INSURANCE ASIA NEWS
Institutional Asset Management Awards
2024
★★★★★

Best Smart Beta Solutions Provider
Product Innovation Award
S&P Dow Jones Indices

When companies can boost dividend payouts for a long period, they are likely to have successful business models and disciplined financial management.

S&P Dow Jones Indices (S&P DJI) offers a broad suite of factor indices, providing investors with the tools to design custom smart beta exposures utilising single or multi-factor strategies.

In 2023, S&P DJI launched a new generation of its popular dividend factor strategy. The firm had pioneered dividend growth factor strategies with the S&P 500 Dividend Aristocrats, launched in 2005.

Launched in April 2023, the S&P Dividend Monarchs Index is designed to track long-standing companies in the U.S. market that have consecutively increased dividends for at least 50 years. The S&P Dividend Monarchs Index constituents have endured more than a half a century's market turbulence and demonstrated resilience in dividend growth and stock performance. Steadily increasing dividends are considered a positive signal.

First, when companies can boost dividend payouts for a long period, they are likely to have successful business models and disciplined financial management. Second, a change in dividend policy has a signalling effect on the market, the increasing dividend payments give strong signals about the prospects of the company. Thus, a dividend growth strategy is likely to provide exposure to disciplined, resilient companies with sustainable dividend payouts.

Dividend culture

The Australian equity market is well known for its high dividend yield and well-cultivated dividend culture. With over AUD 3.5 billion AUM in exchange-traded products (ETPs), dividend income has become one of the most popular factor strategies in Australia.

However, strategies chasing the highest-yielding stocks could be vulnerable to "dividend traps." High dividend yield may come from decreasing stock prices rather than increasing dividend payments. In addition, selecting stocks based on historical dividend payments may not reflect a company's prospects.

Forecast data

Launched in June 2023, the S&P/ASX 200 High Dividend Index seeks to mitigate common risks faced by high dividend yield strategies. First, it applies momentum screens. Second, it uses forecast dividend data. Selecting stocks based on 12-month forecast dividend data that is forward-looking may help to reflect the latest market expectations on a company's future dividend payments.

Over the nearly 12-year back-tested period, the S&P/ASX 200 High Dividend Index has shown significant outperformance, with higher dividend yield and cheaper valuation than the broad market benchmark. For market participants seeking high yield and diversification benefits, this index could help to complement broad market allocation as well.

Product Innovation Award

In September 2023, S&P Dow Jones Indices and Cboe Global Markets launched the first-of-its-kind index Cboe S&P 500® Dispersion Index, designed to measure the expected dispersion for the S&P 500 Index.

Dispersion is a fundamental measure of risk and opportunity in the stock market; it measures how differently stocks are performing or are expected to perform. Dispersion is a complementary measure to market volatility; the latter measures overall fluctuations in stock averages like the S&P 500, while dispersion measures fluctuations in stocks relative to each other.

S&P DJI measures dispersion historically by the observed spread of stock returns. Separately, it can derive an expectation for future dispersion from listed options. The Dispersion Index is based on such expectations for dispersion over the next 30 calendar days.

Using the Cboe Volatility Index (VIX) and the S&P 500 universe as core building blocks, the VIX methodology is applied to both S&P 500 index options and options on selected S&P 500 constituents, with maturities either side of the next 30 days. The difference between the option prices for the S&P 500's single stock constituents and prices for options on the index tells us how much more movement the market anticipates in stocks.

The Dispersion Index's stablemate, VIX, is known for offering a premier gauge of market sentiment - hence its moniker as "The Fear Index," as well as being known as an often inaccurate but nonetheless useful predictor for future volatility. The information encoded in the Dispersion Index is related, but different: by measuring how differently stocks are expected to perform. Dispersion assesses the magnitude of the potential rewards from active stock selection.

By measuring how differently stocks are expected to perform, dispersion assesses the magnitude of the potential rewards from active stock selection.

The opportunity

In this sense, DSPX might be more appropriately monikered as "The Opportunity Index." Using a modified version of the VIX Index methodology, a rigorous and transparent approach to providing a market expectation for the implied 30-day volatility in the S&P 500 Index, DSPX is calculated from the prices of S&P 500 index options and the prices of single stock options of selected S&P 500 constituents.

By integrating the VIX methodology into the Dispersion Index, S&P DJI and Cboe hope to facilitate greater transparency and improve market participant's understanding of this broad-based security index's methodology. The use of the S&P 500 as the starting equity universe and the integration of the VIX methodology connects the Dispersion Index to a broad ecosystem of tradeable equity and volatility products and means that DSPX may in the future become tradeable itself.