

Seeking Stable Income: The S&P 500[®] Quality High Dividend Index

Executive Summary

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With many countries raising interest rates to fight against inflation, the Russia-Ukraine conflict adding uncertainties to the energy supply, and repeat infection waves undermining economic activity, the world market has been struggling to recover from the COVID-19 crisis since 2020. In turbulent times, a focus on quality stocks with high dividend yields may present a compelling investment solution for market participants seeking stable income.

The [S&P 500 Quality High Dividend Index](#) seeks to provide just such a solution—it selects stocks that rank within the top 200 of the [S&P 500](#) by quality score and dividend yield (see Exhibit 1). This order-indifferent approach ensures extensive and balanced exposure to both quality and dividend yield. Constituents are equally weighted and rebalanced semiannually.¹

Exhibit 1: Select Quality High Dividend Stocks from the S&P 500



Source: S&P Dow Jones Indices LLC. Chart is provided for illustrative purposes.

¹ For a detailed methodology, please visit spglobal.com/spdji/en/documents/methodologies/methodology-sp-500-quality-high-dividend-index.pdf.

What Is Quality?

S&P Dow Jones Indices defines quality as a combination of profit generation, earnings quality and financial robustness (see Exhibit 2). Together, these traits generally shield companies from the volatility of the economic cycle, making them slightly more immune to downturns.

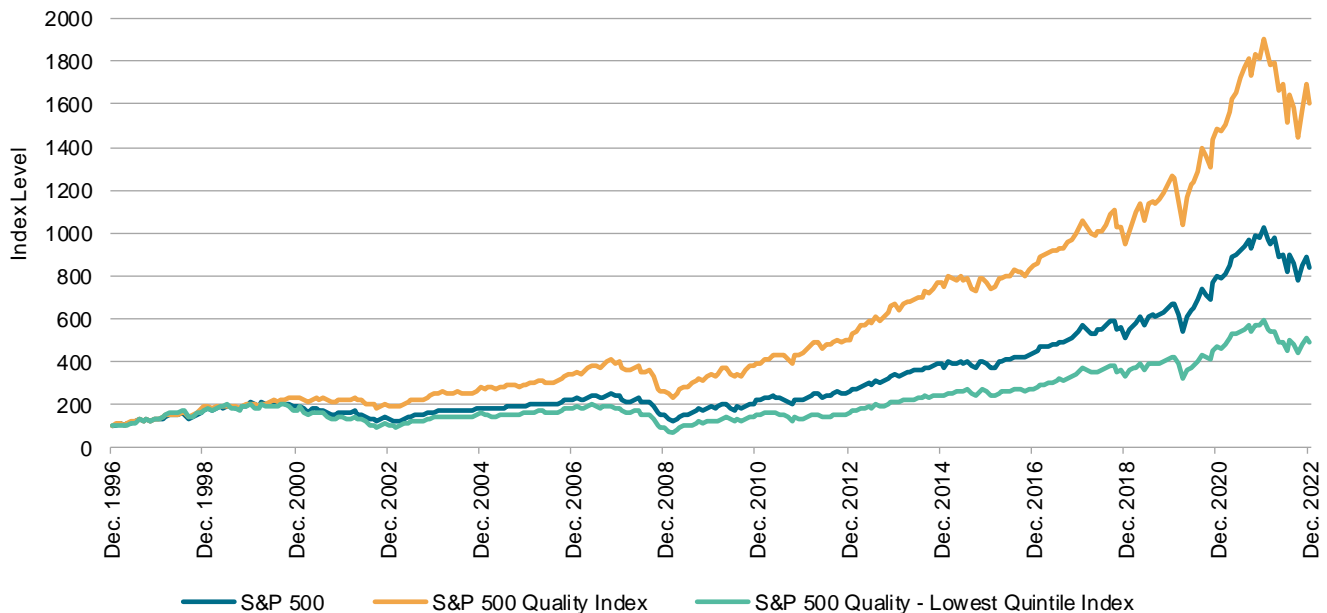
Exhibit 2: S&P DJI Framework for Quality



