



A Portfolio Perspective on Equity Income Investing

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Global X's 2026 **portfolio positioning outlook** is constructive on equities, with an emphasis on diversification and a barbell approach to portfolio construction. Conflict in the Middle East, global energy supply concerns, heightened geopolitical tensions, and AI disruption are a few of the narratives currently shaping markets.

In this setting, equity income strategies may become increasingly relevant as investors seek to balance market participation with income generation and risk management. Equity income remains a diverse and flexible area of the market, encompassing quality dividend growers, higher-yielding equities, preferred securities, and options-based approaches such as covered calls. As market rotation and recalibration take effect, selection becomes more important, equity income strategies, particularly those with a value tilt and lower-beta characteristics, may offer a compelling way to access income, diversification, and potential capital appreciation. This whitepaper explores yield-focused equity solutions and their potential role in portfolios as investors adapt to an evolving market regime.

KEY TAKEAWAYS

- Equity income is not just about yield generation, but about using selective, durable income sources to balance participation, diversification, and downside resilience in a more uncertain and dispersion-driven market environment
- With growth expectations moderating but not collapsing, the macro backdrop may support more defensive income-oriented positioning allocation centered on quality, pricing power, and lower-beta characteristics that can help sustain income and improve resilience as inflation remains elevated.
- Energy has reemerged as a key driver in 2026, though opportunities are increasingly selective, favoring income-oriented infrastructure and defensively positioned exposures that can benefit from restricted supply without taking on full commodity-price volatility.

FROM NARROW LEADERSHIP TO SELECTIVE VALUE AND YIELD

Leadership broadened over the course of Q1 2026 as markets rotated away from the narrow, concentrated rally of recent years, with the Russell 1000 Value Index outperforming the Russell 1000 Growth Index by roughly 1,190 basis points (bps) during the quarter.¹ The shift towards value and small caps corresponded with consensus shifting towards strengthening economic growth and

broadening earnings participation. While the war in Iran impacts the narrative, we maintain our view that value is becoming a more important part of the market, but investors should be selective within this positioning.

Value, which traded at a 22% discount to fair value a year ago, is now the least undervalued style area of the market, though it remains fairly valued to modestly undervalued as fair value increases have largely kept pace with category returns.^{2,3} The Q1 rally in the Energy sector boosted the performance of value, but we believe investors should prioritize exposures that can weather the changing market dynamics, provide defensive positioning, and can benefit from shortages caused by the war yet are less sensitive to the volatility in energy prices. MLPs provide exposure that could benefit from an extended disruption to tanker traffic in the Strait of Hormuz, we dive into why later in this whitepaper.

