0.43	0.67
Health Care	1.84	1.94	-0.10	-1.50	2.27	-3.77	0	-0.07	-0.07
Industrials	4.02	4.49	-0.47	7.71	7.50	0.21	-0.03	0.02	-0.01
Information Technology	4.02	7.94	-3.92	0.37	6.88	-6.51	-0.04	-0.22	-0.26
Materials	7.39	8.11	-0.72	1.55	-0.25	1.80	0.03	0.25	0.28
Real Estate	10.70	0.00	10.70	-0.44	0.00	-0.44	-0.31	0	-0.31
Utilities	1.44	25.12	-23.68	9.70	3.34	6.36	-0.24	0.05	-0.17
Funds	10.20	0.00	10.20	5.04	0.00	5.04	0.28	0	0.28

Highlights of ZAXYH for Q2 2019

- High yield of 5.01% compared with 4.08% for benchmark DJDVY Index
- Information Ratio³ of the Index with respect to the benchmark is 1.22
- Lower valuation ratios measured by P/E, P/CF, and P/B. The index continues to tilt towards value securities
- The earnings quality factors are in line with the benchmark
- The index has structurally higher leverage but the current ratio indicates the selected companies don't have solvency issues
- Downside risk indicated by annual VaR 95% (-1.07 vs. -1.09) and annual downside standard deviation (8.12 vs. 7.89) are in-line with benchmark DJDVY
- Volatility measured by the annualized standard deviation (11.36 vs 11.04) and Beta (0.92) are in line with benchmark DJDVY Index

Zacks Yield Hog Index Characteristics⁴

as of 6/30/2019

Characteristic	ZAXYH							DJDVY
	ADR	CEF	COM	MLP	PFD	REIT	Total	
Dividend Yield ⁵	6.10	8.63	3.40	8.18	5.84	4.86	5.01	4.08
Price to Earnings Ratio (P/E)	10.39		8.72	129.4		31.72	11.14	13.38
Price to Cash Flow Ratio (P/CF)	5.49		5.47	6.74		15.05	6.11	7.3
Price to Book Ratio (P/B)	1.07		1.42	1.6		2.3	1.45	2.11
Total Debt to Common Equity	311.82		174.19	162.37		156.15	191.84	143.33
Current Ratio	1.06		1.35	1.06		0.65	1.3	1.24
Beta	0.88		0.72	1.15	0.9	0.71	1	0.88
ROA	0.81		2.39	1.82		3.52	1.87	1.76
ROC	2.87		5.94	8.59		4.24	5.23	7.55
ROE	10.89		12.96	6.73		10.67	11.81	8.3
SALES	86,439		27,188	8,887		921	29,119	34,543
Market Cap	1,230,166		1,968,965	139,038		91,248	3,429,418	4,176,127

Source: Bloomberg

¹ Indicated annual dividend yield as of 6/28/2019

² The performance for the index given in the table is calculated using Bloomberg. There is a slight discrepancy between the actual index performance and the performance reported in the table due to differences in the calculation methodology.

³ Information ratio: Information ratio is a measure of risk-adjusted return for a portfolio w.r.t a benchmark. It is defined as active return divided by the tracking error.

⁴ The performance for the index given in the table is calculated using Bloomberg. There is a slight discrepancy between the actual index performance and the performance reported in the table due to differences in the calculation methodology.

⁵ Indicated annual dividend on 2019/6/28

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Dow Jones U.S. Select Dividend Index: The selection of stocks to the Dow Jones U.S. Select Dividend Index is based almost entirely on dividend yield and dividend history. Stocks are also required to have an annual average daily dollar trading volume of more than \$1.5 million. These criteria help to ensure that the index represents the most widely traded of the market's highest-yielding stocks. This is a total return index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. The Index does not reflect advisory fees. An investor cannot invest directly in an index.

S&P 500 Index: Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure the performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index was developed with a base level of 10 for the 1941-43 base period. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. The Index does not reflect advisory fees. An investor cannot invest directly in an index.

Dow Industrial Average Index: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

MSCI EAFE Total Return Index: Morgan Stanley Capital International Equity Indices in US Dollars. Indices with net dividends reinvested use the same dividend minus-tax-credit calculations, but subtract withholding taxes retained at the source for foreigners who do not benefit from a double taxation treaty.

MSCI Emerging Net Total Return Index: MSCI Net Total Return Index Series.

FTSE 100 Index: The FTSE 100 Index is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange. The equities use an investability weighting in the index calculation. The index was developed with a base level of 1000 as of December 30, 1983.

FTSE NAREIT Equity REITs Total Return Index: FTSE NAREIT Equity REITs Total Return Index USD. This investment sector includes all Equity REITs not designated as Timber REITs or Infrastructure REITs.

S&P ADR Index: The index is comprised of 6 regional and country headline indices, representing non-U.S. market coverage across 30 markets. The S&P ADR Index is ideal for U.S. institutional investors who are restricted from purchasing foreign stocks. The index is market cap-weighted with all pricing and valuation taken from the U.S. exchange with the primary listing.

CEFX Index: S-Network Composite Closed-End Fund Index is a net assets-weighted fund index designed to serve as a benchmark for closed-end funds listed in the US that principally engage in asset management processes designed to produce taxable annual yield.

AMZ Index: Alerian MLP Index is the leading gauge of energy MLPs. The market cap weighted index constituents represent approximately 85% of total market cap.