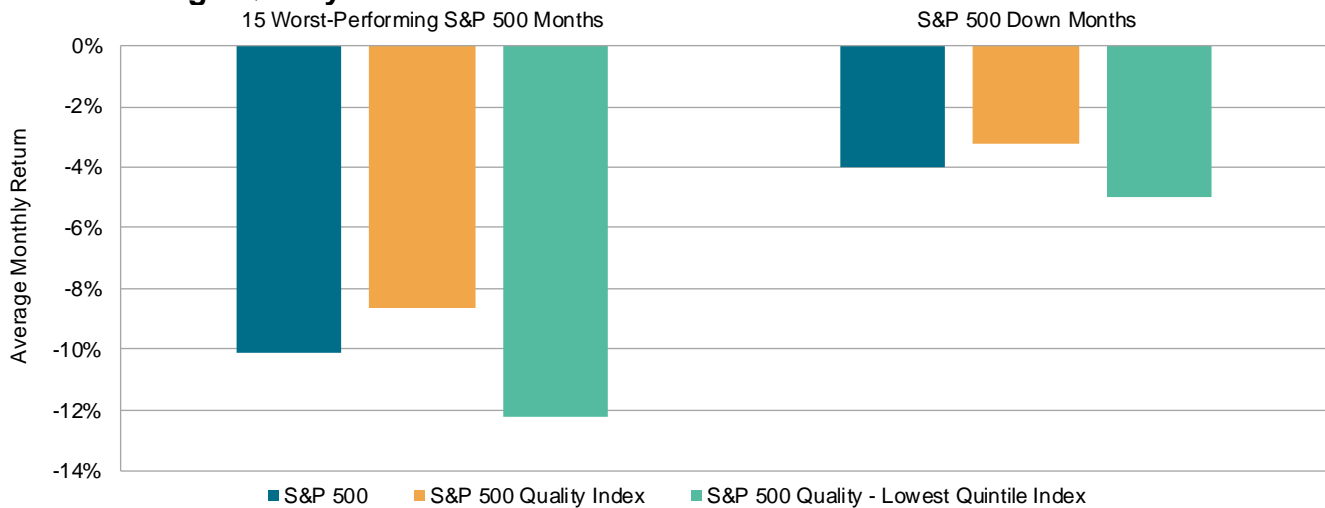
Source: S&P Dow Jones Indices LLC. Chart is provided for illustrative purposes.

Historically, high quality stocks have delivered outperformance in the long run and provided downside protection during down markets (see Exhibits 3 and 4).

Exhibit 3: The Outperformance of High Quality Stocks versus Low Quality Stocks – Wealth Curve



Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1996, to Dec. 31, 2022. Index performance based on total returns in USD. Indices were rebased to 100 on Dec. 31, 1996. The S&P 500 Quality Index was launched July 8, 2014. The S&P 500 Quality - Lowest Quintile Index was launched Feb. 10, 2017. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 4: High Quality Stocks Offered Downside Protection

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2022. Index performance based on total returns in USD. The S&P 500 Quality Index was launched July 8, 2014. The S&P 500 Quality - Lowest Quintile Index was launched Feb. 10, 2017. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Why Implement a Quality + Dividend Approach?

There are times when a stock may have a high yield because a business could be in trouble or in a correction, and its stock price continues to drop, therefore pushing the yield higher. Combining quality with dividend yield may help to avoid such stocks, thus improving the stability of dividends and capital appreciation potential. Furthermore, quality exposure can potentially improve returns and reduce drawdowns.

When constructing a multi-factor strategy, a bottom-up “stock-level” selection and a top-down “index of indices” are common approaches. The former selects stocks that score high in every factor, aiming at “all-rounders,” while the latter usually combines top quintile hypothetical portfolios selected from a single factor with equal weighting. As top quintile portfolios select stocks based on only one factor, secondary factor exposures are generally limited. As a result, a top-down index of indices approach may result in dilution of overall factor exposure. In contrast, a bottom-up stock-level selection strategy could improve factor exposure to every desired factor, which historically has been shown to help deliver better risk-adjusted return than an index of indices multi-factor approach.²

Seeking to focus on quality and dividend yield, the S&P 500 Quality High Dividend Index adopts the bottom-up stock level approach, selecting stocks that rank high within the S&P 500 for both dividend yield and quality.

² Andrew Innes, “[The Merits and Methods of Multi-Factor Investing](#),” S&P Dow Jones Indices LLC, 2018.