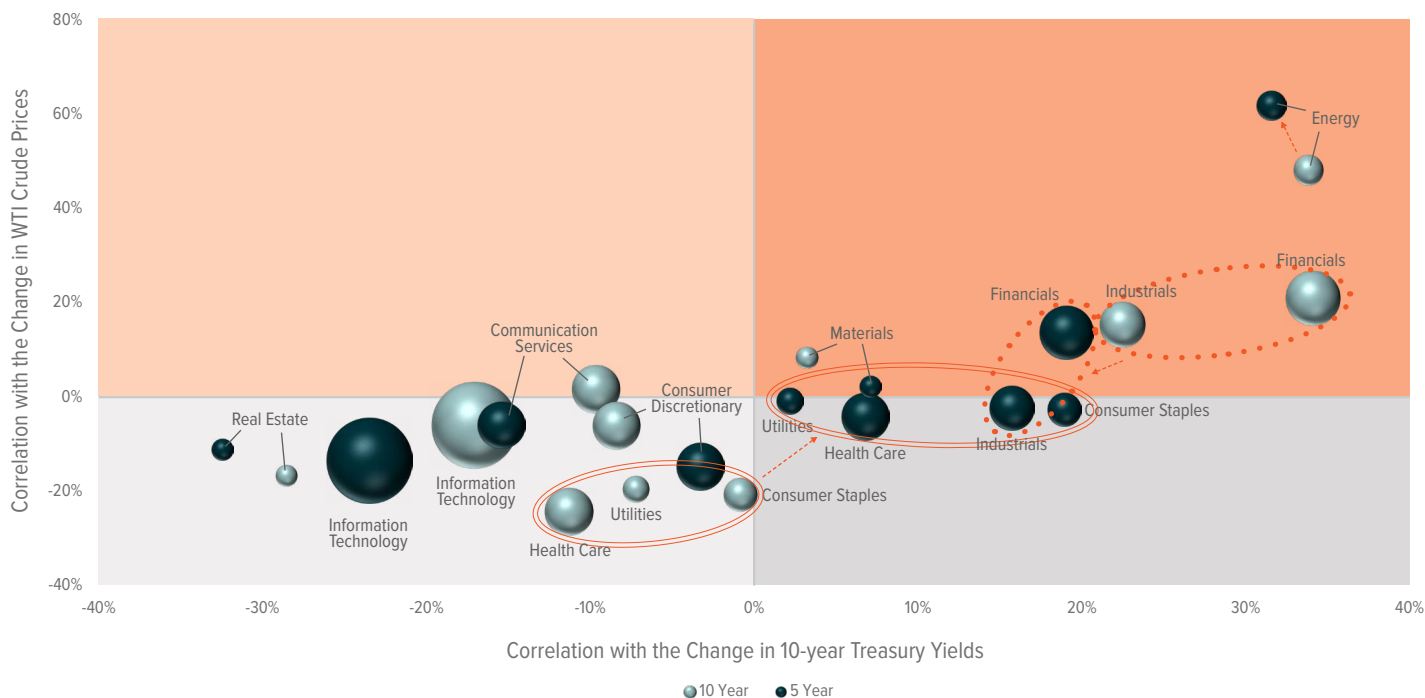
Chart 1.1 illustrates key sensitivities that are useful to be cognizant of in the current environment, including energy prices and interest rates. As shown, sector performance is not uniformly exposed to these risks, and the sensitivity to these risks has adjusted over time. Energy security has increased in importance the last 5 years, shifting how S&P 500 sectors have responded to changes in WTI crude prices. This is a structural force that we believe may persist even if the war in Iran is resolved in the next few weeks. Additionally, both yield growth and rising crude prices have shifted from predominantly highlighting improving economic growth expectations to also including potential stagflation risks.

- Defensive sectors such as Health Care, Utilities, and Consumer Staples experienced a dramatic shift away from large negative correlations as the market prioritized these areas of safety as the risks of stagflation ebbed and flowed the last 5 years. These low volatility and low beta areas may provide additional benefits during bouts of market volatility while also offering a decent yield.
- High levels of capex investment made the Communication Services and Information Technology sectors are more exposed to energy prices while also being more sensitive to interest rates, both with a negative relationship currently.
- Typical economic growth sectors, such as Financials and Industrial, have generally become less sensitive to interest rates and crude prices. This reflects the strange economic cycle of the last 5 years that was supported by capex spending, with earnings growth driven by a narrow range of companies. Despite the reduction, they remain positively correlated to both changes in crude prices and interest rates.



CHART 11: S&P 500 EXCESS RETURN SECTOR CORRELATION ANALYSIS

Bubble size reflects the sector weight in the S&P 500 as of 3/31/2026



Quadrant Key			
	Adversely impacted by rising interest rates but has favorable relationship to higher energy prices.		Adversely impacted by both rising interest rates and energy prices.
	Favorable relationship to both rising interest rates and energy prices.		Favorable relationship with rising interest rates but adversely impacted by higher energy prices.

Source: Bloomberg monthly data & Global X analysis as of March 31, 2026

NAVIGATING YIELD IN A COMPLEX MACRO ENVIRONMENT

Global economic growth expectations started the year favorably but have been downgraded due to the start of the war in Iran. While economic growth is no longer expected to accelerate, it's not necessarily likely to collapse either. Table 1.1 illustrates U.S. economic growth expectations and the potential impact of the war

based on duration scenarios. The economic growth and inflation impact is likely to be contained if the Strait of Hormuz opens within a 3-month period.⁴ On aggregate, we believe the most likely scenario is slow economic growth, continuing the trend of U.S. economic resilience. However, the longer the strait remains closed, the greater the risk of stagflation.

