Income Investors at a Crossroads

Strategies to Consider for Today's Markets

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When you think about investment income, it's often related to having enough to live on in retirement. But it can also help you reach other goals too, such as paying for a student's education or a down payment on a new house. However, today's markets may put your portfolio at a crossroads, requiring a new approach to meet your income needs.

Navigating a New Market Environment

Historically low interest rates have led some to seek yield for income from traditionally riskier investments such as high-yielding bonds. Yet those risks haven't been fully realized as years of central bank policies around the world have helped subdue market risk. However, volatility may return to higher levels as these policies are being phased out. More volatility means more risk, and a greater tendency for certain types of bonds to perform more like stocks in stressful market conditions.

As interest rates normalize and stocks continue to move higher than perhaps the facts show they should—it may be important to revisit your income strategy. The goal is to build an income-generating portfolio with the right mix of yield, risk and return potential for you. Below are some strategies to consider.

Your Income Objective / Potential Strategy

PRESERVE

Manage market volatility and risks, which can quickly erode wealth.

It's important when you are looking for yield, but prefer less risk and have a lower tolerance for large losses.

High-quality core and/or short duration bonds may help because they:

1. Tend to react differently than stocks during volatile times—which may help offset stock declines.
2. May provide appealing returns compared to more conservative Treasury bonds in a way that's less risky than using stocks only.
3. Offer potentially higher yield compared to Treasuries.

While less risky than stocks, core bonds are subject to fixed-income risks such as those associated with debt securities, including credit, price and interest rates .

PRESERVE & GENERATE

Lower overall portfolio risk while maintaining a moderate yield.

It's important when you're worried about rising interest rates and heightened volatility, but you also want to keep income potential.

Alternative income strategies aim to reduce the impacts of rising interest rates and market volatility while seeking income because they:

1. Can complement the fixed-income portion of a portfolio by addressing important risks to bonds.
2. Offer different return and income sources, which tend to react independently from stocks and bonds during certain market and economic events.

Alternatives encompass a variety of non-traditional assets and often employ complex trading strategies. You'll want to be aware of each investment's unique risks.

GENERATE

Maximize income today that doesn't jeopardize the potential for income tomorrow.

It's important when you need income today but are also looking to maintain enough growth to potentially make your money last as long as you need it.

Multi-asset class income strategies may help reduce overall risk to a portfolio because they:

1. Can include a variety of income sources, which could include U.S. and non-U.S. stocks and bonds, as well as non-traditional income sources such as debt from emerging markets or global real estate investments.
2. May also be designed to help offset inflation to help with purchasing power in the future.

Multi-asset class investments that include non-traditional strategies may have additional risks, including short-term fluctuations causing your shares to be worth less than the price you paid for them.*

Rely on a Trusted Partner

Financial markets are highly complex and it's difficult to predict how they will react to economic, political and interest rate changes. A financial professional can help you determine your income strategy and how it may need to change based on your specific goals, how you feel about risk and the amount of time you have until you need the income from your investments.

Today's Markets May Signal a Change in Direction for Your Income Strategy

Today's markets are evolving in such a way that may require you to rethink your income strategy and take a different path before rising interest rates or volatility become significant issues.

This material has been prepared for educational purposes only. It is not intended to provide, and should not be relied upon for investment advice.

Diversification does not assure a profit nor does it protect against loss of principal.

Generally, as interest rates rise, the value of the securities held in the investment will decline. The opposite is true when interest rates decline.

**Additional risks that may accompany multi-asset class investments: Commodity-related investments may be subject to greater volatility than traditional investments. Debt securities also are subject to credit risk. Investment in debt securities issued by entities other than the U.S. Treasury or U.S. government and its agencies may increase the potential credit risk associated with these investments. Real estate-related investments may be subject to those associated with direct investments in real estate. Inflation-indexed securities trade at prevailing real or after-inflation, interest rates, and changes in these rates may affect the value. Investing in foreign securities has certain unique risks that make it generally riskier than investing in U.S. securities. Investing in emerging markets countries is generally riskier than investing in securities of companies in foreign developed countries. If the investment is classified as non-diversified, it may be more volatile than if it was diversified.*

Investment return and principal value of security investments will fluctuate. The value at the time of redemption may be more or less than the original cost. Past performance is no guarantee of future results.

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