Key Characteristics of the S&P 500 Quality High Dividend Index

1. Stable and attractive dividend
2. Buffer against volatility
3. Favorable fundamentals
4. Diversified sector allocation

Stable and Attractive Dividend

Higher quality stocks have been shown to be more likely to sustain their dividends with financial discipline. The S&P 500 Quality High Dividend Index is quality enhanced and consists of stocks with higher dividend stability than a pure high yield strategy. Compared with the [S&P 500 High Dividend Index](#)³ and the S&P 500, the S&P 500 Quality High Dividend Index has a significantly larger portion of constituents that have increased dividends per share (DPS) for 5, 10, 15 and 20 consecutive years (see Exhibit 5).

Exhibit 5: Dividend Stability

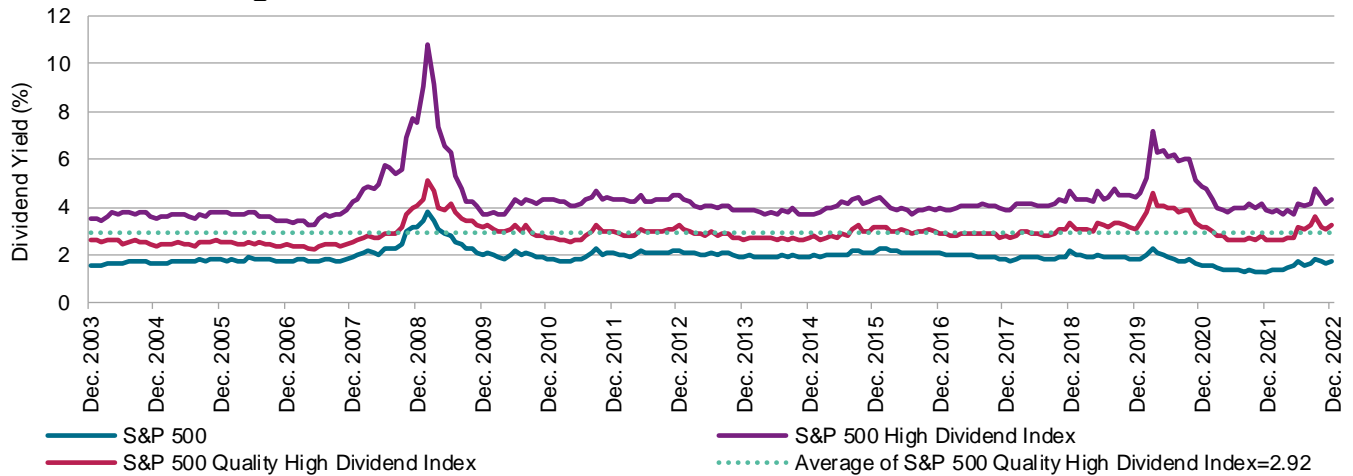
Index	Total Number of Constituents	% of Stock Count with Consecutive DPS Growth			
		5-Year	10-Year	15-Year	20-Year
S&P 500 Quality High Dividend Index	77	63.6	48.1	28.6	20.8
S&P 500 High Dividend Index	79	54.4	40.5	20.3	12.7
S&P 500	503	47.7	32.8	16.9	10.9

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2022. Past performance is no guarantee of future results. The S&P 500 Quality High Dividend Index was launched April 23, 2018. The S&P 500 High Dividend Index was launched Sept. 21, 2015. All data prior to index launch date is back-tested hypothetical data. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Seeking the balance between quality and dividend yield, the S&P 500 Quality High Dividend Index has historically been able to deliver a higher-than-market dividend yield of close to 3% on average.

³ The S&P 500 High Dividend Index seeks to track the performance of the top 80 high yield companies within the S&P 500, with each company assigned a fixed equal weight. For a detailed methodology, please visit spglobal.com/spdji/en/documents/methodologies/methodology-sp-500-high-dividend-index.pdf.