TABLE 1.1: 2026 IRAN CONFLICT SCENARIOS: U.S. GROWTH AND INFLATION IMPACT

Indicator	Historical (Annual Avg.) 2025**	Economic Forecast as of Feb 27, 2026**	SCENARIO 1: SHORT-LIVED	SCENARIO 2: PROLONGED CONFLICT	SCENARIO 3: EXTENDED CONFLICT
			GDP case: short-lived with military escalation*	GDP case: prolonged conflict with Hormuz blocked for longer*	GDP case: sustained escalation with oil industry destruction - regional damage*
			Inflation case: 1-quarter Hormuz closure baseline***	Inflation case: 2-quarter Hormuz closure baseline***	Inflation case: 3-quarter Hormuz closure baseline***
			2026	2026	2026
GDP (%)	2.10	2.50	2.50	2.30 (-0.2pp)	2.10 (-0.4pp)
Headline PCE Inflation (%)	2.60	2.60	2.95 (+0.35pp)	3.39 (+0.79pp)	4.07 (+1.47pp)
Core PCE Inflation (%)	2.80	2.70	2.88 (+0.18pp)	3.01 (+0.31pp)	3.19 (+0.49pp)

Notes: GDP scenario outcomes are based on Allianz Research's Iran scenario framework. Headline inflation impacts are based on the Dallas Fed baseline scenario for a 1-, 2-, and 3-quarter Strait of Hormuz closure. Scenario labels are harmonized for presentation purposes.

Sources: *Allianz Research, *Iran Scenarios*, as of March 31, 2026, **Bloomberg Data as of March 31, 2026, ***Dallas Fed, *The Impact of the 2026 Iran War on U.S. Inflation: A Scenario Analysis*, Base line scenario: assumption that the Strait of Hormuz is initially closed with 100% probability and subsequently is open with 100% probability, as of April 2026



Table 1.2 outlines how key asset classes may respond under the current macro environment. The Fed’s March 2026 dot plot reflects a median expectation of one rate cut in 2026 and an additional cut in 2027, reinforcing a cautious rate cutting environment.⁵ At this stage the most likely scenario is slow real economic growth and a slow decline in policy yields that maintains real yields at a restrictive level. Here is a summary of positioning implications based on the current economic environment.

- Slowing economic growth warrants defensive exposure with a greater focus on quality and low volatility.
- Current profitability and consistent dividend distributions to shareholders are critical.
- Intermediate and longer-duration assets are becoming more attractive as yields decline from peak levels. While adding to duration, we remain underweight duration.

TABLE 1.2: GDP & YIELD SCENARIO ANALYSIS

	REAL GDP DECLINING	REAL GDP STABLE	REAL GDP IMPROVING
YIELDS RISING	<p>EQUITIES WEAK</p> <ul style="list-style-type: none"> • Recession scenario and risk of stagflation. • Defensive sectors including Utilities and Consumer Staples likely to outperform the broader market. • Focus on quality. • Current income important. 	<p>EQUITIES MIXED BUT WEAK</p> <ul style="list-style-type: none"> • Slowing economic growth and stagflation concerns. • Pressure on corporate earnings and valuation. • Favors market segments that can pass along higher prices and are generally positively correlated with inflation. • Real Estate and Energy have a positive relationship with inflation. • Current income important. 	<p>EQUITIES MIXED</p> <ul style="list-style-type: none"> • Cyclical market segments likely to benefit from strong underlying economic growth. • Strong consumer demand boosting consumption despite inflation. • Higher yields likely to keep valuations in focus.
	<p>FIXED INCOME MIXED BUT WEAK</p> <ul style="list-style-type: none"> • Yield curve likely to invert. • Higher policy interest rates. • Middle of the curve likely to be weak. • Flight to safety could detract from corporates and high yield debt while benefiting long-term Treasuries. 	<p>FIXED INCOME MIXED</p> <ul style="list-style-type: none"> • Short duration likely to perform better than long duration. • Corporate and high yield spreads may rise as earning stagnate. 	<p>FIXED INCOME MIXED</p> <ul style="list-style-type: none"> • Improving economic environment likely to support corporates. • Long duration likely to remain weak due to higher yields and a steeper yield curve.
YIELDS STABLE	<p>FIXED INCOME MIXED</p> <ul style="list-style-type: none"> • Recession likely. • Weakness expected in equities and corporates. • Treasuries could hold up reasonably well. 	<p>EQUITIES & FIXED INCOME MIXED</p>	<p>EQUITIES FAVORABLE</p> <ul style="list-style-type: none"> • Risk-on environment, favoring equities and corporates. • Treasuries and long duration fixed income likely to be more muted.
	<p>EQUITIES MIXED BUT WEAK</p> <ul style="list-style-type: none"> • Recession likely. • Equities likely mixed but weak, favoring defensive sectors and areas that are less dependent on economic growth. 	<p>EQUITIES MIXED BUT FAVORABLE</p> <ul style="list-style-type: none"> • Focus on fundamentals, with quality remaining important. • Favor market segments that are less dependent on economic growth. • Preferred equity is likely to benefit from the favorable yield environment while its low beta may be beneficial in the more challenging macro environment. 	<p>EQUITIES FAVORABLE</p> <ul style="list-style-type: none"> • Economic growth may translate to higher corporate profits, which is favorable for equities. • Market breadth may improve with underlying economic strength. • Economic strength may boost cyclical sectors. • Reduced borrowing costs are favorable for companies that are reliant on external financing. • Lower discount rate is supportive for higher-growth market segments.
YIELDS DECLINING	<p>FIXED INCOME FAVORABLE</p> <ul style="list-style-type: none"> • Policy yields declining to support economic activity. • Move to safety supports Treasuries. • Declining yields support long duration fixed income. • Corporates may face headwinds if defaults rise. 	<p>FIXED INCOME MIXED BUT FAVORABLE</p> <ul style="list-style-type: none"> • Declining yields support longer duration assets. • Muted economic growth is likely to favor fixed income areas that are perceived as safer. This includes Treasuries and highly rated Investment Grade corporates. 	<p>EQUITIES & FIXED INCOME FAVORABLE</p> <ul style="list-style-type: none"> • Lower yields support longer duration assets. However, economic resilience is likely to support a slower rate cutting cycle than normal. • Potential for yields to rise in the future on economic optimism, possibly capping gains. • Riskier fixed income areas, such as high yield bonds, are likely to benefit from economic resilience.



