



With cash rates likely approaching a peak, investors should act soon to seek more quality sources of income before markets start to price much lower interest rates. (UBS)

Lock in durable income amid rate uncertainty

21 March 2024, 12:55 pm CET, written by UBS Editorial Team

The yield on 3-month US Treasuries has remained close to a 20-year high, as investors continue to debate the outlook for US monetary policy.

While markets now suggest a high probability that the Federal Reserve will refrain from hiking rates at its policy meeting next week, federal fund futures still imply one further increase in US rates. Such a move would further increase the attraction of cash and money market funds.

But we believe their appeal will fade. Despite recent evidence that inflation is falling less swiftly than expected, an end to rate hikes is not far away. With cash rates likely approaching a peak, investors should act soon to seek more quality sources of income before markets start to price much lower interest rates. We see several ways of doing this:

Lock in higher yields in fixed income markets. Instead of focusing on the ultra-short end of the yield curve, we see opportunities in high-quality medium- to long-duration fixed income. While yields on 2- and 5-year US Treasuries are down from their recent peaks in early March—prior to the emergence of worries over the health of the banking system—we think they remain attractive at 4.49% and 3.67%, respectively. We see the potential for capital gains if growth slows more abruptly than currently expected. Equally, investment grade bond returns should outperform in tougher economic times.

We also see upside for US dollar emerging market sovereign debt. Although the speed and breadth of China's economic recovery has disappointed, we still expect GDP growth to pick up to around 5.7% this year, from 3% in 2022. This should help emerging market sovereign bonds, and the current yield of 8.5% for the JPMorgan EMBIG Div index looks attractive, in our view.

Investors can also find attractive income opportunities in equity markets, through high-dividend and quality stocks. The MSCI World High Dividend Yield index is offering 3.9% yield, as of 7 June. These stocks are mostly in more defensive parts of the market and are relatively resilient when the economy slows—as we expect these dividend payments to be relatively stable even in the event of a recession, based on historical experience. And since companies in this category often have strong pricing power, enabling them to pass on higher costs to customers, this part of the equity market should perform well while inflation remains above central bank targets.

Real assets along with yield-generating structured investments offer alternative ways to add durable returns. Exposure to “real assets,” including commodities, infrastructure, and real estate, can provide investors with additional portfolio diversification and income, as well as the potential for long-term inflation mitigation. We currently see appeal in direct and indirect infrastructure exposure, and direct commodity exposure.

Strategies involving options selling have particular appeal at present, in our view. Such strategies tend to outperform in rangebound equity markets, which is what we expect for the remainder of 2023. Also, the volatility risk premium is relatively high at present, meaning that actual swings in equity markets have been low relative to implied volatility measures. That increases the potential gains for investors from selling options.

So, we advise investors against assuming that current cash and money market yields will last for long. Building durable income into portfolios will be increasingly important if, as we expect, the recent equity rally runs into headwinds in the rest of the year.

Main contributors - Solita Marcelli, Mark Haefele, Christopher Swann, Jon Gordon

Content is a product of the Chief Investment Office (CIO).

Original report - [Lock in durable income amid rate uncertainty, 7 June 2023.](#)

Disclaimer

This document is prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland), its subsidiaries or its affiliates (“UBS”), part of UBS Group AG (“UBS Group”). UBS Group includes Credit Suisse AG, its subsidiaries, branches and affiliates. In the USA, UBS Financial Services Inc. is a subsidiary of UBS AG and a member of FINRA/SIPC. This document and the information contained herein are provided solely **for your information** and UBS marketing purposes. Nothing in this document constitutes investment research, investment advice, a sales prospectus, or an offer or solicitation to engage in any investment activities. This document is not a recommendation to buy or sell any security, investment instrument, or product, and does not recommend any specific investment program or service.

Information contained in this document has not been tailored to the specific investment objectives, personal and financial circumstances, or particular needs of any individual client. Certain investments referred to in this document may not be suitable or appropriate for all investors. In addition, certain services and products referred to in the document may be subject to legal restrictions and/or license or permission requirements and cannot therefore be offered worldwide on an unrestricted basis. No offer of any product will be made in any jurisdiction in which the offer, solicitation, or sale is not permitted, or to any person to whom it is unlawful to make such offer, solicitation, or sale.

Although all information and opinions expressed in this document were obtained in good faith from sources believed to be reliable, no representation or warranty, express or implied, is made as to the document’s accuracy, sufficiency, completeness or reliability. All information and opinions expressed in this document are subject to change without notice and may differ from opinions expressed by other business areas or divisions of UBS Group. UBS is under no obligation to update or keep current the information contained herein. **The views and opinions expressed in this material by third parties are not those of UBS.** Accordingly, UBS does not accept any liability over the content shared by third parties or any claims, losses or damages arising from the use or reliance of all or any part thereof.

All pictures or images (“images”) herein are for illustrative, informative or documentary purposes only and may depict objects or elements which are protected by third party copyright, trademarks and other intellectual property rights. Unless expressly stated, no relationship, association, sponsorship or endorsement is suggested or implied between UBS and these third parties.

Any charts and scenarios contained in the document are for illustrative purposes only. Some charts and/or performance figures may not be based on complete 12-month periods which may reduce their comparability and significance. Historical performance is no guarantee for, and is not an indication of future performance.

Nothing in this document constitutes legal or tax advice. UBS and its employees do not provide legal or tax advice. This document may not be redistributed or reproduced in whole or in part without the prior written permission of UBS. To the extent permitted by the law, neither UBS, nor any of its directors, officers, employees or agents accepts or assumes any liability, responsibility or duty of care for any consequences, including any loss or damage, of you or anyone else acting, or refraining to act, in reliance on the information contained in this document or for any decision based on it.

Additional Disclaimer relevant to Credit Suisse Wealth Management

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse to any registration or licensing requirement within such jurisdiction. Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website <https://www.credit-suisse.com>. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.

Except as otherwise specified herein and/or depending on the local Credit Suisse entity from which you are receiving this report, this report is distributed by Credit Suisse AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). Credit Suisse AG is a UBS Group company.

Please visit | <https://www.ubs.com/global/en/wealth-management/insights/chief-investment-office/marketing-material-disclaimer.html> | to read the full legal disclaimer applicable to this material.

© UBS 2024. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.