Exhibit 6: Trailing 12-Month Dividend Yield

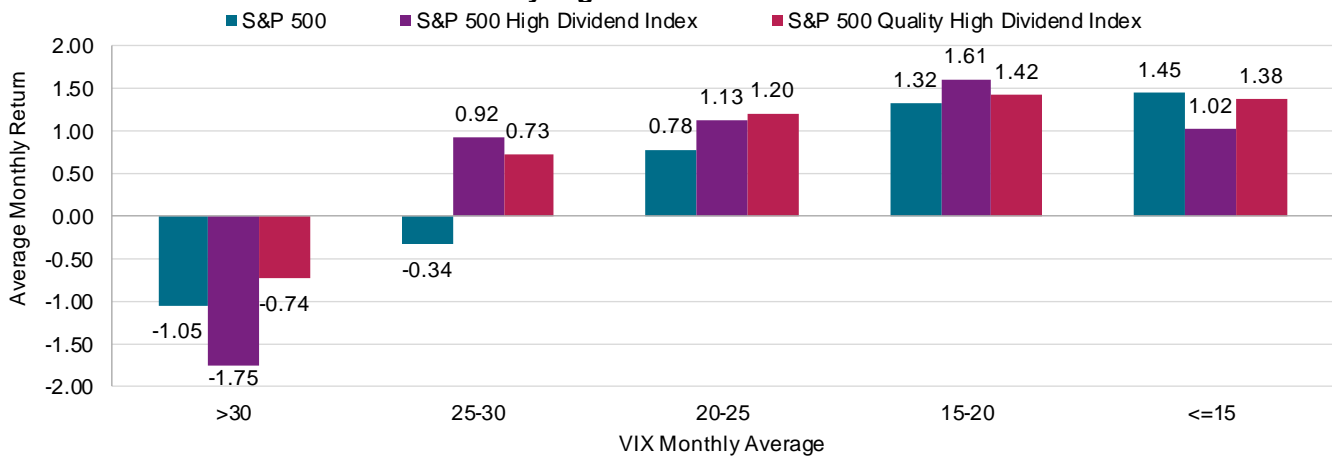


Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2022. Index performance based on total return in USD. The S&P 500 Quality High Dividend Index was launched April 23, 2018. The S&P 500 High Dividend Index was launched Sept. 21, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Buffer against Volatility

In volatile times, quality stocks may provide protection. During the months when VIX^{®4} averaged above 30, the S&P 500 Quality High Dividend Index outperformed the S&P 500 High Dividend Index by 1.01% per month on average. When VIX was less than 20, the S&P 500 Quality High Dividend Index tended to be much closer to the benchmark.

Exhibit 7: Performance of S&P 500 Quality High Yield Index in Volatile Markets



Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1996, to Dec. 31, 2022. Index performance based on total return in USD. The S&P 500 Quality High Dividend Index was launched April 23, 2018. The S&P 500 High Dividend Index was launched Sept. 21, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

⁴ The CBOE Volatility Index.

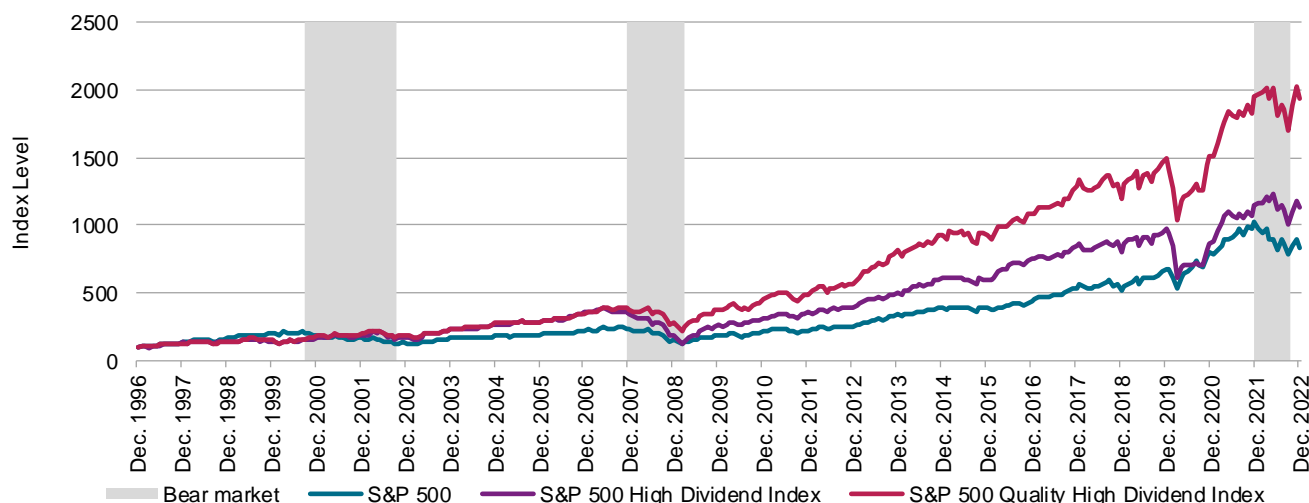
Historically, downside protection has played an important role for the S&P 500 Quality High Dividend Index in every extreme market event since December 1996. During the 2008 Global Financial Crisis, the S&P 500 Quality High Dividend Index outperformed the S&P 500 by 7%, while the S&P 500 High Dividend Index underperformed by 14%. After the beginning of the COVID-19 pandemic (from December 2021 to September 2022), the S&P 500 Quality High Dividend Index outperformed the S&P 500 by 10.8%.