EQUITY INCOME BUILDING BLOCKS

Equity income offers many solutions that can generate yield while providing diversification and resilience in a more uncertain environment. This reinforces the case for selective yield-oriented approaches in 2026. Exposure to areas of the market offering pricing power, current cash flows, and, in some cases, lower-beta characteristics may be potentially better insulated from the current macro shocks. Lower-beta exposure can provide a more defensive way to stay invested and, at times, deliver stronger risk-adjusted outcomes.⁶

Equity income can be obtained from common equity, preferred equity, or by using derivatives. Charts 2.1 and 2.2 illustrate the risk and rewards tradeoff between yield, standard deviation, beta, and upside capture. For long term investors in search of yield, these are important areas to balance within a portfolio.

COVERED CALLS OFFER DIFFERENTIATED YIELD

Covered calls tend to perform best when markets are rangebound, receiving premium income and potentially small improvements in the underlying equities while not having the underlying called. In a rising market, covered calls typically underperform the overall market because the underlying security is called away, affecting the capital gain return, not the income return. In a declining market, covered calls provide a small buffer of protection because of their premium income.

This return profile is reflected in the reasonably subdued beta and up capture ratio as seen on Charts 2.1 & 2.2. While covered calls provide a good level of income that compensates for market volatility, within a portfolio this exposure should be complimented by areas that provided better up capture in a rising market.

PREFERRED EQUITY OFFERS RISK MITIGATION WITH HIGH YIELD

Preferreds are above common equity and below bondholders in the capital structure. We favor preferred equities due to their position in the capital structure and low beta. Within a portfolio that includes common equities, their lower sensitivity to equity markets can help reduce portfolio volatility. The dividend on fixed rate preferreds is generally stable relative to a reference rate, which can be beneficial in a falling rate environment. Additionally, the yield from preferred stocks can be treated as qualified dividend income instead of ordinary income, resulting in favorable tax treatment. It is important to remember that variable and fixed-rate preferreds have duration risk due to their perpetual nature.

Preferred equities are included in regulatory capital, therefore they're impacted by the overall health of the financial system. During periods of banking stress, the preferred equity market may face periods of heightened volatility as banks are one of the largest issuers of Preferreds. Conversely, during normal market conditions this issuer profile boosts credit quality of the preferred market.

COMMON EQUITY YIELD STRATEGIES

Common equity can be used to augment a portfolio's yield, target specific exposures, improve diversification, or add quality. The level of yield and volatility varies greatly across these different use cases.

