



## April 2020

### Finding Yield In A Low-Yield Environment

For investors seeking to generate income from their portfolios, the current environment can pose something of a challenge. The S&P 500 index of large capitalization U.S. stocks has a forward dividend yield – the next twelve months’ total projected dividends divided by the price of the index – of approximately 2.1%. Similarly, the Bloomberg Barclays U.S. Aggregate Bond Index, one of the most common proxies for the U.S. investment-grade bond universe, is currently yielding approximately 2.6%. Thus, a traditional “60/40” portfolio – 60% stocks/40% bonds – would only be expected to yield roughly 2.2% for the coming year.

There are, however, pockets of substantially higher-yielding companies that we believe deserve special consideration from income-oriented investors. These include:

- Real Estate Investment Trusts (REITs). The S&P 500 REIT Sector currently yields approximately 3.8%
- Utilities. The S&P 500 Utilities Sector currently yields approximately 3.5%.
- Telecom. The S&P 500 Telecom Sector currently yields approximately 3.0%. Within Telecom, many large, stable companies like Verizon and AT&T can be found with yields in excess of 4%.
- Financials. The S&P 500 Financial Sector currently yields approximately 2.8%. Within Financials, major U.S. banks currently yield an average of 3.9%.

In addition, there are certain niche asset classes where yields are even higher. These include:

- Business Development Companies (BDCs). The ETRACS Wells Fargo Business Development Company Index currently yields approximately 15.3%.
- Master Limited Partnerships (MLPs). Many of the largest, most diversified MLPs currently yield in excess of 10%.
- Preferred Stock. The S&P Preferred Stock Index currently yields approximately 6.3%.

Please note that we advocate a highly selective approach to investing in any of these high-yielding companies. In many cases, these companies are at risk of cutting or even eliminating dividends in adverse economic climates like the current one. However, we firmly believe that certain of these companies can be added to portfolios to increase yield and improve diversification.

**Disclosures**

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