Exhibit 8a: Performance in Bear and Bull Markets

Index	December 1996-August 2000	Dot-Com Bubble	September 2002-October 2007	Global Financial Crisis	February 2009-December 2021	Post-COVID-19 Recession	September 2022-December 2022
Cumulative Return (%)							
S&P 500 Quality High Dividend Index	58.01	9.98	128.43	-43.52	768.18	-13.08	14.68
S&P 500 High Dividend Index	54.28	5.43	126.19	-64.59	778.29	-12.61	13.16
S&P 500	116.08	-44.73	108.39	-50.95	740.04	-23.87	7.56
Excess Return (Versus S&P 500, %)							
S&P 500 Quality High Dividend Index	-58.07	54.72	20.04	7.43	28.14	10.79	7.12
S&P 500 High Dividend Index	-61.80	50.17	17.80	-13.64	38.25	11.26	5.60

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1996, to Dec. 31, 2022. Index performance based on total return in USD. The S&P 500 Quality High Dividend Index was launched April 23, 2018. The S&P 500 High Dividend Index was launched Sept. 21, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 8b: Performance in Bear and Bull Markets

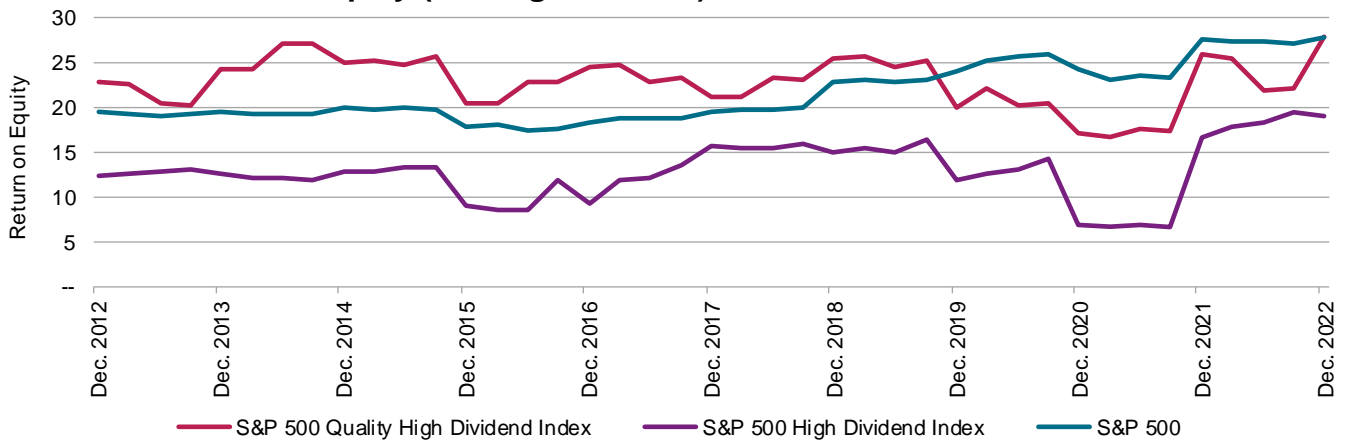


Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2022. Index performance based on total return in USD. Indices were rebased to 100 on Dec. 31, 1996. The S&P 500 Quality High Dividend Index was launched April 23, 2018. The S&P 500 High Dividend Index was launched Sept. 21, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Favorable Fundamentals