QUALITY DIVIDENDS

We continue to view quality dividends as a core strategic holding in 2026, as the current macro backdrop favors companies with

CHART 2.1: YIELD & RISK COMPARISON

Standard Deviation based on 5 year monthly data

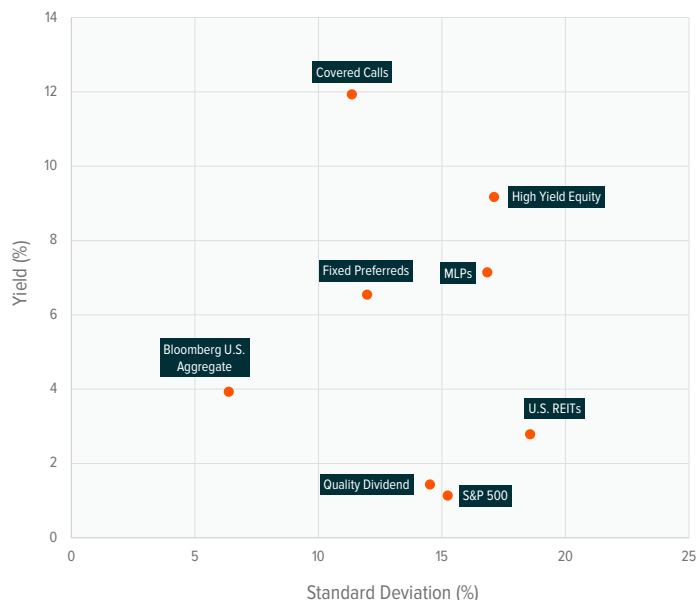
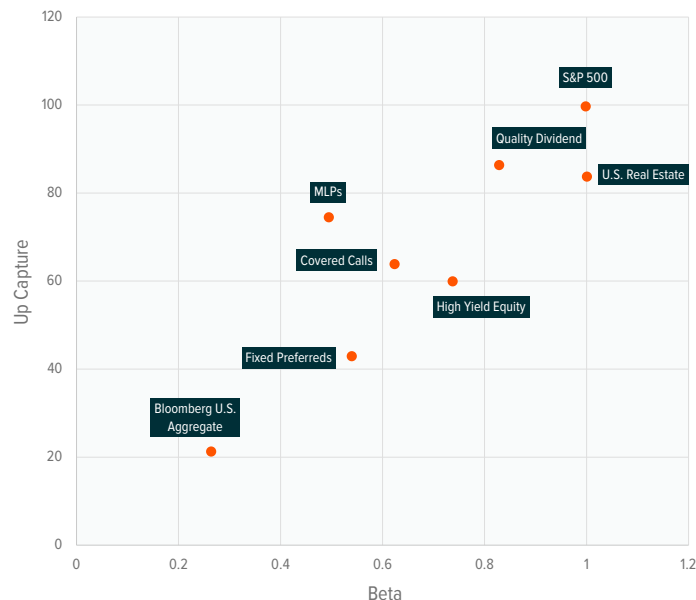


CHART 2.2: BETA & UP CAPTURE COMPARISON

Up Capture based on 5 year monthly data to the S&P 500 TR USD Index



ETFs used as proxy for categories in charts above.

Global X S&P 500® Quality Dividend ETF	Quality Dividends
Global X NASDAQ 100 Covered Call ETF	Covered Calls
Global X SuperDividend™ ETF	High Yield Equity
Global X US Preferred ETF	Fixed Preferreds
SPDR® S&P 500 ETF Trust	S&P 500
Global X MLP ETF	MLPs
iShares Core US Aggregate Bond ETF	Bloomberg U.S. Aggregate
First Trust S&P REIT ETF	U.S. REITs

Sources: Charts 2.1 & 2.2, Morningstar data as of March 31, 2026.



durable profitability, strong balance sheets, profitable growth, and the capacity to sustain dividends through uncertainty. That preference is supported by a still-selective market environment, as companies with strong free cash flow and healthy balance sheets have historically tended to hold up better during periods of market stress, which remains relevant as investors continue to reward earnings durability over cyclical risk. Quality stocks typically provide a lower payout ratio relative to high yielding equities, but they focus on consistent dividends and dividend growth despite the economic environment. Therefore, quality stocks' lower yield tend to be less sensitive to economic changes.⁷ The current economic uncertainty supports quality exposure.

