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Income Monitor: Q3 2020

The Global X Income Monitor for Q3 2020 can be **viewed here**. This report seeks to provide broad, macro level insights into the income characteristics of various asset classes and strategies.

Broad US equities continued their momentum from Q2 following the dramatic COVID-19-driven decline earlier in the year. The S&P 500 rose 9% in Q3 after a 20% rise in Q2.

Value-oriented stocks underperformed the broader market on concerns about economic fragility, the expiration of government stimulus measures, and additional COVID-19 outbreaks. Dividend stocks, which often share characteristics with value stocks, tend to be overweight cyclical sectors such as real estate and energy. These sectors have demonstrated a particular sensitivity to negative COVID-19 developments as they tend to be driven by economic normalcy – people commuting to an office, traveling, shopping malls, etc. As these activities remain reigned in, many firms have cut or suspended dividend payments to preserve cash and reduce leverage if possible. Conversely, the markets rewarded stay-at-home economy names in Q3 as the tech-heavy, but dividend-light Nasdaq 100 outperformed both the S&P 500 & the Russell 2000 this quarter by 3.69% and 7.69%, respectively.

Volatility metrics remained elevated following the Q1 market rout, with the Cboe Volatility Index (VIX) reading 26% to end September versus the 12% low from January this year. Monetizing market volatility through options premiums is a potential strategy for investors to generate income.

The Fed's influence on corporate credit markets continued to grow as the central bank executed its Secondary Market Corporate Credit Facility (SMCCF). Both high yield and investment grade spreads contracted by 111 basis points and 21 basis points, respectively, in Q3 compared to the prior quarter.[1] If those facilities were removed or slowed down, it would likely put pressure on corporate fixed income, with spreads widening – though we think the Fed is likely to remain committed as long as possible. Emerging market bonds are less susceptible to the actions of any one central bank and stands to benefit from the weakening US dollar, making it an attractive alternative for investors looking for yield overseas.

The Energy sector is another option for investors looking for yield. It's the highest yielding in the S&P 500 at 7.51% after weak price performance in response to COVID-19. A return to the re-opening economy may provide outsized benefits for these types of cyclical sectors, in addition to offering investors an income solution.

1. Bloomberg. Investment grade spreads measured by CSI BBB Index and High Yield spreads measured by CSI BARC Index.

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