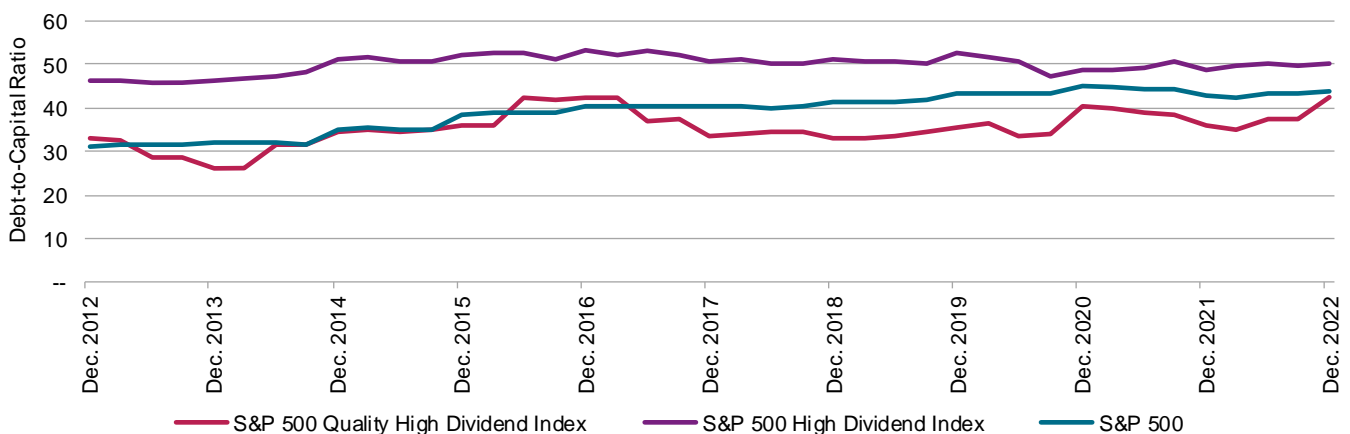
The S&P 500 Quality High Dividend Index has historically tended to be of higher quality than the S&P 500 High Dividend Index and closer to the broad market in terms of profitability and financial leverage over the past 10 years (see Exhibits 9 and 10). However, higher quality does not necessarily come with a price premium. While it is more financially robust and competitive in terms of earnings quality, the S&P 500 Quality High Dividend Index appears to have been less expensive than the S&P 500 and of a similar valuation as the S&P 500 High Dividend Index during the past seven years.

Exhibit 9: Return on Equity (Trailing 12-Month)



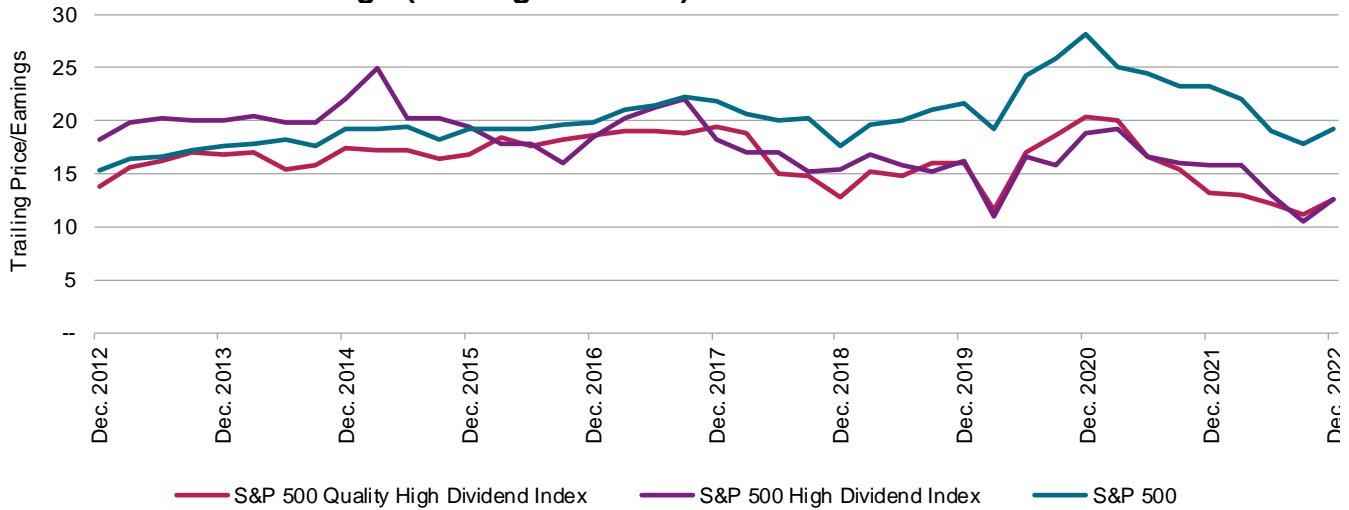
Source: S&P Dow Jones Indices LLC, FactSet. Data as of Dec. 31, 2022. The S&P 500 Quality High Dividend Index was launched April 23, 2018. The S&P 500 High Dividend Index was launched Sept. 21, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 10: Long-Term Debt-to-Capital Ratio