HIGH DIVIDEND YIELD, MLPS AND REITS

Master Limited Partnerships (MLPs), cover the storage and distribution of crude oil and natural gas. These companies typically earn fee-based revenues tied to the volume of hydrocarbons transported or stored, so their cash flows are more sensitive to production and throughput levels than to commodity prices directly. MLPs offer a selective exposure within the Energy sector, providing exposure to U.S. pipeline infrastructure that can help absorb and reroute volumes should the Strait of Hormuz remain closed for an extended period.

The U.S. Energy Information Administration (EIA) estimates that 7.5 million b/d of crude production was curtailed in March 2026, with production restrictions increasing to 9.1 million b/d in April.⁸ Additionally, U.S. LNG exports climbed to 17.9 Bcf/d in March, the second-highest monthly level on record, as global dislocations widened export economics.^{9,10} U.S. exports of hydrocarbons could rise if global supply chains diversify away from energy products that transit the Strait of Hormuz. MLPs stand to benefit from higher throughput and export utilization across pipelines, terminals, and related systems, offering a more insulated and income-oriented way to participate than a simple directional bet on commodity prices.

This also fits the sector sensitivity analysis in Chart 1.1, where the Energy sector has shown the clearest positive relationship to increases in WTI crude prices over both the 5-year and 10-year periods. This sensitivity increased in the last 5 years due to energy shocks resulting in a higher price regime. This may strengthen the broader case for energy and real asset exposure in portfolios, particularly as a potential hedge against rising energy prices and oil-driven inflation shocks. In that context, MLPs offer exposure through infrastructure assets and cash flows rather than pure commodity beta.

Real Estate Investment Trusts (REITs) are companies that own or finance real estate across different property types. Like MLPs, REITs must distribute at least 90% of their income in the form of dividends to keep their preferred tax status. Therefore, REITs tend to pay a higher yield. REITs cover a wide scope of property types, which could help investors maintain their real estate exposure through different phases of the business cycle. For example, residential REITs benefit in areas and times of population growth and strong housing fundamentals. Healthcare REITs benefit from an aging population. Mortgage REITs hold mortgages and mortgage-backed securities (MBS) on their balance sheets, profiting from the spread between income earned and the interest paid on assets. Lastly,

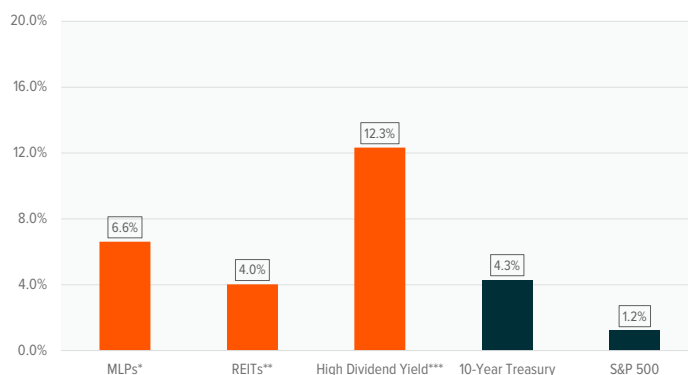
office REITs tend to benefit when employment rises, although headwinds remain in this space with the post-Covid hybrid work environment.

MLPs and REITs provide targeted exposure in a specific sector, but a very high yield can also be achieved using products that diversify across sectors and potentially also geographies. Typically, these diversified exceptionally high yielding equities may provide small cap and deep value focused exposure. These areas, often highly cyclical, typically perform well during the expansion phase of the business cycle, but due to quality considerations they may struggle during challenging economic periods.

Chart 2.3 shows MLP and REIT yields versus 10-year Treasury and S&P 500 yields.

CHART 2.3: HIGHER RELATIVE YIELDS IN MLPS, REITS, AND HIGH YIELD EQUITY

Asset class representations: *S&P MLP Index, **S&P United States REIT Index, ***Solactive Global Superdividend Index



Source: Bloomberg data as of March 31, 2026

EQUITY INCOME OPPORTUNITIES IN A PORTFOLIO CONTEXT

When combining equity income products in a portfolio, it's important to consider both exposure and income source diversification. While positioning, it's essential to implement a structure that can provide a sustainable yield through different market environments. When strategically blended, these equity income elements can create a robust portfolio capable of navigating the ebb and flow of market dynamics.

