

Zacks Yield Hog Index (ZAXYH) Commentary

Q3 Commentary as of 9/30/2019

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 September 30, 2019, ZAXYH returned 1.82%, noticeably underperforming the Dow Jones US Select Dividend Index (DJDVY Index), which returned 3.58%. This is attributable to the following causes. ZAXYH is heavily overweight (16.23% vs. 0.23%) in small-cap securities that have significantly underperformed large-cap securities this quarter. Furthermore, it is also significantly underweighting in the Utilities, which have performed strongly this quarter. All the sleeves other than the common stock have a higher dividend yield than their respective benchmarks. The overall index maintains a yield of 5.1%, ahead of 4.01% for the DJDVY Index.

Zacks Yield Hog Index Performance² as of 9/30/2019

	Average Weight (%)	Total Return (%)	Dividend Yield	Benchmark	Benchmark Return (%)	Benchmark Div Yield
Total	100	1.9	5.10			
COM	51.94	1.51	3.49	DJDVY Index	3.58	4.01
ADR	9.79	-7.21	6.31	SPADRTR Index	-1.09	3.94
CEF	9.41	1.41	8.40	CEFX Index	1.59	7.65
MLP	9.74	0.69	8.85	AMZ Index	-5.09	8.7
PFD	9.3	4.81	5.48	SPPREFXT Index	3.29	4.95
REIT	9.82	11.12	5.21	FNERTTR Index	7.73	3.54

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

The U.S. Stock Market

The U.S. Equities had modest overall growth this quarter. The S&P 500 Index is up 1.70%, while Russell 2000 is down -2.4%. The U.S. economic fundamentals remain solid, with real wage growth and solid consumer confidence, but there are signs of a slowdown. Third-quarter earnings for S&P 500 companies are expected to be down -4.3% on 3.9% higher revenue, but the results released so far have been mostly positive with a majority of companies beating their EPS and revenue estimates. Part of the reason for the decline in earnings is due to increased costs for imports from China. There has been no significant progress towards a U.S.-China trade deal, and the ongoing trade conflict remains a concern for investors.

Global Stock Market

MSCI EAFE Index tracking the developed market went down -1.0% for the quarter while the MSCI emerging market index went down -4.16%. The developed markets continue to outperform the emerging markets in part due to concern regarding the effect of the trade war on China. Concerns of a global recession remain and manufacturing has contracted in multiple developed countries. The ADR sleeve of ZAXYH underperformed the benchmark S&P ADR Index (SPADRTR Index), going down -7.21% compared to -1.09% for the benchmark. The ADR sleeve is heavily overweight in Financials and Energy. The Energy sector overall performed poorly this quarter, and there were significant losses for the Financial firms Banco Santander Mexico, Ing Groep NV, Lloyds Banking Group, Banco Santander SA, Barclays PLC, PPDAL Group, HSBC, and Banco Bilbao Vizcaya which led to the underperformance.

Crude Oil and MLP

Concern regarding conflicts in the Middle East is likely to put upward pressure on oil prices. Furthermore, OPEC and its 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 0.69% and strongly outperformed the benchmark Alerian MLP Index (AMZ) which returned -5.09%.

REITs Market Outlook

The REIT sleeve of the ZAXYH Index went up 11.12% for the quarter, solidly outperforming the FTSE NAREIT Equity REITS Index (FNERTR Index) which returned 7.73%. The strong labor market and low-interest-rates makes the outlook for housing and office markets favorable.

Zacks Yield Hog Index Sector Attribution from 3/31/2019 to 9/30/2019

							% AVERAGE WEIGHT			TOTAL RETURN (%)			ATTRIBUTION (%)		
							ZAXYH	DJDVY	+/-	ZAXYH	DJDVY	+/-	Allocation	Selection	Total
							(CVY)	(CVY)		(CVY)	(CVY)				
Total							100	100	0	1.9	3.58	-1.35	-1.53	-0.12	-1.68
Communication Services	1.02	7.15	-6.13	-14.78	6.77	-21.55	-0.2	-0.21						-0.41	
Consumer Discretionary							8.67	13.93	-5.26	5.98	-1	6.99	0.23	0.5	0.72
Consumer Staples	0.92	7.68	-6.76	2.08	0.12	1.96	0.24	-0.01						0.23	
Energy							16.21	8.18	8.04	-1.82	-1.06	-0.76	-0.37	-0.14	-0.51
Financials	31.69	14.36	17.33	0.91	1.86	-0.95	-0.24	-0.33						-0.58	
Health Care							1.84	1.88	-0.04	14.04	-8.47	22.51	0.03	0.42	0.45
Industrials	3.47	4.51	-1.04	20.16	1.73	18.43	0.04	0.6						0.63	
Information Technology							4.83	8.43	-3.6	9.53	11.4	-1.86	-0.16	-0.16	-0.32
Materials	8.55	7.82	0.74	-8.25	1.47	-9.72	0.02	-0.9						-0.88	
Real Estate							11.03	0	11.03	7.21	0	7.21	0.41	0	0.41
Utilities	1.37	26.07	-24.69	14.6	8.35	6.25	-1.23	0.1						-1.14	
Funds							10.39	0	10.39	1.03	0	1.03	-0.31	0	-0.31

Source: Bloomberg

Highlights of ZAXYH for Q2 2019

- High yield of 5.10% compared with 4.01% for benchmark DJDVY Index.
- Information Ratio of the Index with respect to the benchmark is -0.99. This was mostly due to a large exposure to small cap stock which significantly underperformed large cap stock this quarter.
- 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% (-1.75 vs. -1.13) and annual downside standard deviation (11.78 vs. 10.51) are slightly higher than the benchmark DJDVY. This can also be attributed to the large exposure to small cap securities.
- Volatility measured by the annualized standard deviation (15.69 vs 13.59) and Beta (1.07) is slightly higher than the benchmark DJDVY Index.

Zacks Yield Hog Index Characteristics⁴

as of 9/30/2019

Characteristic	ZAXYH						Total	DJDVY
	ADR	CEF	COM	MLP	PFD	REIT		
Dividend Yield ⁵	6.31	8.4	3.49	8.85	5.48	5.21	5.1	4.01
Price to Earnings Ratio (P/E)	6.61		7.71	74.97		34.21	9.41	13.79
Price to Cash Flow Ratio (P/CF)	4.86		5.32	5.8		22.76	5.9	7.4
Price to Book Ratio (P/B)	1.05		1.34	1.87		1.98	1.4	2.1
Total Debt to Common Equity	218.35		186.74	185.98		154.53	189.1	140.82
Current Ratio	0.97		1.37	1.29		0.88	1.31	1.14
Beta	0.9	0.72	1.18	0.88		0.72	1.01	0.87
ROA	1.84		2.2	3.37		2.16	2.18	1.7
ROC	5.32		6.53	10.43		3.3	6.33	7.26
ROE	16.16		13.36	12.47		8.22	13.29	7.95
SALES	53,356.31		23,724.58	8,556.03		1,420.81	22,783.87	34,187.78
Market Cap	825,325.00		1,740,484.00	132,855.00		116,734.00	2,815,398.00	4,235,093.00

Source: Bloomberg

¹ Indicated annual dividend yield as of 9/30/2019

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 9/30/2019

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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.