Source: S&P Dow Jones Indices LLC, FactSet. Data as of Dec. 31, 2022. The S&P 500 Quality High Dividend Index was launched April 23, 2018. The S&P 500 High Dividend Index was launched Sept. 21, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 11: Price/Earnings (Trailing 12 Month)

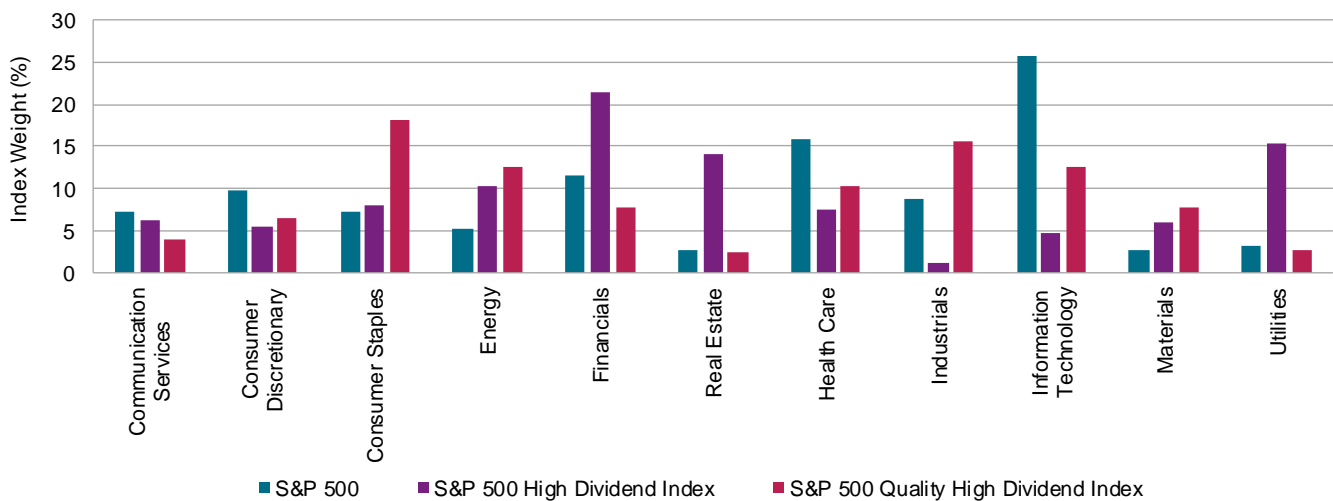


Source: S&P Dow Jones Indices LLC, FactSet. Data as of Dec. 31, 2022. The S&P 500 Quality High Dividend Index was launched April 23, 2018. The S&P 500 High Dividend Index was launched Sept. 21, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Diversified Sector Allocation

A pure high yield strategy tends to concentrate in sectors like Utilities and Real Estate. In contrast, the S&P 500 Quality High Yield Index appears to be more diversified and balanced across sectors because of its quality exposure (see Exhibit 12). Sector diversification is potentially beneficial if there are large moves in performance across particular sectors when an overall market rotates through different phases.

Exhibit 12: Sector Composition



Source: S&P Dow Jones Indices LLC. Data as of Dec 31, 2022. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Conclusion

The S&P 500 Quality High Dividend Index effectively combines quality and high dividends by selecting the intersection of top-ranked quality stocks and high yield stocks from S&P 500. It has shown greater resilience in volatile markets with greater diversification in terms of sector weights, but lower valuation than a pure dividend yield strategy does. For income-focused investors that are concerned about volatility, the S&P 500 Quality High Dividend Index could be a useful instrument.

Performance Disclosure/Back-Tested Data

The S&P 500 Quality High Dividend Index was launched April 23, 2018. The S&P 500 Quality Index was launched July 8, 2014. The S&P 500 Quality – Lowest Quintile Index was launched February 10, 2017. The S&P 500 High Dividend Index was launched September 21, 2015. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at www.spdji.com. Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown.

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