As discussed in the building blocks section, Covered Calls and Preferreds are great ways to diversify a portfolio's sources of yield while also reducing market sensitivity due to their low beta. However, while providing an excellent source of income, these areas are best paired with portfolio segments that offer good upside capture.

Depending on the portfolio's yield target, quality dividends can provide a solid foundation with a decent upside capture ratio. This can be complemented by including select higher yielding common equity exposures based on the economic and market environment. Cyclical exposures typically outperform during the expansion phase of the business cycle. The current economic uncertainty can be a challenging economic backdrop for certain very high yielding strategies.



EQUITY INCOME PORTFOLIOS AS A SATELLITE EXPOSURE

Equity income portfolios can be thought of as well diversified stand-alone portfolios, or as a high yielding component of a broader portfolio strategy. This context will determine the importance of equity exposure diversification while also impacting how to think about pairing equity income with fixed income.

As illustrated in Chart 3.1, combining equity income solutions with each other can provide diversification benefits and support returns through various market cycles. When combining equity income products, investors should be conscious of how certain parts of the equity income market perform under various macro dynamics. This way they can scale each segment up and down as necessary. Additionally, this table reflects the correlation between different equity income areas relative to broad beta U.S. equities.

With policy rates at 3.50%–3.75%, the Fed still has room to ease if U.S. growth weakens, but that support is likely expected to remain measured as long as inflation stays above target.¹¹ As such, this is a mixed environment for both equities and fixed income, but combining these asset classes can help provide diversification benefits and support return potential. This may be especially true in the current drawn-out rate-cutting cycle, where economic resilience could continue to support equity returns.

As reflected in Chart 3.1, several areas, including covered calls, FTSE High Dividend Yield, and MLP indices have almost no correlation with the Bloomberg U.S. Aggregate Index. Zero correlation between two assets indicates that there is no linear relationship between their returns. For investors looking for yield but needing to balance capital preservation and capital growth requirements, there’s potentially a wide range of exciting opportunities.

HOLISTIC APPROACH FOR HIGHER YIELDS & TOTAL RETURN

Finding yield through equity income is important, but selectivity is vital given the current economic climate. Exposure to quality stocks can provide resilient yield. Covered calls can offer attractive income but typically perform best in a rangebound market environment and preferred stocks can provide a reasonable income and low beta.

Each of these areas generally focus on either yield or return potential. Combining equity income solutions can help improve a portfolio’s exposure diversification while also diversifying its sources of yield. This can create a portfolio that seeks to provide a solid yield while also focusing on total returns. Equity income portfolios must be flexible enough to capture upside while maintaining a decent yield throughout the business cycle.

CHART 3.1: EQUITY INCOME COMPONENTS

15 Yr data from March 31, 2011 - March 31, 2026

	S&P 500 Index	Cboe NDX 100 BuyWrite Index	FTSE High Dividend Yield Index	Solactive Global SuperDividend Index	S&P US Fixed Rate Preferred Stock	U.S. Aggregate	Solactive MLP Infrastructure Index
S&P 500 Index	1.00	0.85	0.93	0.75	0.66	0.07	0.51
Cboe NDX 100 BuyWrite Index	0.85	1.00	0.73	0.58	0.51	0.04	0.40
FTSE High Dividend Yield Index	0.93	0.73	1.00	0.80	0.64	0.05	0.60
Solactive Global SuperDividend Index	0.75	0.58	0.80	1.00	0.67	0.17	0.60
S&P US Fixed Rate Preferred Stock	0.66	0.51	0.64	0.67	1.00	0.44	0.39
U.S. Aggregate	0.07	0.04	0.05	0.17	0.44	1.00	0.01
Solactive MLP Infrastructure Index	0.51	0.40	0.60	0.60	0.39	0.01	1.00

Source: Bloomberg data as of March 31, 2026



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FOOTNOTES

1. Bloomberg data as of 3/31/2026
2. David Sekera, CFA, *US Stock Market Outlook: No Longer "Priced to Perfection"*, Morningstar, April 9, 2025: <https://www.morningstar.com/markets/us-stock-market-outlook-priced-perfection-time-buy>
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