

Race for Income: Beyond Traditional Bonds

Investors today are looking for consistent cash flow, mitigation against the risk of loss, and greater predictability and stability — often with tax efficiency in mind. In a word, they want **income**.

Because fixed-income strategies are often considered less volatile and provide relatively predictable income in the form of interest (or yield), many investors have historically gravitated toward them. However, most investors have more tools at their disposal than they realize, and a broader set of strategies can open new paths to their goals.

The Evolution of Income Investing

Fixed Income in the Last 10 Years

With yields now rising, the demand for income is driving fresh interest in bonds and fixed income strategies, and they are finding a clearer purpose in the broader portfolio. However, the last 10 years brought about significant changes in the markets, and prior to 2022, a weakened yield environment affected how investors viewed fixed-income strategies. Income, which had been a secondary goal of these strategies, became lower priority, and investors needed to explore other income-generating solutions.

Previous Equity Income Demand

10 years ago, interest rates were either *near zero* or *at zero*. Cash wasn't a practical option for investors whose goal was income, and alternatives like private credit and private equity weren't yet widely acknowledged as investment options. Equity income became the most viable solution with its dividend payout potential, although it also came with its own potential drawbacks (e.g., the risk of dividends being cut).

Today, with fixed-income yields "normalizing" (although not to pre-COVID levels), those strategies are once again becoming a possible solution for investors seeking income. However, equity income has shown itself to be a comparable — potentially superior — provider of investment income, and its continued presence can help provide investors with a more well-rounded investment roadmap.

The Investment Environment Today

Balancing Old and New

The appeal of high-quality fixed income is back, and flexibility amplifies opportunity. While traditional bonds play an important role in portfolios today, income-seeking investors can benefit from exploring non-traditional investment opportunities, such as municipal bonds, which bring the added benefit of tax efficiency.

Today's economic uncertainty is boosting demand for relative value and yield. So far in 2026, the Federal Reserve (Fed) has paused rate cuts (after easing policy in late 2025), and while inflation risks persist, we believe that the Fed is likely to focus its effort on the health of the labor market. Against this backdrop, we believe there are opportunities to purchase higher-quality credits at more attractive levels and that portfolios with exposure to municipals could deliver stable returns with attractive tax-equivalent yields.

Where Does Equity Income Fit?

Equity markets are at or very close to all-time highs, but dividends don't always keep pace with market movements, so as equity markets move up, dividend yields come down. Understanding how that affects income generation on the equity side is essential.

Dividend yield is a basic formula:

dividends paid / the stock price x 100

Currently, the dividend yield of the S&P 500 is relatively low (possibly the lowest it's been going back to the tech bubble), but looking beneath the surface, we can see that overall, dividends have grown for S&P 500 companies. Dividend yield on the S&P 500 is roughly 1.1 or 1.2, but the cash dividends paid out from the S&P 500 have grown around 17%, so the cash dividends that investors are collecting have started to grow, even though the yields have dipped.

Dividend yield tells a story, but context matters. When yield rises, it is worth asking whether the company is genuinely increasing its payouts or whether a falling stock price is the real driver. When dividend yield is lower, it's worth a closer look because investors may find a great value stock where the company is paying out a large portion of their income, which provides a very good, attractive investment opportunity.

Steady income and an enhanced yield, such as those found in an equity-income strategy, can be a powerful combination in an investor's portfolio. Additionally, today's headwinds (e.g., inflation, tariffs, etc.) highlight the need for investors to build an active, resilient, and forward-looking portfolio. In our view, adding a global infrastructure strategy, with its defensive qualities, can help withstand external shocks and be part of a balanced portfolio.

A Marathon (Not a Sprint)

As investors live longer, balancing income needs with total return and growth across an extended time horizon becomes essential, and there are multiple ways to achieve this balance.

When considering a fixed-income solution, it is our view that success can be found in investments that will provide income at a steady level, that are stable, and that investors can rely on in five, six, or seven years when they need it. How is this achieved? By diversifying a portfolio.

Fixed income strategies can help fortify the stability of a portfolio, with municipal bonds supplementing stability with tax efficiency and investments beyond bonds helping to strengthen the income stream. A thoughtfully constructed income-focused strategy can incorporate total return while adapting steadily to changing market conditions. Additionally, since not all high-yield equity-income strategies are created equal, some may deliver elevated income but offset it with negative capital returns, making total returns the more important measure to watch.

From an equity perspective, the prudent approach does two things at once: it grows principal and generates yield, supporting investors whether they are in a wealth-building or wealth-distribution phase and keeping total return front of mind.

Keeping the Finish Line in Sight

The cost of living increases every year, and as investors make the transition to the next stage of their lives, those costs will increase even more, especially if they plan to lead an active lifestyle in retirement or require specialized health care. Developing a balanced investment strategy now can help provide a strong financial foundation for the future.